

USA

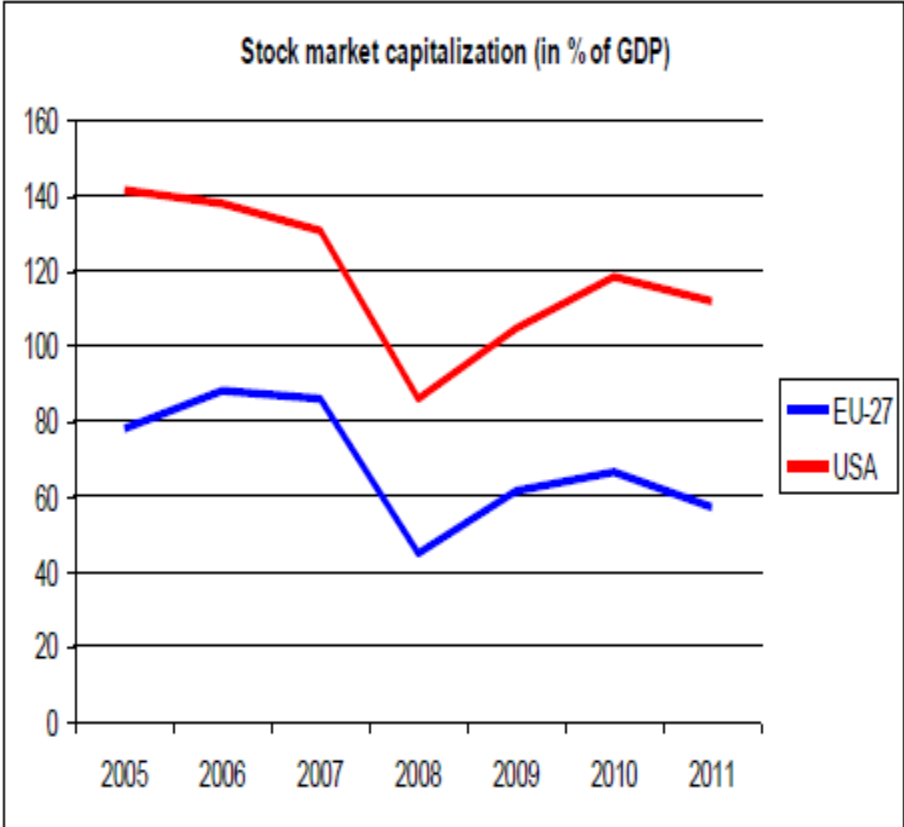
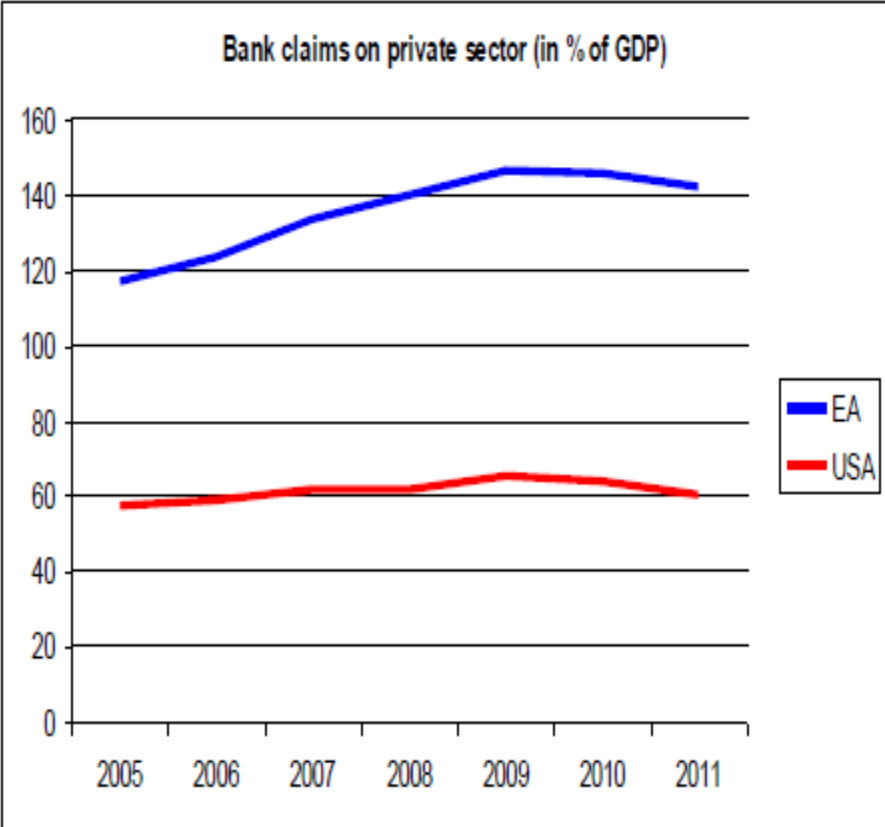
Content

- A. Prior to WWI
- B. Interwar period (revision)
- C. After WWII
- D. The 1950s and 1960s
- E. The 1970s
- F. Reaganomics
- G. Summary of the after-war development
- H. The 1990s

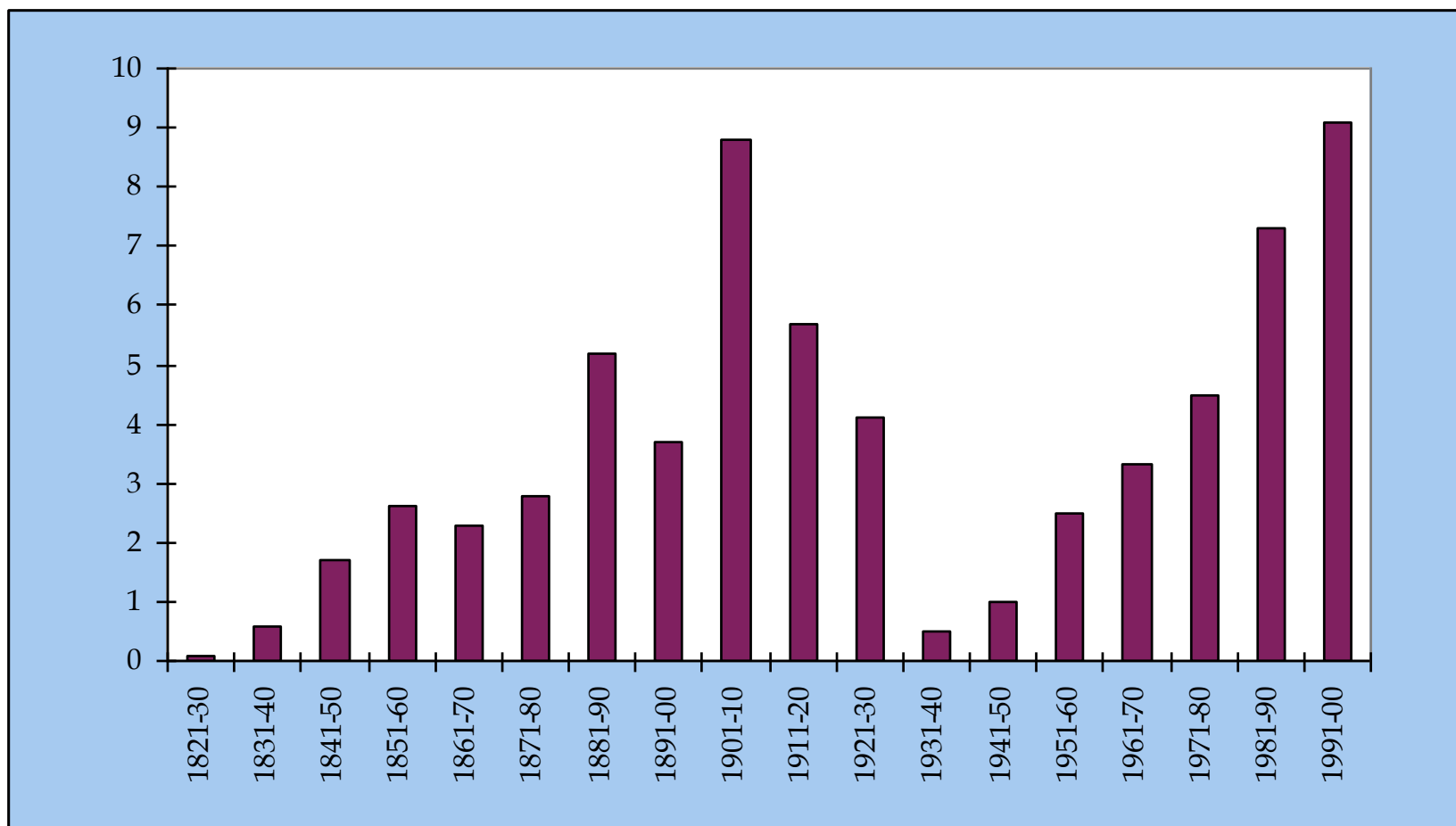
Basic characteristics

- small government+ liberal principles ⇒ relatively:
 - low taxes+ little interference into the economy + minimal public ownership
- entrepreneurial spirit
 - possibility from small-size companies ⇒ big ones
 - Nike, Microsoft, Apple
 - venture capital
 - competitive environment
 - stock markets ⇒ shareholders discontent (↓ prices) ⇒ dismissal of management
- flexible labour markets + immigration
- greater disproportions in income

