

# [Brief history of us economy flashcard](https://assignbuster.com/brief-history-of-us-economy-flashcard/)

The U. S. Economy: A Brief History [pic] | | |     The modern American economy traces its roots to the quest of European settlers for economic gain in the 16th, 17th, and 18th | | centuries. The New World then progressed from a marginally successful colonial economy to a small, independent farming economy and,| | eventually, to a highly complex industrial economy. During this evolution, the United States developed ever more complex | | institutions to match its growth.

And while government involvement in the economy has been a consistent theme, the extent of that | | involvement generally has increased. | |     North America’s first inhabitants were Native Americans — indigenous peoples who are believed to have traveled to America | | about 20, 000 years earlier across a land bridge from Asia, where the Bering Strait is today. (They were mistakenly called “ Indians”| | by European explorers, who thought they had reached India when first landing in the Americas. ) These native peoples were organized | | in tribes and, in some cases, confederations of tribes.

While they traded among themselves, they had little contact with peoples on| | other continents, even with other native peoples in South America, before European settlers began arriving. What economic systems | | they did develop were destroyed by the Europeans who settled their lands. | |     Vikings were the first Europeans to “ discover” America. But the event, which occurred around the year 1000, went largely | | unnoticed; at the time, most of European society was still firmly based on agriculture and land ownership.

Commerce had not yet | | assumed the importance that would provide an impetus to the further exploration and settlement of North America. | |     In 1492, Christopher Columbus, an Italian sailing under the Spanish flag, set out to find a southwest passage to Asia and | | discovered a “ New World. ” For the next 100 years, English, Spanish, Portuguese, Dutch, and French explorers sailed from Europe for | | the New World, looking for gold, riches, honor, and glory. | |     But the North American wilderness offered early explorers little glory and less gold, so most did not stay.

The people who | | eventually did settle North America arrived later. In 1607, a band of Englishmen built the first permanent settlement in what was | | to become the United States. The settlement, Jamestown, was located in the present-day state of Virginia. | | Colonization | |     Early settlers had a variety of reasons for seeking a new homeland. The Pilgrims of Massachusetts were pious, self-disciplined| | English people who wanted to escape religious persecution. Other colonies, such as Virginia, were founded principally as business | | ventures.

Often, though, piety and profits went hand-in-hand. | |     England’s success at colonizing what would become the United States was due in large part to its use of charter companies. | | Charter companies were groups of stockholders (usually merchants and wealthy landowners) who sought personal economic gain and, | | perhaps, wanted also to advance England’s national goals. While the private sector financed the companies, the King provided each | | project with a charter or grant conferring economic rights as well as political and judicial authority.

The colonies generally did | | not show quick profits, however, and the English investors often turned over their colonial charters to the settlers. The political| | implications, although not realized at the time, were enormous. The colonists were left to build their own lives, their own | | communities, and their own economy — in effect, to start constructing the rudiments of a new nation. | |     What early colonial prosperity there was resulted from trapping and trading in furs. In addition, fishing was a primary source| | of wealth in Massachusetts.

But throughout the colonies, people lived primarily on small farms and were self-sufficient. In the few| | small cities and among the larger plantations of North Carolina, South Carolina, and Virginia, some necessities and virtually all | | luxuries were imported in return for tobacco, rice, and indigo (blue dye) exports. | |     Supportive industries developed as the colonies grew. A variety of specialized sawmills and gristmills appeared. Colonists | | established shipyards to build fishing fleets and, in time, trading vessels. The also built small iron forges.

By the 18th century,| | regional patterns of development had become clear: the New England colonies relied on ship-building and sailing to generate wealth;| | plantations (many using slave labor) in Maryland, Virginia, and the Carolinas grew tobacco, rice, and indigo; and the middle | | colonies of New York, Pennsylvania, New Jersey, and Delaware shipped general crops and furs. Except for slaves, standards of living| | were generally high — higher, in fact, than in England itself. Because English investors had withdrawn, the field was open to | | entrepreneurs among the colonists. |     By 1770, the North American colonies were ready, both economically and politically, to become part of the emerging | | self-government movement that had dominated English politics since the time of James I (1603-1625). Disputes developed with England| | over taxation and other matters; Americans hoped for a modification of English taxes and regulations that would satisfy their | | demand for more self-government. Few thought the mounting quarrel with the English government would lead to all-out war against the| | British and to independence for the colonies. |     Like the English political turmoil of the 17th and 18th centuries, the American Revolution (1775-1783) was both political and | | economic, bolstered by an emerging middle class with a rallying cry of “ unalienable rights to life, liberty, and property” — a | | phrase openly borrowed from English philosopher John Locke’s Second Treatise on Civil Government (1690). The war was triggered by | | an event in April 1775. British soldiers, intending to capture a colonial arms depot at Concord, Massachusetts, clashed with | | colonial militiamen.

Someone — no one knows exactly who — fired a shot, and eight years of fighting began. While political | | separation from England may not have been the majority of colonists’ original goal, independence and the creation of a new nation | |– the United States — was the ultimate result. | | The New Nation’s Economy | |     The U. S. Constitution, adopted in 1787 and in effect to this day, was in many ways a work of creative genius. As an economic | | charter, it stablished that the entire nation — stretching then from Maine to Georgia, from the Atlantic Ocean to the Mississippi| | Valley — was a unified, or “ common,” market. There were to be no tariffs or taxes on interstate commerce. The Constitution | | provided that the federal government could regulate commerce with foreign nations and among the states, establish uniform | | bankruptcy laws, create money and regulate its value, fix standards of weights and measures, establish post offices and roads, and | | fix rules governing patents and copyrights.

The last-mentioned clause was an early recognition of the importance of “ intellectual | | property,” a matter that would assume great importance in trade negotiations in the late 20th century. | |     Alexander Hamilton, one of the nation’s Founding Fathers and its first secretary of the treasury, advocated an economic | | development strategy in which the federal government would nurture infant industries by providing overt subsidies and imposing | | protective tariffs on imports.

He also urged the federal government to create a national bank and to assume the public debts that | | the colonies had incurred during the Revolutionary War. The new government dallied over some of Hamilton’s proposals, but | | ultimately it did make tariffs an essential part of American foreign policy — a position that lasted until almost the middle of | | the 20th century. | |     Although early American farmers feared that a national bank would serve the rich at the expense of the poor, the first | | National Bank of the United States was chartered in 1791; it lasted until 1811, after which a successor bank was chartered. |     Hamilton believed the United States should pursue economic growth through diversified shipping, manufacturing, and banking. | | Hamilton’s political rival, Thomas Jefferson, based his philosophy on protecting the common man from political and economic | | tyranny. He particularly praised small farmers as “ the most valuable citizens. ” In 1801, Jefferson became president (1801-1809) and| | turned to promoting a more decentralized, agrarian democracy. | Movement South and Westward | |     Cotton, at first a small-scale crop in the South, boomed following Eli Whitney’s invention in 1793 of the cotton gin, a | | machine that separated raw cotton from seeds and other waste. Planters in the South bought land from small farmers who frequently | | moved farther west. Soon, large plantations, supported by slave labor, made some families very wealthy. | |     It wasn’t just southerners who were moving west, however.

Whole villages in the East sometimes uprooted and established new | | settlements in the more fertile farmland of the Midwest. While western settlers are often depicted as fiercely independent and | | strongly opposed to any kind of government control or interference, they actually received a lot of government help, directly and | | indirectly. Government-created national roads and waterways, such as the Cumberland Pike (1818) and the Erie Canal (1825), helped | | new settlers migrate west and later helped move western farm produce to market. |     Many Americans, both poor and rich, idealized Andrew Jackson, who became president in 1829, because he had started life in a | | log cabin in frontier territory. President Jackson (1829-1837) opposed the successor to Hamilton’s National Bank, which he believed| | favored the entrenched interests of the East against the West. When he was elected for a second term, Jackson opposed renewing the | | bank’s charter, and Congress supported him. Their actions shook confidence in the nation’s financial system, and business panics | | occurred in both 1834 and 1837. |     Periodic economic dislocations did not curtail rapid U. S. economic growth during the 19th century. New inventions and capital | | investment led to the creation of new industries and economic growth. As transportation improved, new markets continuously opened. | | The steamboat made river traffic faster and cheaper, but development of railroads had an even greater effect, opening up vast | | stretches of new territory for development. Like canals and roads, railroads received large amounts of government assistance in | | their early building years in the form of land grants.