Companies financing EU in USA

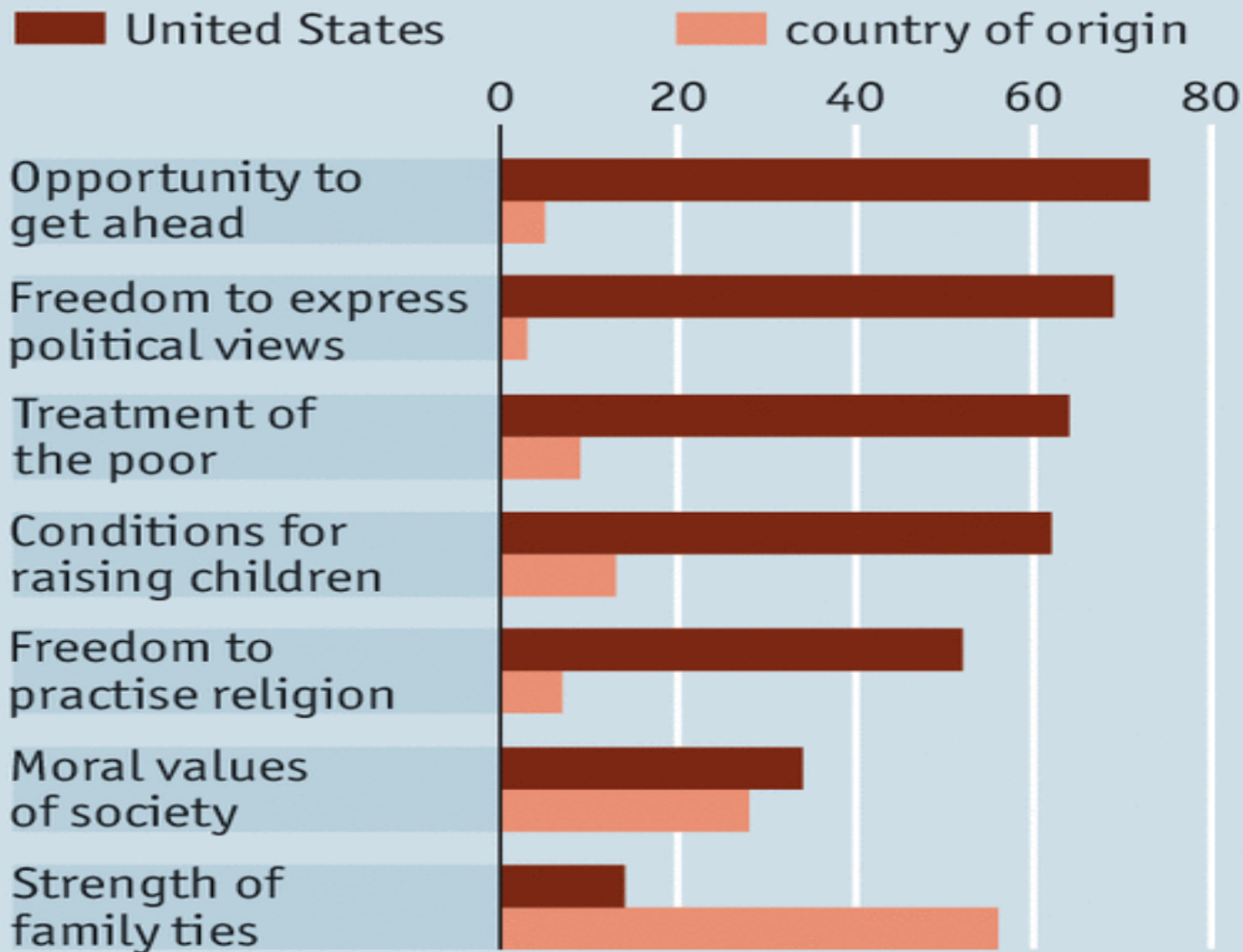


Immigration to the USA by decades (million)



Land of the free

% of Asian-Americans saying which is better in:



Source: Pew Research Centre, 2012

Prior to WWI

A. USA prior to WWI

- **political expansion**

- 1898 war with ES ⇒ control over Cuba + annex of Puerto Rico, Hawaii, Philippines

- **fast economic development**

- ↑ GDP

- crisis in the 1890s

- BUT still relatively agricultural country

- ↑ production

- stable price level ⇒ deflation

- Gold standard

- ↑ FT

- ↑ export > ↑ import

- protection of the domestic market

- large amount of **foreign** INV in USA (GB and FR)

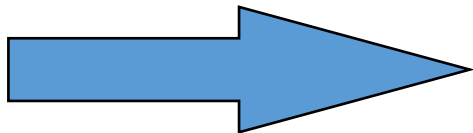
- to private sector

- railways

- USA - the biggest world debtor

Reasons of the US success

- **population growth**
 - high birth rate+ immigration
- **raw materials and natural resources**
- size of the **domestic market**
 - development of transportation infrastructure- roadways, canals and mainly railways
 - ⇒ development of iron and steel industry
- use of **modern technologies**
 - fast implementation of machines
(LF expensive)



↑ **specialization
and productivity**

Length of railroads [km]

	1840	1870	1914
France	410	15544	37400
Germany	469	18876	61749
GB	2390	21558	32623
USA	4510	84675	410475

Relative shares in the world industrial production, 1750 – 1900 (in %)

	1770	1800	1830	1860	1880	1900
Europe total	23.2	28.1	34.2	53.2	61.3	62
GB	1.9	4.3	9.5	19.9	22.9	18.5
Japan	3.8	3.5	2.8	2.6	2.4	2.4
Third world	73	67.7	60.5	36.6	20.9	11
USA	0.1	0.8	2.4	7.2	14.7	23.6

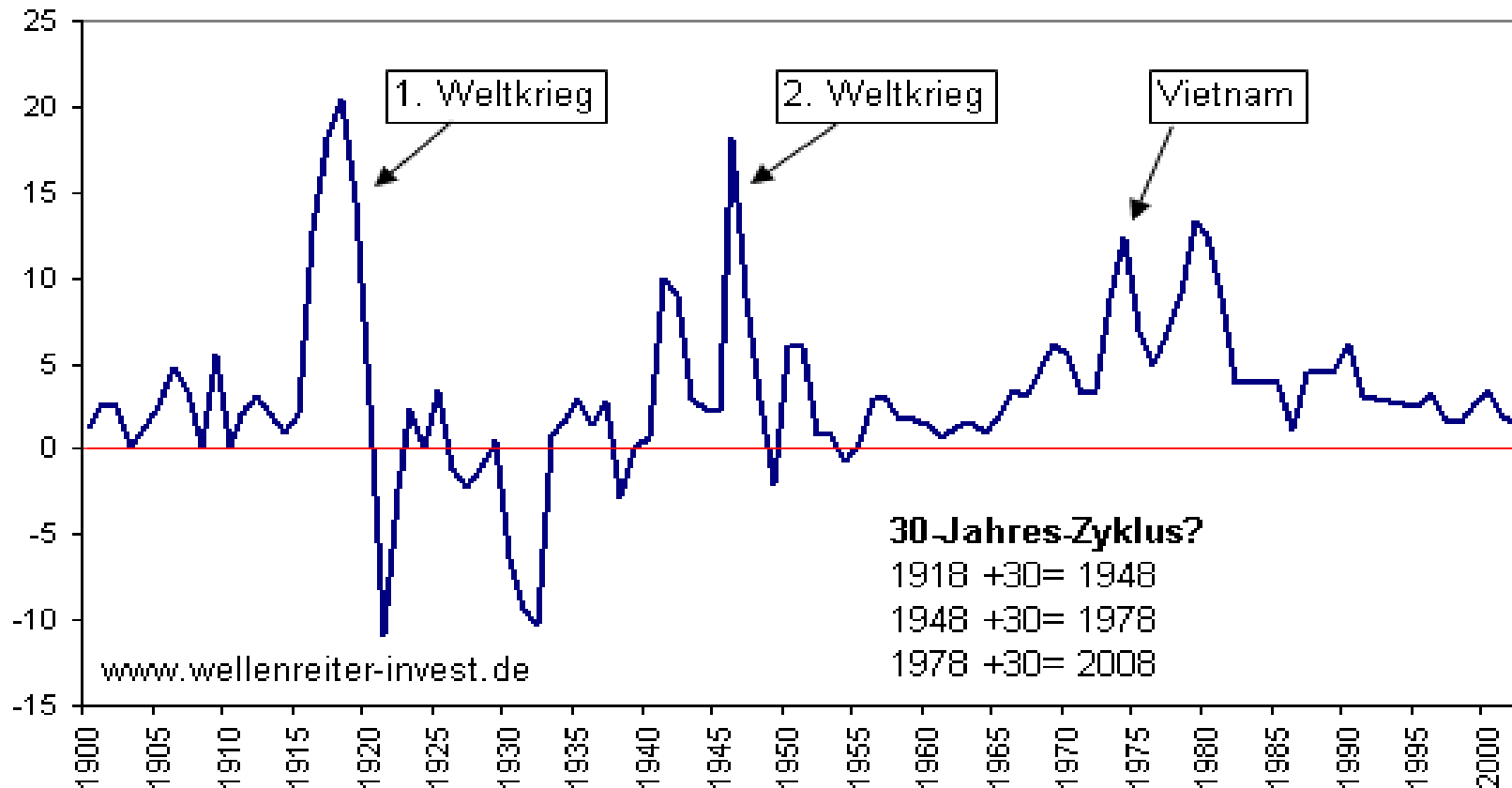
Source: Kennedy, Vzestup a pád velmocí, 1996