But unlike other forms of transportation, railroads also attracted a good | | deal of domestic and European private investment. | |     In these heady days, get-rich-quick schemes abounded. Financial manipulators made fortunes overnight, but many people lost | | their savings. Nevertheless, a combination of vision and foreign investment, combined with the discovery of gold and a major | | commitment of America’s public and private wealth, enabled the nation to develop a large-scale railroad system, establishing the | | base for the country’s industrialization. | Industrial Growth | |     The Industrial Revolution began in Europe in the late 18th and early 19th centuries, and it quickly spread to the United | | States. By 1860, when Abraham Lincoln was elected president, 16 percent of the U. S. population lived in urban areas, and a third of| | the nation’s income came from manufacturing. Urbanized industry was limited primarily to the Northeast; cotton cloth production was| | the leading industry, with the manufacture of shoes, woolen clothing, and machinery also expanding.

Many new workers were | | immigrants. Between 1845 and 1855, some 300, 000 European immigrants arrived annually. Most were poor and remained in eastern | | cities, often at ports of arrival. | |     The South, on the other hand, remained rural and dependent on the North for capital and manufactured goods. Southern economic | | interests, including slavery, could be protected by political power only as long as the South controlled the federal government. | | The Republican Party, organized in 1856, represented the industrialized North.

In 1860, Republicans and their presidential | | candidate, Abraham Lincoln were speaking hesitantly on slavery, but they were much clearer on economic policy. In 1861, they | | successfully pushed adoption of a protective tariff. In 1862, the first Pacific railroad was chartered. In 1863 and 1864, a | | national bank code was drafted. | |     Northern victory in the U. S. Civil War (1861-1865), however, sealed the destiny of the nation and its economic system. The | | slave-labor system was abolished, making the large southern cotton plantations much less profitable.

Northern industry, which had | | expanded rapidly because of the demands of the war, surged ahead. Industrialists came to dominate many aspects of the nation’s | | life, including social and political affairs. The planter aristocracy of the South, portrayed sentimentally 70 years later in the | | film classic Gone with the Wind, disappeared. | | Inventions, Development, and Tycoons | |     The rapid economic development following the Civil War laid the groundwork for the modern U.

S. industrial economy. An | | explosion of new discoveries and inventions took place, causing such profound changes that some termed the results a “ second | | industrial revolution. ” Oil was discovered in western Pennsylvania. The typewriter was developed. Refrigeration railroad cars came | | into use. The telephone, phonograph, and electric light were invented. And by the dawn of the 20th century, cars were replacing | | carriages and people were flying in airplanes. |     Parallel to these achievements was the development of the nation’s industrial infrastructure. Coal was found in abundance in | | the Appalachian Mountains from Pennsylvania south to Kentucky. Large iron mines opened in the Lake Superior region of the upper | | Midwest. Mills thrived in places where these two important raw materials could be brought together to produce steel. Large copper | | and silver mines opened, followed by lead mines and cement factories. | |     As industry grew larger, it developed mass-production methods. Frederick W.

Taylor pioneered the field of scientific | | management in the late 19th century, carefully plotting the functions of various workers and then devising new, more efficient ways| | for them to do their jobs. (True mass production was the inspiration of Henry Ford, who in 1913 adopted the moving assembly line, | | with each worker doing one simple task in the production of automobiles. In what turned out to be a farsighted action, Ford offered| | a very generous wage — $5 a day — to his workers, enabling many of them to buy the automobiles they made, helping the industry to| | expand. | |     The “ Gilded Age” of the second half of the 19th century was the epoch of tycoons. Many Americans came to idealize these | | businessmen who amassed vast financial empires. Often their success lay in seeing the long-range potential for a new service or | | product, as John D. Rockefeller did with oil. They were fierce competitors, single-minded in their pursuit of financial success and| | power. Other giants in addition to Rockefeller and Ford included Jay Gould, who made his money in railroads; J.