Inter-war period (revision)

B. Inter-war period in USA

- 1920s - very **successful decade**
 - modern structure of the economy
- **unwillingness to play the role of superpower**
- **Great Depression**
 - huge drop in production and high unemployment
 - crash on the stock exchange
 - collapse of banking system
 - protectionism
- **New Deal** - mixed results

Inflationsrate USA in %



After WWII

C. USA after WWII

- considerable **growth** during WWII
- president **Truman** (1945 - 53)
- after the war –economic and political **superpower**
- **responsibility for the world order**
 - Bretton-Woods + Truman Doctrine + GATT + Marshall Plan + foreign aid for DC
- **bipolarity**
- persisting (limited) **state interventions**
 - Employment Act of 1946
 - program Fair Deal
 - social area– unfulfilled although ↑ soc. exp.

Direct fiscal war-related costs of the USA

	Common USD billion	USD billion of 1990	% GDP	USD (1990) per capita
World War I (1917-18)	26	197	24	1 911
World War II(1941-45)	288	2 091	130	15 655
The Korean War (1950-53)	54	264	15	1 740
The Vietnam War (1964-72)	111	347	12	1 692
The Persian Gulf War (1990-91)	61	61	1	235

Source: Carvalho, Suni: War, Oil and Economic Growth, 2002

Economic results

- **1945 – 1947 stagnation and recession**

- transition into peace economy
 - conversion of armament production
 - $\Rightarrow \uparrow P + \uparrow U$ (mainly among demobilized)

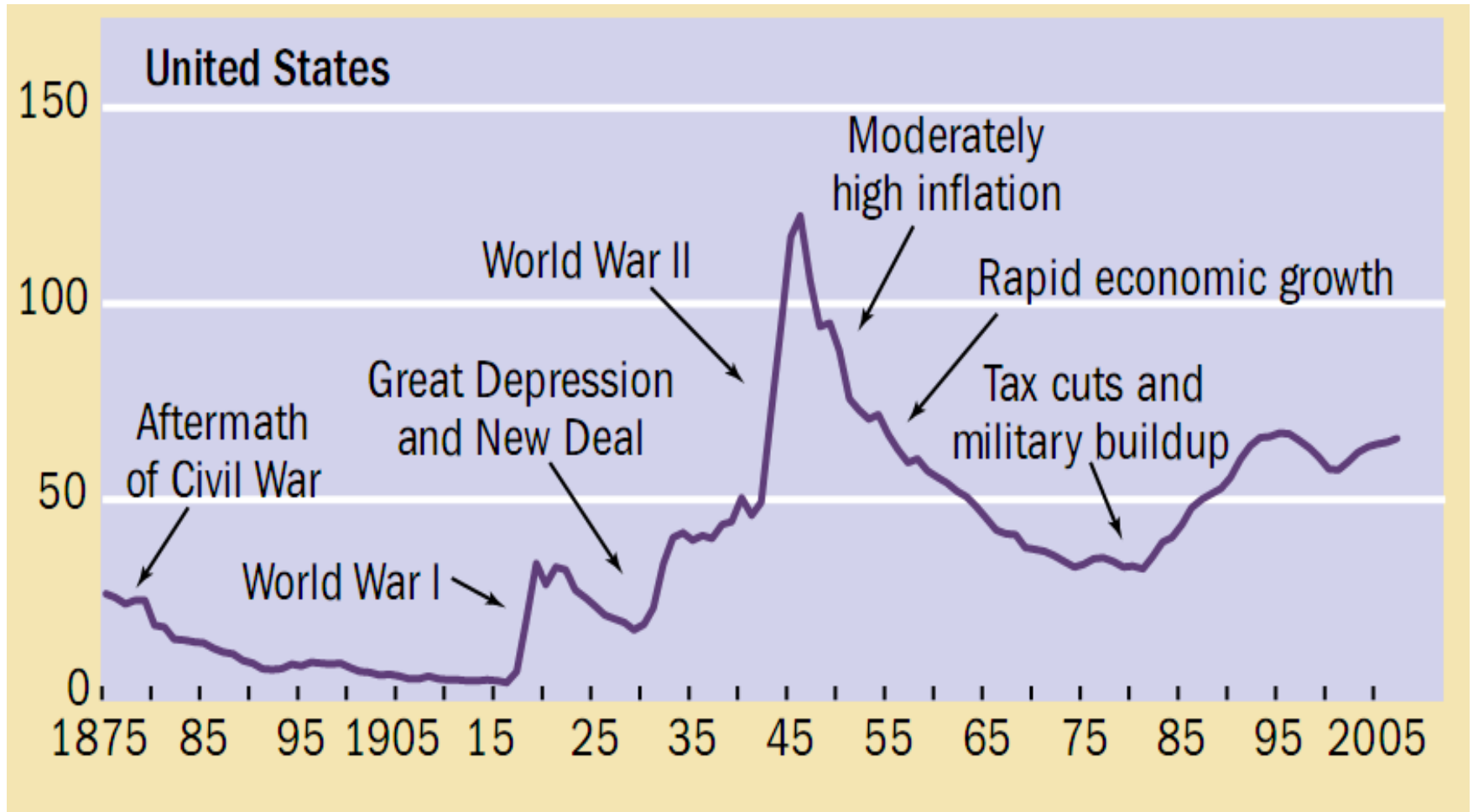
- subsequently **positive impact of**

- \uparrow INV (manufacturing and housing)
- modern infrastructure
 - share of state - power engineering, communications, railways, roadways
- influence of postponed customer D
 - cars, TV, telephones
- \uparrow EX (loans for purchases of US goods + help)

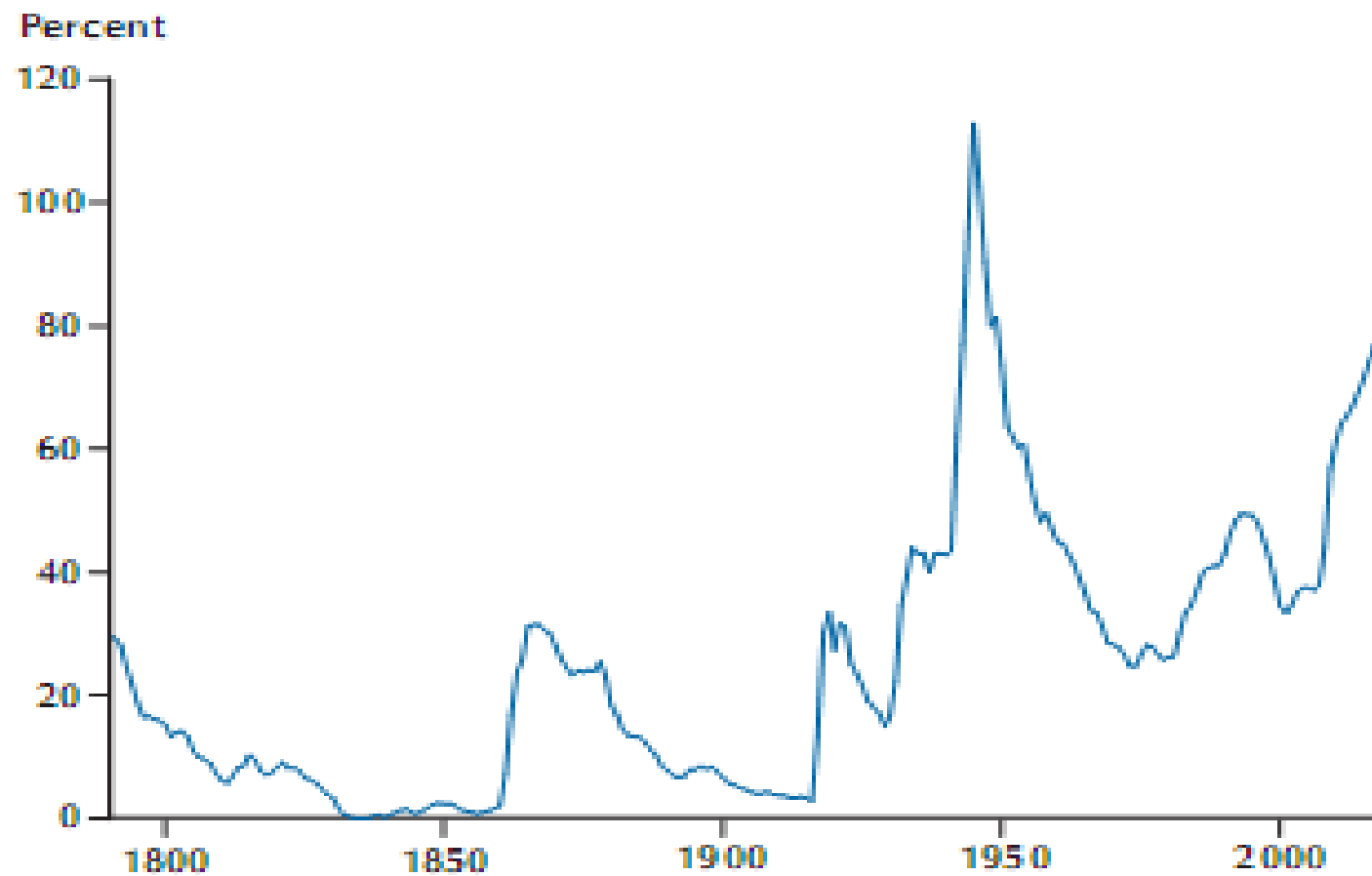
- **1949 = recession**

- Truman \downarrow taxes + \uparrow exp. on social and public purposes

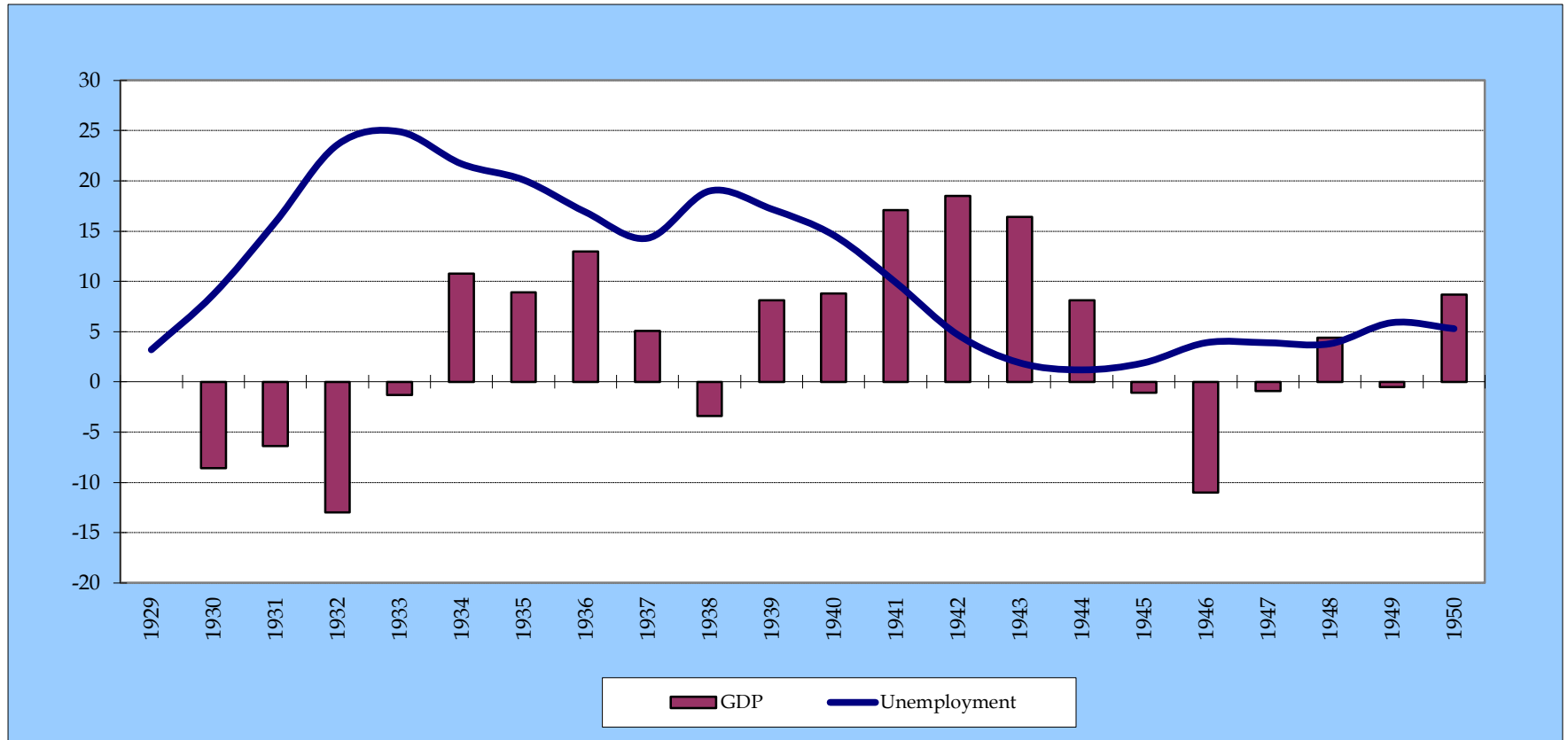
Public debt as % of GDP



Public debt as % of GDP



Growth of real GDP and unemployment in the USA (%)



Source: *Economic Report of the President 2007, 2007, Economic Report of the President 1953, 1953*

The 1950_s and 1960_s

D. The 1950s

- until 1973 - all in all, very **successful period**
- president **Eisenhower** (1953-61)
- in 1950s average growth of GDP = 3,2%
 - recession 1953 – 54
 - ↓ military exp. b/c the end of Korean war
 - reaction of monetary policy to the worsening BofP in 1953
- + **low inflation and U**

Reasons of growth

- same factors as after the war
- + ↑ **militarization** b/c Korean war
- + accumulation of **strategic reserves** of raw materials and products for possible WWII
- + extension of **consumer loans**
- + **inflow of qualified labour**
- + **economic policy**
 - Keynesianism ⇨ Neokeynesianism
 - “fine tuning” = STOP and GO
 - recession ⇨ Eisenhower ↓ + ↑U benefits

The 1960s

- **presidents** Kennedy – Johnson – Nixon
- USA faced to **↑domestic competition + ↑USSR**
 - space technologies + exploration
- **↑GDP**
 - 9 years of continuous growth
 - recession only in 1970
 - 1969 monetary and fiscal restrictions
- **BUT** at the end of 1960s
 - **loss of dynamics**
 - ↓construction + automobile industry
 - **↑ price level**
- **+ budget deficits**

U.S. Fiscal policy in 1960-1969

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Government spendings	93	102,1	110,3	113,9	118,1	123,5	142,8	163,6	181,5	189,2
Revenues	96,5	98,3	106,4	114,5	115	124,7	142,5	151,2	175	197,3
Surplus	3,5	-3,8	-3,8	0,7	-3	1,2	-0,2	-12,4	-6,5	8,1
Inflation (%)	-,04	1,1	-	1,2	1,3	1,7	2,9	2,8	4,2	5,4