Pierpont Morgan, | | banking; and Andrew Carnegie, steel. Some tycoons were honest according to business standards of their day; others, however, used | | force, bribery, and guile to achieve their wealth and power. For better or worse, business interests acquired significant influence| | over government. | |     Morgan, perhaps the most flamboyant of the entrepreneurs, operated on a grand scale in both his private and business life. He | | and his companions gambled, sailed yachts, gave lavish parties, built palatial homes, and bought European art treasures.

In | | contrast, men such as Rockefeller and Ford exhibited puritanical qualities. They retained small-town values and lifestyles. As | | church-goers, they felt a sense of responsibility to others. They believed that personal virtues could bring success; theirs was | | the gospel of work and thrift. Later their heirs would establish the largest philanthropic foundations in America. | |     While upper-class European intellectuals generally looked on commerce with disdain, most Americans — living in a society with| | a more fluid class structure — enthusiastically embraced the idea of moneymaking.

They enjoyed the risk and excitement of business| | enterprise, as well as the higher living standards and potential rewards of power and acclaim that business success brought. | |     As the American economy matured in the 20th century, however, the freewheeling business mogul lost luster as an American | | ideal. The crucial change came with the emergence of the corporation, which appeared first in the railroad industry and then | | elsewhere. Business barons were replaced by “ technocrats,” high-salaried managers who became the heads of corporations.

The rise of| | the corporation triggered, in turn, the rise of an organized labor movement that served as a countervailing force to the power and | | influence of business. | |     The technological revolution of the 1980s and 1990s brought a new entrepreneurial culture that echoes of the age of tycoons. | | Bill Gates, the head of Microsoft, built an immense fortune developing and selling computer software. Gates carved out an empire so| | profitable that by the late 1990s, his company was taken into court and accused of intimidating rivals and creating a monopoly by | | the U.

S. Justice Department’s antitrust division. But Gates also established a charitable foundation that quickly became the | | largest of its kind. Most American business leaders of today do not lead the high-profile life of Gates. They direct the fate of | | corporations, but they also serve on boards for charities and schools. They are concerned about the state of the national economy | | and America’s relationship with other nations, and they are likely to fly to Washington to confer with government officials.

While | | they undoubtedly influence the government, they do not control it — as some tycoons in the Gilded Age believed they did. | | Government Involvement | |     In the early years of American history, most political leaders were reluctant to involve the federal government too heavily in| | the private sector, except in the area of transportation. In general, they accepted the concept of laissez-faire, a doctrine | | opposing government interference in the economy except to maintain law and order.

This attitude started to change during the latter| | part of the 19th century, when small business, farm, and labor movements began asking the government to intercede on their behalf. | |     By the turn of the century, a middle class had developed that was leery of both the business elite and the somewhat radical | | political movements of farmers and laborers in the Midwest and West. Known as Progressives, these people favored government | | regulation of business practices to ensure competition and free enterprise.

They also fought corruption in the public sector. | |     Congress enacted a law regulating railroads in 1887 (the Interstate Commerce Act), and one preventing large firms from | | controlling a single industry in 1890 (the Sherman Antitrust Act). These laws were not rigorously enforced, however, until the | | years between 1900 and 1920, when Republican President Theodore Roosevelt (1901-1909), Democratic President Woodrow Wilson | |(1913-1921), and others sympathetic to the views of the Progressives came to power.

Many of today’s U. S. regulatory agencies were | | created during these years, including the Interstate Commerce Commission, the Food and Drug Administration, and the Federal Trade | | Commission. | |     Government involvement in the economy increased most significantly during the New Deal of the 1930s. The 1929 stock market | | crash had initiated the most serious economic dislocation in the nation’s history, the Great Depression (1929-1940). President | | Franklin D.

Roosevelt (1933-1945) launched the New Deal to alleviate the emergency. | |     Many of the most important laws and institutions that define American’s modern economy can be traced to the New Deal era. New | | Deal legislation extended federal authority in banking, agriculture, and public welfare. It established minimum standards for wages| | and hours on the job, and it served as a catalyst for the expansion of labor unions in such industries as steel, automobiles, and | | rubber.