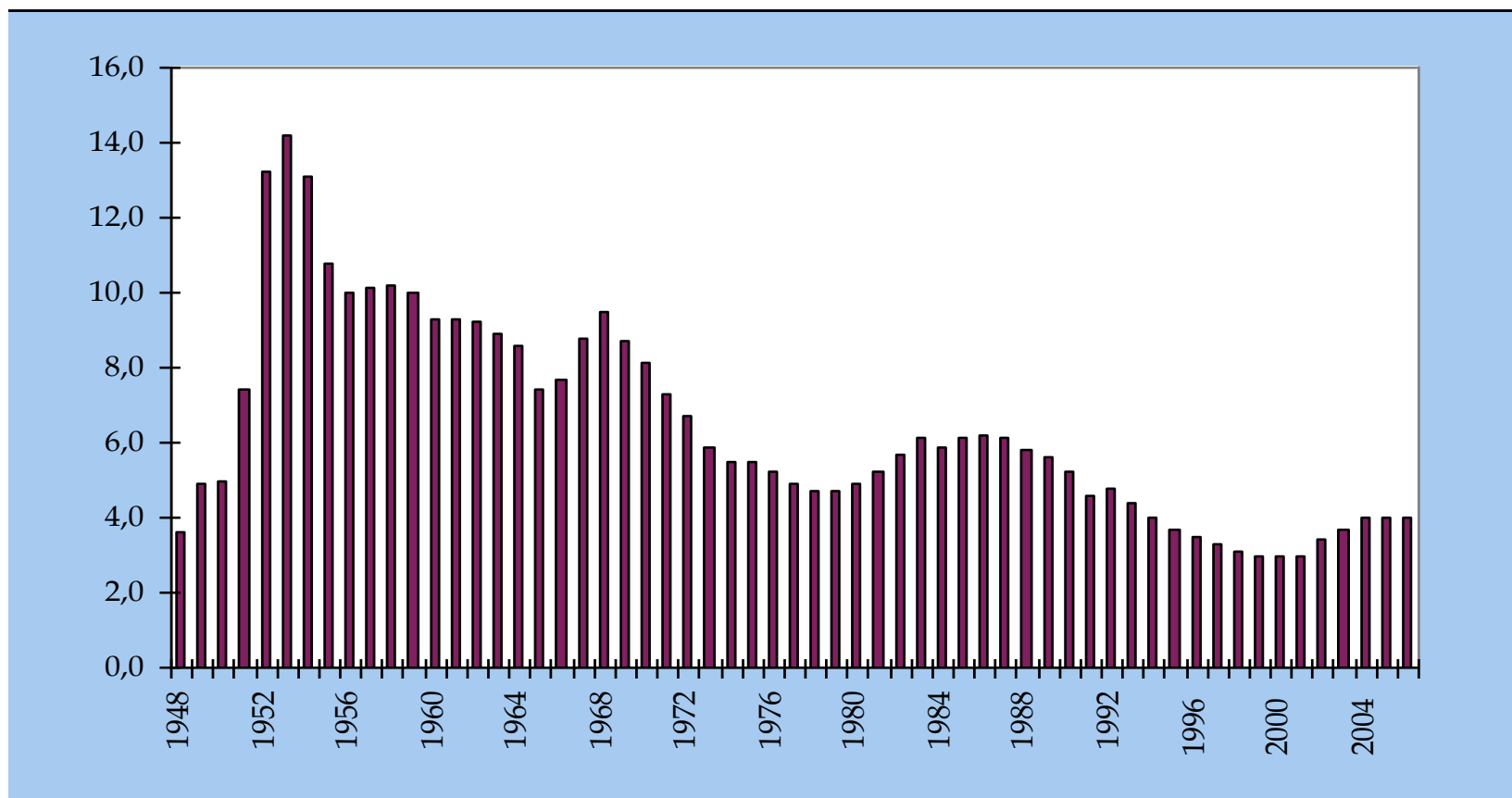
Reasons of economic growth

- mass use of **inventions from 1950s**
- high investment (public and private) to **R&D**
 - military and space research + aeronautics industry + petrochemistry + information technologies
- **War in Vietnam** after 1965

Military expenses in the USA and the USSR, 1948-1970 (USD billion)

	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
USA	10.9	13.5	14.5	33.3	47.8	49.6	42.7	40.5	41.7	44.5	45.5	46.6
USSR	13.1	13.4	15.5	20.1	21.9	25.5	28	29.5	26.7	27.6	30.2	34.4
	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	
USA	45.3	47.8	52.3	52.3	51.2	51.8	67.5	75.4	80.7	81.4	77.8	
USSR	36.9	43.6	49.9	54.7	48.7	62.3	69.7	80.9	85.4	89.8	72	

U.S. Defence expenditures as percent of GDP



Source: Economic Report of the President 2007, 2007

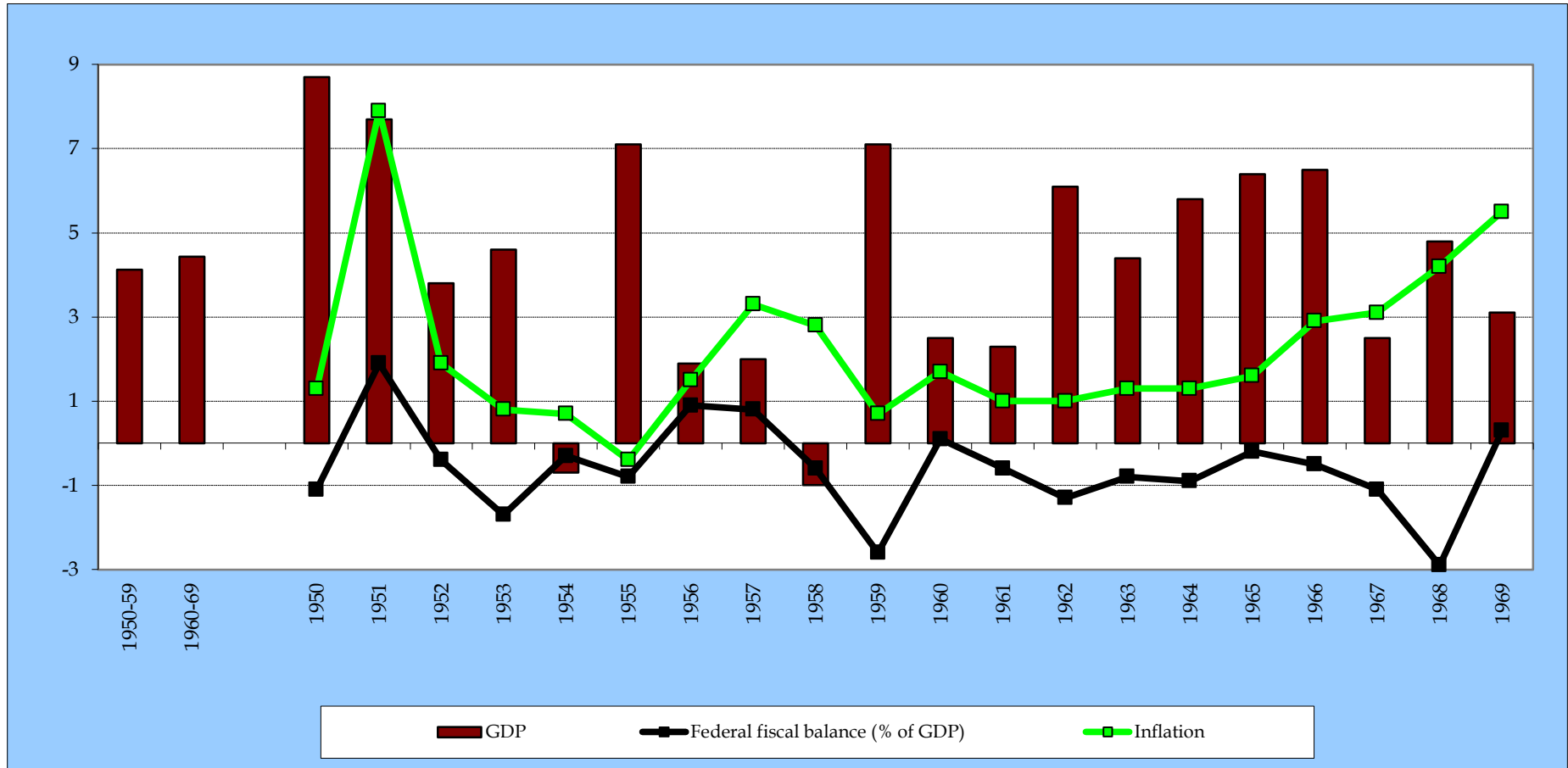
Economic policy

- Kennedy - New Economics
- instead of balancing the cycle— continuous econ. ↑
- **fiscal expansion**
 - war in Vietnam + research
 - INV in education
 - big social programs for the poorests
 - “War to Poverty”
 - “Great Society”
 - ⇒ ↑ redistribution
- **+ monetary policy also expansive**
 - b/c recovery induced by fiscal policy had to be accompanied by ↑ M^S



↑ inflationary tendencies

Economic growth (%), inflation (%) and the federal fiscal balance (% of GDP) in the USA, 1950–1969



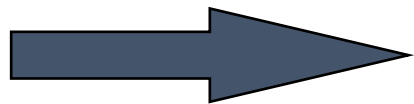
The 1970_s

E. USA in 1970s

- **presidents** Nixon – Ford – Carter
- 1971 Nixon – **New Economic Policy**
 - \Rightarrow econ \uparrow + X fiscal imbalances
 - also abandoning of convertibility of \$ for AU + devaluation in 1971 and 1973 + wage and price control
- **recession 1973 –75**
 - + \uparrow price level+ \downarrow stock exchange
- high econ. \uparrow in **1976-78**
 - BUT ongoing Π + high U

Causes of the crisis

- increasing **budget deficits** in 1960s and 1970s
 - Vietnam + ...
- **New Economics** = expansive policy + underestimation of inflation
 - except the already mentioned factors
 - weakened built-in stabilizers = taxflation
 - mistake with the Phillips curve
 - inflation expectations of the inhabitants
- **collapse of the Bretton-Woods system + devaluation**
- **Oil crises**
- foreign pressures = \uparrow **competition**



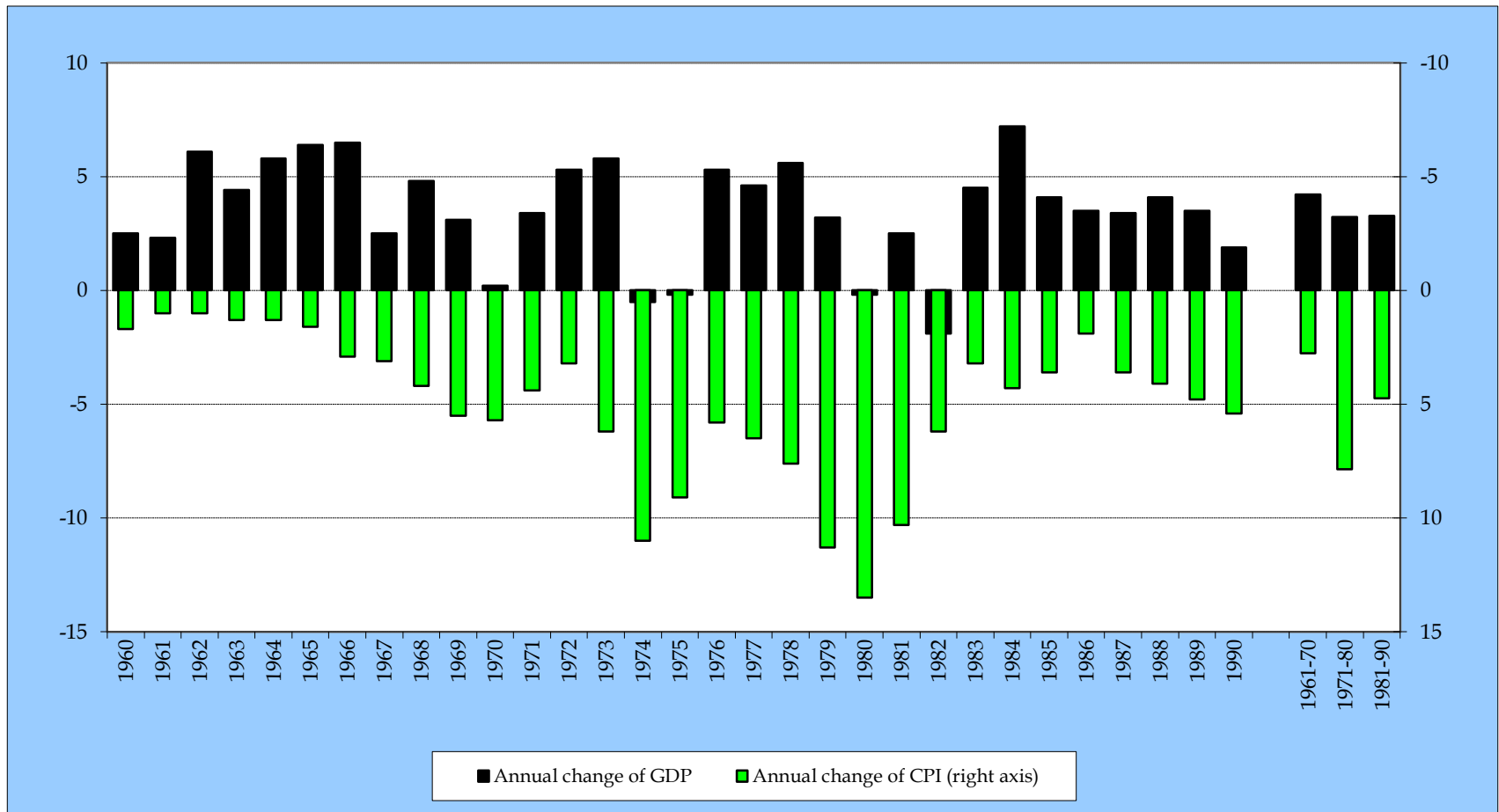
\downarrow GDP
+ \uparrow prices = **stagflation**

Proportional changes in employment structure in the USA as a result of foreign trade, 1970-1980

Industry	Proportional changes
Shoe industry	-15.9
Automobile industry	-11.1
Electrical appliances and equipment	-7.8
Leather products	-6.3
Clothes	-6.3
Radio and television	-5.7
Various other products	-5
Furniture	-4.5
Services equipment	5.7
Electrical machinery	6.6
Electrical and industrial facilities	7.1
Various machinery	8
Aircraft and their parts	12.8
Office, computer and accounting appliances	16.1
Motors and turbines	17.8
Construction and mining machinery	19.9

Source: Salvatore, *International Economics*, 1987

Economic growth and inflation in the USA, 1960–1990 (%)



Source: *Economic Report of the President 2007, 2007*

International comparison

- **less effected** by the crisis as other countries
 - domestic resources of raw materials
 - 80% of oil consumption covered from domestic yield
 - but continuous ↓ US share in the world production
- X JP and DE faster growth + large trade surpluses

Population, GNP per capita and GNP in 1980

	Population (million)	GNP p.c. (in USD)	GNP (in USD billion)
USA	228	11,360	2,590
USSR	265	4,550	1,205
Japan	117	9,890	1,157
EEC (12 countries)	317	-	2,907
of which			
Germany	61	13,590	838
France	54	11,730	633
GB	56	7,920	443
Italy	57	6,480	369

Source: Kennedy, Vzestup a pád velmocí, 1996

Reaganomics

F. USA during Reaganomics

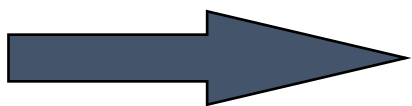
- **Ronald Reagan** (1981 -1984 and 1985 -1988)
- after Carter – **bad economic situation**
 - Π two-digit + difficult to change the expectations
 - but since 2nd 1/2 1970s deregulation + monetary oriented EP + first law about $\downarrow T$
 - from Keynesianism to Neokeynesianism
- **Reaganomics**
 - deregulation + liberalization + supply side + bigger role of market (\downarrow role of state) + $\downarrow T$ (marginal rates)
 - power industry, transportation, banking, telecommunication + complete deregulation of prices of oil and natural gas

Results

- beginning of 1980s– short recession (6 months)
 - \uparrow prices b/c \uparrow oil prices
- recession 1981 – 1982 = 16 months
 - \downarrow Π = strict monetary policy (\uparrow r)
 - 1979 new chairman of FED – P. Volcker
- since 1983 3. longest uninterrupted growth
- after 1985 recovery
 - faster \uparrow GDP and lower Π and U
- 1987 stock exchange crash
 - ALE FED learnt a lesson
 - \Rightarrow money into circulation \Rightarrow
impact on the real economy negligible

Budget deficit

- government expenditures
 - defense
 - social
 - debt service ($\uparrow r$)
- tax system
 - lower taxes (+ INV incentives)



budget deficit and
higher debt

Comparison of the USA and the USSR weaponry in 1982

	USA	USSR
Troops (in thousand)	2,117	4,265
Ballistic missiles total	1,572	2,387
Long-range bombers	316	150
Tanks	12,130	50,000
Helicopters	1,000	2,300
Ships and submarines	467	563

Source: Pechman, Setting National Priorities the 1984 Budget, 1983

Basic economic indicators the US economy, 1980-1990

	Year-on- year change of GDP (%)	Year-on- year change of inflation (%)	Unemploy- ment (%)	Fiscal balance (% of GDP)	Federal net public debt (% of GDP)	Current account balance (% GDP)	Federal government expenditures (%of GDP)
1980	-0.2	13.5	7.2	-3	30.3	0.1	21.7
1981	2.5	10.4	7.6	-2.2	28.9	0.2	22.2
1982	-1.9	6.2	9.7	-4.8	33.2	-0.2	23.1
1983	4.5	3.2	9.6	-5.6	36.6	-1.1	23.5
1984	7.2	4.4	7.5	-4.8	37.8	-2.4	22.2
1985	4.1	3.5	7.2	-5	40.9	-2.8	22.9
1986	3.5	1.8	7	-5.2	44.4	-3.3	22.4
1987	3.4	3.7	6.2	-4.3	46.6	-3.4	21.6
1988	4.1	4.1	5.5	-3.6	48	-2.4	21.3
1989	3.5	4.8	5.3	-3.2	48.2	-1.8	21.2
1990	1.9	5.4	5.6	-4.2	49.4	-1.4	21.8

Source: IMF: World Economic Outlook Database, <http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx> (9. 3. 2007);
Economic Report of the President 2007, 2007

Budget deficit

- $\uparrow r$ **b/c**
 - monetary policy
 - budget deficit
- $\uparrow r \Rightarrow \uparrow$ **inflow of capital to USA** \Rightarrow
 - appreciation of \$ $\Rightarrow \uparrow$ IM and \downarrow EX \Rightarrow trade DEF
 - + \Rightarrow DC problems with debt service !!!
- in addition \downarrow **savings x INV** \Rightarrow need to import capital \Rightarrow trade DEF
- $\Rightarrow \Rightarrow$ **inflow of foreign capital** – majority portfolio INV but since the beginning of 1970s also FDI
 - to gain market share
 - access to scientific knowledges
 - x protectionism
 - political stability
 - since the end of 1970S – petrodollars

All in all

- long economic growth
- \downarrow U and Π
- \uparrow effectivity + flexibility of the economy
- BUT \uparrow income inequality
- + DEF trade and budget
 - = so-called twin deficit

Summary of the after-war development

Tendencies:

- a) Structural changes
- b) GDP growth

G. a) Structural changes

- After WW2 shift to services

- Negative influence on productivity and economy $\uparrow \Rightarrow$ b/c There is smaller productivity in services than in industry.
- since 1/2 70s expansion in S b/c deregulation of telecommunications and transportation

Structure of U.S. GDP in 1950–1990

Year	Agriculture	Industry	Services
1950	5,3	36	58,7
1960	4	38,8*	57,2
1970	2,8	34,5*	62,7
1980	2,6	33,6*	63,8
1990	1,7	28*	70,3
Structural change 1950 - 1990	-3,6	-8	+11,6