Programs and agencies that today seem indispensable to the operation of the country’s modern economy were created: the | | Securities and Exchange Commission, which regulates the stock market; the Federal Deposit Insurance Corporation, which guarantees | | bank deposits; and, perhaps most notably, the Social Security system, which provides pensions to the elderly based on contributions| | they made when they were part of the work force. | |     New Deal leaders flirted with the idea of building closer ties between business and government, but some of these efforts did | | not survive past World War II.

The National Industrial Recovery Act, a short-lived New Deal program, sought to encourage business | | leaders and workers, with government supervision, to resolve conflicts and thereby increase productivity and efficiency. While | | America never took the turn to fascism that similar business-labor-government arrangements did in Germany and Italy, the New Deal | | initiatives did point to a new sharing of power among these three key economic players. This confluence of power grew even more | | during the war, as the U. S. government intervened extensively in the economy.

The War Production Board coordinated 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 prevent | | rising national income and scarce consumer products to cause inflation, 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. | The Postwar Economy: 1945-1960 | |     Many Americans feared that the end of World War II and the subsequent drop in military spending might bring back the hard | | times of the Great Depression. But instead, pent-up consumer demand fueled exceptionally strong economic growth in the postwar | | period. The automobile industry successfully converted back to producing cars, 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 members of the military, | | added to the expansion. The nation’s gross national product rose from about $200, 000 million in 1940 to $300, 000 million in 1950 | | and to more than $500, 000 million in 1960. At the same time, the jump in postwar births, known as the “ baby boom,” increased the | | number of consumers. More and more Americans joined the middle class. | |     The need to produce war supplies had given rise to a huge military-industrial complex (a term coined by Dwight D.

Eisenhower, | | who served as the U. S. president from 1953 through 1961). It did not disappear with the war’s end. As the Iron Curtain descended | | across Europe and the United States found itself embroiled in a cold war with the Soviet Union, the government maintained | | substantial fighting capacity and invested in sophisticated weapons such as the hydrogen bomb. Economic aid flowed to war-ravaged | | European countries under the Marshall Plan, which also helped maintain markets for numerous U. S. goods.

And the government itself | | recognized its central role in economic affairs. The Employment Act of 1946 stated as government policy “ to promote maximum | | employment, production, and purchasing power. ” | |     The United States also recognized during the postwar period the need to restructure international monetary arrangements, | | spearheading the creation of the International Monetary Fund and the World Bank — institutions designed to ensure an open, | | capitalist international economy. |     Business, meanwhile, entered a period marked by consolidation. Firms merged to create huge, diversified conglomerates. | | International Telephone and Telegraph, for instance, bought Sheraton Hotels, Continental Banking, Hartford Fire Insurance, Avis | | Rent-a-Car, and other companies. | |     The American work force also changed significantly. During the 1950s, the number of workers providing services grew until it | | equaled and then surpassed the number who produced goods. And by 1956, a majority of U.

S. workers held white-collar rather than | | blue-collar jobs. At the same time, labor unions won long-term employment contracts and other benefits for their members. | |     Farmers, on the other hand, faced tough times. Gains in productivity led to agricultural overproduction, as farming became a | | big business. Small family farms found it increasingly difficult to compete, and more and more farmers left the land. As a result, | | the number of people employed in the farm sector, which in 1947 stood at 7. million, began a continuing decline; by 1998, U. S. | | farms employed only 3. 4 million people. | |     Other Americans moved, too. Growing demand for single-family homes and the widespread ownership of cars led many Americans to | | migrate from central cities to suburbs. Coupled with technological innovations such as the invention of air conditioning, the | | migration spurred the development of “ Sun Belt” cities such as Houston, Atlanta, Miami, and Phoenix in the southern and | | southwestern states.

As new, federally sponsored highways created better access to the suburbs, business patterns began to change | | as well. Shopping centers multiplied, rising from eight at the end of World War II to 3, 840 in 1960. Many industries soon followed,| | leaving cities for less crowded sites. | | Years of Change: The 1960s and 1970s | |     The 1950s in America are often described as a time of complacency. By contrast, the 1960s and 1970s were a time of great | | change.