* - Industry contains civil engineering

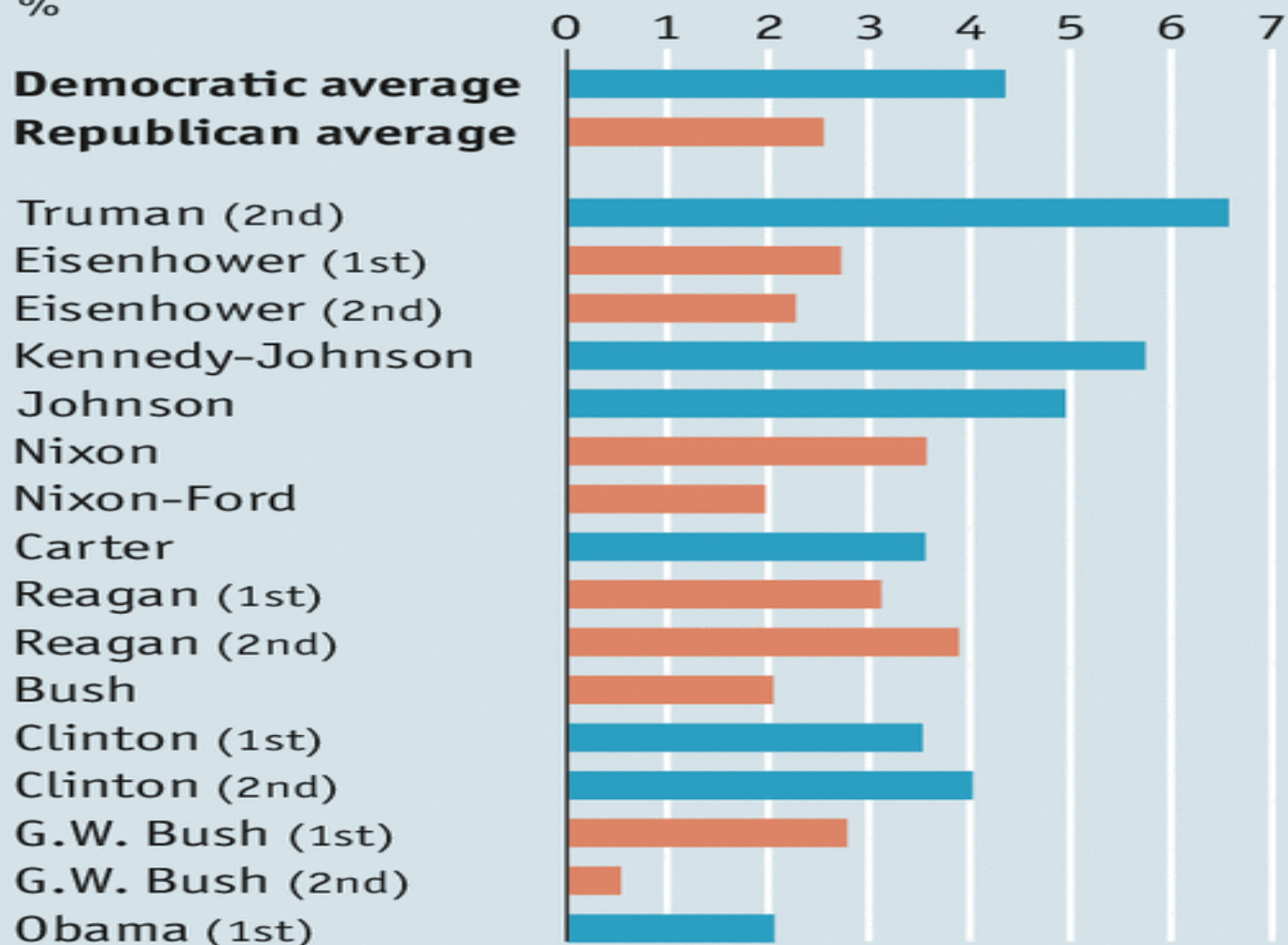
Source: Cihelková, Holub, Jakš: USA – Japonsko – SRN, 1994

G. b) GDP growth during presidencies of republicans and democrats

Democrats	Year of presidency			
	1	2	3	4
Truman	0	8,5	10,3	3,9
Kennedy/Johson	2,6	5,3	4,1	5,3
Johson	5,8	5,8	2,9	4,1
Carter	4,7	5,3	2,5	-0,2
Average	3,3	6,2	5	3,3
Republicans				
Eisenhower I	4	-1,3	5,6	2,1
Eisenhower II	1,7	-0,8	5,8	2,2
Nixon	2,4	-0,3	2,8	5
Nixon/Ford	5,2	-0,5	-1,3	4,9
Reagan I	1,9	-2,5	3,6	6,8
Reagan II	3,4	2,8	3,4	3,9
Average	3,1	-0,4	3,3	4,1