New nations emerged around the world, insurgent movements sought to overthrow existing governments, established countries | | grew to become economic powerhouses that rivaled the United States, and economic relationships came to predominate in a world that | | increasingly recognized military might could not be the only means of growth and expansion. | |     President John F. Kennedy (1961-1963) ushered in a more activist approach to governing. During his 1960 presidential campaign,| | Kennedy said he would ask Americans to meet the challenges of the “ New Frontier. As president, he sought to accelerate economic | | growth by increasing government spending and cutting taxes, and he pressed for medical help for the elderly, aid for inner cities, | | and increased funds for education. Many of these proposals were not enacted, although Kennedy’s vision of sending Americans abroad | | to help developing nations did materialize with the creation of the Peace Corps. Kennedy also stepped up American space | | exploration. After his death, the American space program surpassed Soviet achievements and culminated in the landing of American | | astronauts on the moon in July 1969. |     Kennedy’s assassination in 1963 spurred Congress to enact much of his legislative agenda. His successor, Lyndon Baines Johnson| |(1963-1969), sought to build a “ Great Society” by spreading benefits of America’s successful economy to more citizens. Federal | | spending increased dramatically, as the government launched such new programs as Medicare (health care for the elderly), Food | | Stamps (food assistance for the poor), and numerous education initiatives (assistance to students as well as grants to schools and | | colleges). |     Military spending also increased as American’s presence in Vietnam grew. What had started as a small military action under | | Kennedy mushroomed into a major military initiative during Johnson’s presidency. Ironically, spending on both wars — the war on | | poverty and the fighting war in Vietnam — contributed to prosperity in the short term. But by the end of the 1960s, the | | government’s failure to raise taxes to pay for these efforts led to accelerating inflation, which eroded this prosperity.

The | | 1973-1974 oil embargo by members of the Organization of Petroleum Exporting Countries (OPEC) pushed energy prices rapidly higher | | and created shortages. Even after the embargo ended, energy prices stayed high, adding to inflation and eventually causing rising | | rates of unemployment. Federal budget deficits grew, foreign competition intensified, and the stock market sagged. | |     The Vietnam War dragged on until 1975, President Richard Nixon (1969-1973) resigned under a cloud of impeachment charges, and | | a group of Americans were taken hostage at the U.

S. embassy in Teheran and held for more than a year. The nation seemed unable to | | control events, including economic affairs. America’s trade deficit swelled as low-priced and frequently high-quality imports of | | everything from automobiles to steel to semiconductors flooded into the United States. | |     The term “ stagflation” — an economic condition of both continuing inflation and stagnant business activity, together with an | | increasing unemployment rate — described the new economic malaise. Inflation seemed to feed on itself.

People began to expect | | continuous increases in the price of goods, so they bought more. This increased demand pushed up prices, leading to demands for | | higher wages, which pushed prices higher still in a continuing upward spiral. Labor contracts increasingly came to include | | automatic cost-of-living clauses, and the government began to peg some payments, such as those for Social Security, to the Consumer| | Price Index, the best-known gauge of inflation. While these practices helped workers and retirees cope with inflation, they | | perpetuated inflation.

The government’s ever-rising need for funds swelled the budget deficit and led to greater government | | borrowing, which in turn pushed up interest rates and increased costs for businesses and consumers even further. With energy costs | | and interest rates high, business investment languished and unemployment rose to uncomfortable levels. | |     In desperation, President Jimmy Carter (1977-1981) tried to combat economic weakness and unemployment by increasing government| | spending, and he established voluntary wage and price guidelines to control inflation.

Both were largely unsuccessful. A perhaps | | more successful but less dramatic attack on inflation involved the “ deregulation” of numerous industries, including airlines, | | trucking, and railroads. These industries had been tightly regulated, with government controlling routes and fares. Support for | | deregulation continued beyond the Carter administration. In the 1980s, the government relaxed controls on bank interest rates and | | long-distance telephone service, and in the 1990s it moved to ease regulation of local telephone service. |     But the most important element in the war against inflation was the Federal Reserve Board, which clamped down hard on the | | money supply beginning in 1979. By refusing to supply all the money an inflation-ravaged economy wanted, the Fed caused interest | | rates to rise. As a result, consumer spending and business borrowing slowed abruptly. The economy soon fell into a deep recession. | | The Economy in the 1980s | |     The nation endured a deep recession throughout 1982. Business bankruptcies rose 50 percent over the previous year.

Farmers | | were especially hard hit, as agricultural exports declined, crop prices fell, and interest rates rose. But while the medicine of a | | sharp slowdown was hard to swallow, it did break the destructive cycle in which the economy had been caught. By 1983, inflation had| | eased, the economy had rebounded, and the United States began a sustained period of economic growth. The annual inflation rate | | remained under 5 percent throughout most of the 1980s and into the 1990s. | |     The economic upheaval of the 1970s had important political consequences.

The American people expressed their discontent with | | federal policies by turning out Carter in 1980 and electing former Hollywood actor and California governor Ronald Reagan as | | president. Reagan (1981-1989) based his economic program on the theory of supply-side economics, which advocated reducing tax rates| | so people could keep more of what they earned. The theory was that lower tax rates would induce people to work harder and longer, | | and that this in turn would lead to more saving and investment, resulting in more production and stimulating overall economic | | growth.

While the Reagan-inspired tax cuts served mainly to benefit wealthier Americans, the economic theory behind the cuts argued| | that benefits would extend to lower-income people as well because higher investment would lead new job opportunities and higher | | wages. | |     The central theme of Reagan’s national agenda, however, was his belief that the federal government had become too big and | | intrusive. In the early 1980s, while he was cutting taxes, Reagan was also slashing social programs.

Reagan also undertook a | | campaign throughout his tenure to reduce or eliminate government regulations affecting the consumer, the workplace, and the | | environment. At the same time, however, he feared that the United States had neglected its military in the wake of the Vietnam War,| | so he successfully pushed for big increases in defense spending. | |     The combination of tax cuts and higher military spending overwhelmed more modest reductions in spending on domestic programs. | | As a result, the federal budget deficit swelled even beyond the levels it had reached during the recession of the early 1980s.

From| |$74, 000 million in 1980, the federal budget deficit rose to $221, 000 million in 1986. It fell back to $150, 000 million in 1987, but| | then started growing again. Some economists worried that heavy spending and borrowing by the federal government would re-ignite | | inflation, but the Federal Reserve remained vigilant about controlling price increases, moving quickly to raise interest rates any | | time it seemed a threat. Under chairman Paul Volcker and his successor, Alan Greenspan, the Federal Reserve retained the central | | role of economic traffic cop, eclipsing Congress and the president in guiding the nation’s economy. |     The recovery that first built up steam in the early 1980s was not without its problems. Farmers, especially those operating | | small family farms, continued to face challenges in making a living, especially in 1986 and 1988, when the nation’s mid-section was| | hit by serious droughts, and several years later when it suffered extensive flooding. Some banks faltered from a combination of | | tight money and unwise lending practices, particularly those known as savings and loan associations, which went on a spree of | | unwise lending after they were partially deregulated.

The federal government had to close many of these institutions and pay off | | their depositors, at enormous cost to taxpayers. | |     While Reagan and his successor, George Bush (1989-1992), presided as communist regimes collapsed in the Soviet Union and | | Eastern Europe, the 1980s did not entirely erase the economic malaise that had gripped the country during the 1970s. The United | | States posted trade deficits in seven of the 10 years of the 1970s, and the trade deficit swelled throughout the 1980s. Rapidly | growing economies in Asia appeared to be challenging America as economic powerhouses; Japan, in particular, with its emphasis on | | long-term planning and close coordination among corporations, banks, and government, seemed to offer an alternative model for | | economic growth. | |     In the United States, meanwhile, “ corporate raiders” bought various corporations whose stock prices were depressed and then | | restructured them, either by selling off some of their operations or by dismantling them piece by piece.

In some cases, companies | | spent enormous sums to buy up their own stock or pay off raiders. Critics watched such battles with dismay, arguing that raiders | | were destroying good companies and causing grief for workers, many of whom lost their jobs in corporate restructuring moves. But | | others said the raiders made a meaningful contribution to the economy, either by taking over poorly managed companies, slimming | | them down, and making them profitable again, or by selling them off so that investors could take their profits and reinvest them in| | more productive companies. | The 1990s and Beyond | |     The 1990s brought a new president, Bill Clinton (1993-2000). A cautious, moderate Democrat, Clinton sounded some of the same | | themes as his predecessors. After unsuccessfully urging Congress to enact an ambitious proposal to expand health-insurance | | coverage, Clinton declared that the era of “ big government” was over in America.

He pushed to strengthen market forces in some | | sectors, working with Congress to open local telephone service to competition. He also joined Republicans to reduce welfare | | benefits. Still, although Clinton reduced the size of the federal work force, the government continued to play a crucial role in | | the nation’s economy. Most of the major innovations of the New Deal, and a good many of the Great Society, remained in place. And | | the Federal Reserve system continued to regulate the overall pace of economic activity, with a watchful eye for any signs of | | renewed inflation. |     The economy, meanwhile, turned in an increasingly healthy performance as the 1990s progressed. With the fall of the Soviet | | Union and Eastern European communism in the late 1980s, trade opportunities expanded greatly. Technological developments brought a | | wide range of sophisticated new electronic products. Innovations in telecommunications and computer networking spawned a vast | | computer hardware and software industry and revolutionized the way many industries operate. The economy grew rapidly, and corporate| | earnings rose rapidly.

Combined with low inflation and low unemployment, strong profits sent the stock market surging; the Dow | | Jones Industrial Average, which had stood at just 1, 000 in the late 1970s, hit the 11, 000 mark in 1999, adding substantially to the| | wealth of many — though not all — Americans. | |     Japan’s economy, often considered a model by Americans in the 1980s, fell into a prolonged recession — a development that led| | many economists to conclude that the more flexible, less planned, and more competitive American approach was, in fact, a better | | strategy for economic growth in the new, globally-integrated environment. |     America’s labor force changed markedly during the 1990s. Continuing a long-term trend, the number of farmers declined. A small| | portion of workers had jobs in industry, while a much greater share worked in the service sector, in jobs ranging from store clerks| | to financial planners. If steel and shoes were no longer American manufacturing mainstays, computers and the software that make | | them run were. | |     After peaking at $290, 000 million in 1992, the federal budget steadily shrank as economic growth increased tax revenues.

In | | 1998, the government posted its first surplus in 30 years, although a huge debt — mainly in the form of promised future Social | | Security payments to the baby boomers — remained. Economists, surprised at the combination of rapid growth and continued low | | inflation, debated whether the United States had a “ new economy” capable of sustaining a faster growth rate than seemed possible | | based on the experiences of the previous 40 years. |     Finally, the American economy was more closely intertwined with the global economy than it ever had been. Clinton, like his | | predecessors, had continued to push for elimination of trade barriers. A North American Free Trade Agreement (NAFTA) had further | | increased economic ties between the United States and its largest trading partners, Canada and Mexico. Asia, which had grown | | especially rapidly during the 1980s, joined Europe as a major supplier of finished goods and a market for American exports. | Sophisticated worldwide telecommunications systems linked the world’s financial markets in a way unimaginable even a few years | | earlier. | |     While many Americans remained convinced that global economic integration benefited all nations, the growing interdependence | | created some dislocations as well. Workers in high-technology industries — at which the United States excelled — fared rather | | well, but competition from many foreign countries that generally had lower labor costs tended to dampen wages in traditional | | manufacturing industries.

Then, when the economies of Japan and other newly industrialized countries in Asia faltered in the late | | 1990s, shock waves rippled throughout the global financial system. American economic policy-makers found they increasingly had to | | weigh global economic conditions in charting a course for the domestic economy. | |     Still, Americans ended the 1990s with a restored sense of confidence. By the end of 1999, the economy had grown continuously | | since March 1991, the longest peacetime economic expansion in history. Unemployment totaled just 4. percent of the labor force in | | November 1999, the lowest rate in nearly 30 years. And consumer prices, which rose just 1. 6 percent in 1998 (the smallest increase | | except for one year since 1964), climbed only somewhat faster in 1999 (2. 4 percent through October). Many challenges lay ahead, but| | the nation had weathered the 20th century — and the enormous changes it brought — in good shape. | | Next Chapter > |