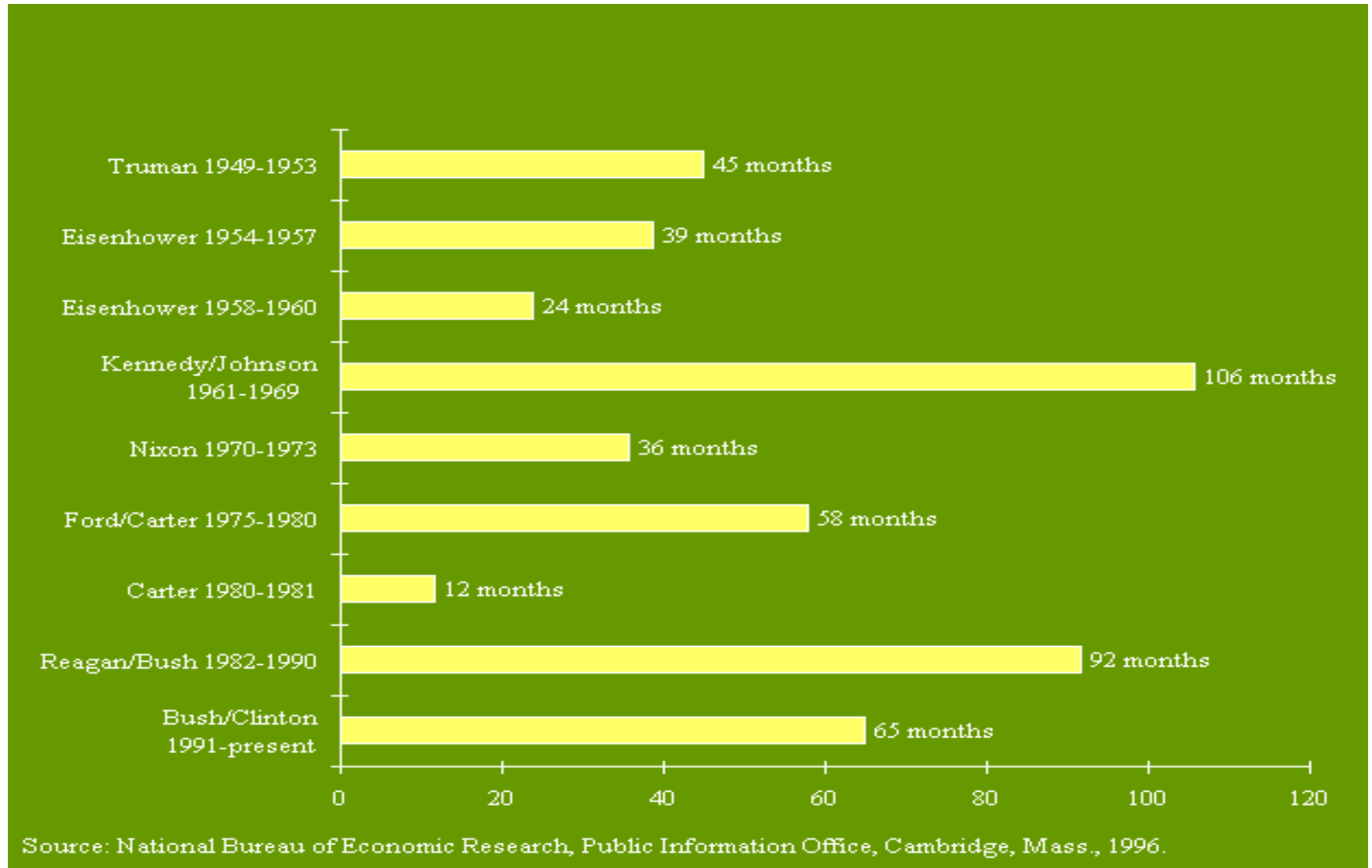
The lucky left

Average annualised GDP growth by presidential term
%



Source: "Presidents and the US Economy", by A.S. Blinder and M.W. Watson

Length of economic expansion



The 1990s

H. The 1990s

- **1989 Bush X budget deficit and external imbalance**

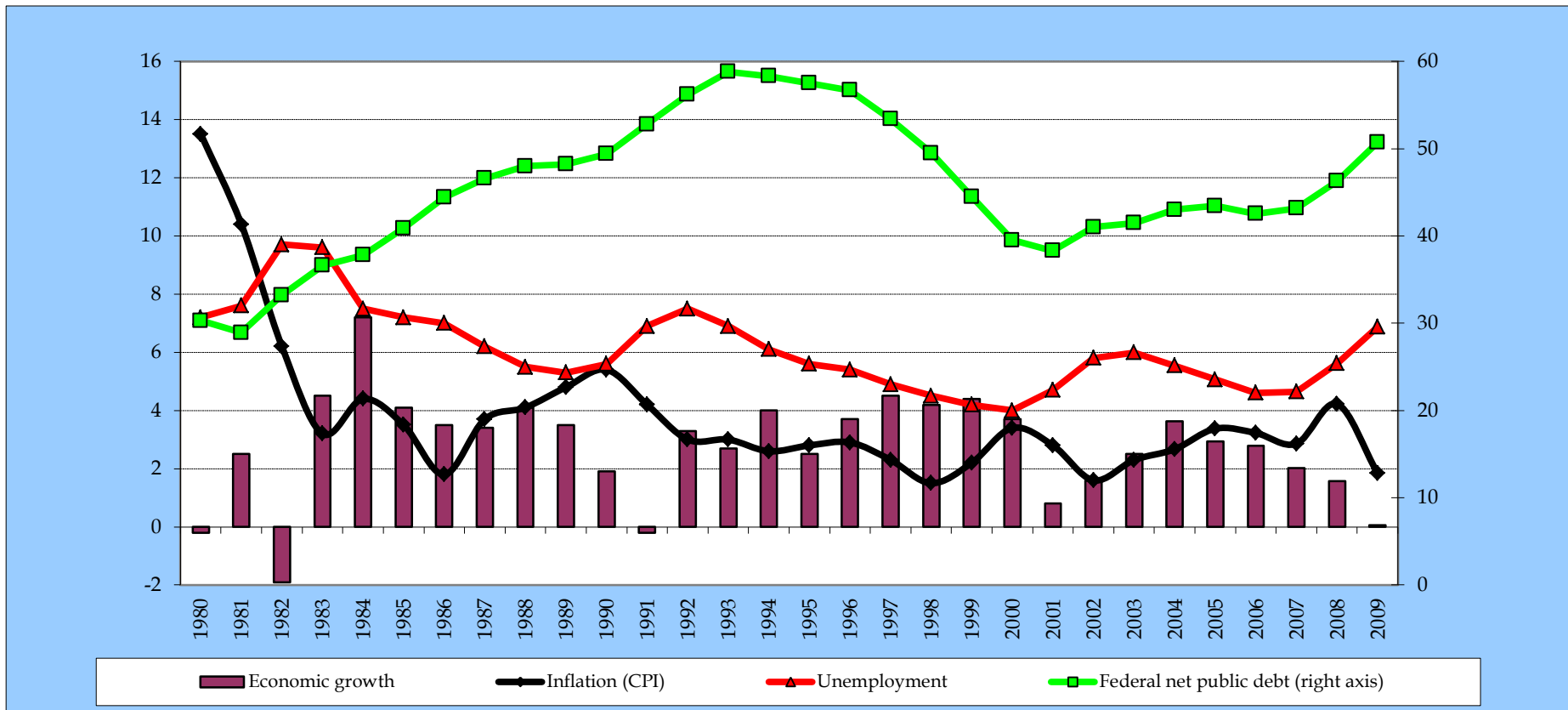
- \Rightarrow end of 1989 recession \Rightarrow 9 months
 - rapid \downarrow consumption of households + lower INV + weakening entrepreneurial confidence + \uparrow oil prices (Gulf War)

- **since 1991 continuous econ. \uparrow**

- actual reasons
 - high AD and expectations
 - low $\Pi \Rightarrow \downarrow r \Rightarrow \uparrow$ INV
- changes in the economy
 - restructuring in the 1980s
 - from I to S (services are less cyclical)
 - technological progress- use of PCs
 - better control of inventories - just in time system
- end of after-war weakening of positions
- $\downarrow U$
- Feb. 2000 record – period of econ. expansion

since $\frac{1}{2}$ 19th century

Economic growth (%), inflation (%), unemployment (%) federal net public debt (% of GDP) in the USA, 1980-2009

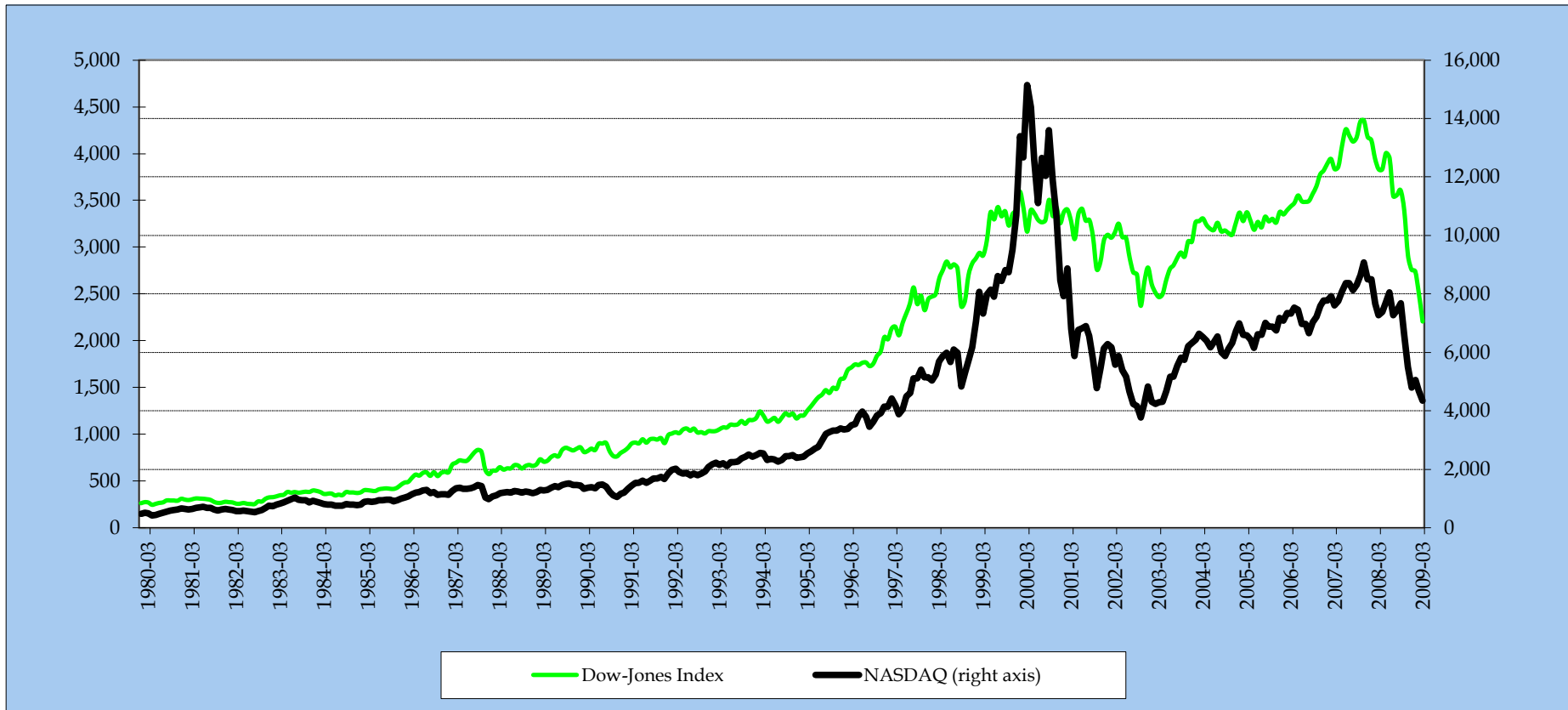


Source: IMF: World Economic Outlook Database, <http://www.imf.org/external/pubs/ft/weo/2008/02/data/index.aspx> (9. 3. 2009)

Price level

- **FED NOT $\uparrow r$ \Rightarrow not inhibit econ. \uparrow**
- **X Π circumstances until 1999**
 - crisis in Asia \Rightarrow \downarrow prices of raw materials
 - inflow of assets to USA \Rightarrow \uparrow \$
- methodical – changes in the calculation of Π , production
- budget surplus
- \uparrow labour productivity
- character of the business cycle
 - cycle after WW2 – several years $\uparrow \Rightarrow AD > AS \Rightarrow$ FED $\uparrow r \Rightarrow \downarrow AD \Rightarrow$ firms \uparrow stocks \Rightarrow recession \Rightarrow FED $\downarrow r \Rightarrow \uparrow AD$
 - but $\uparrow \Pi$ under control \Rightarrow FED NOT $\uparrow r \Rightarrow$
 $\downarrow AD$ not b/c $\uparrow r$ BUT \downarrow profits, \downarrow price of shares
+ \downarrow INV

Dow-Jones and NASDAQ (1980-2009) – monthly values



Source: EconStats™ – www.econstats.com (9. 1. 2009),

Finance Yahoo – <http://finance.yahoo.com/q/hp?s=%5EIXIC&a=01&b=5&c=1971&d=02&e=9&f=2009&g=m> (9. 3. 2009)

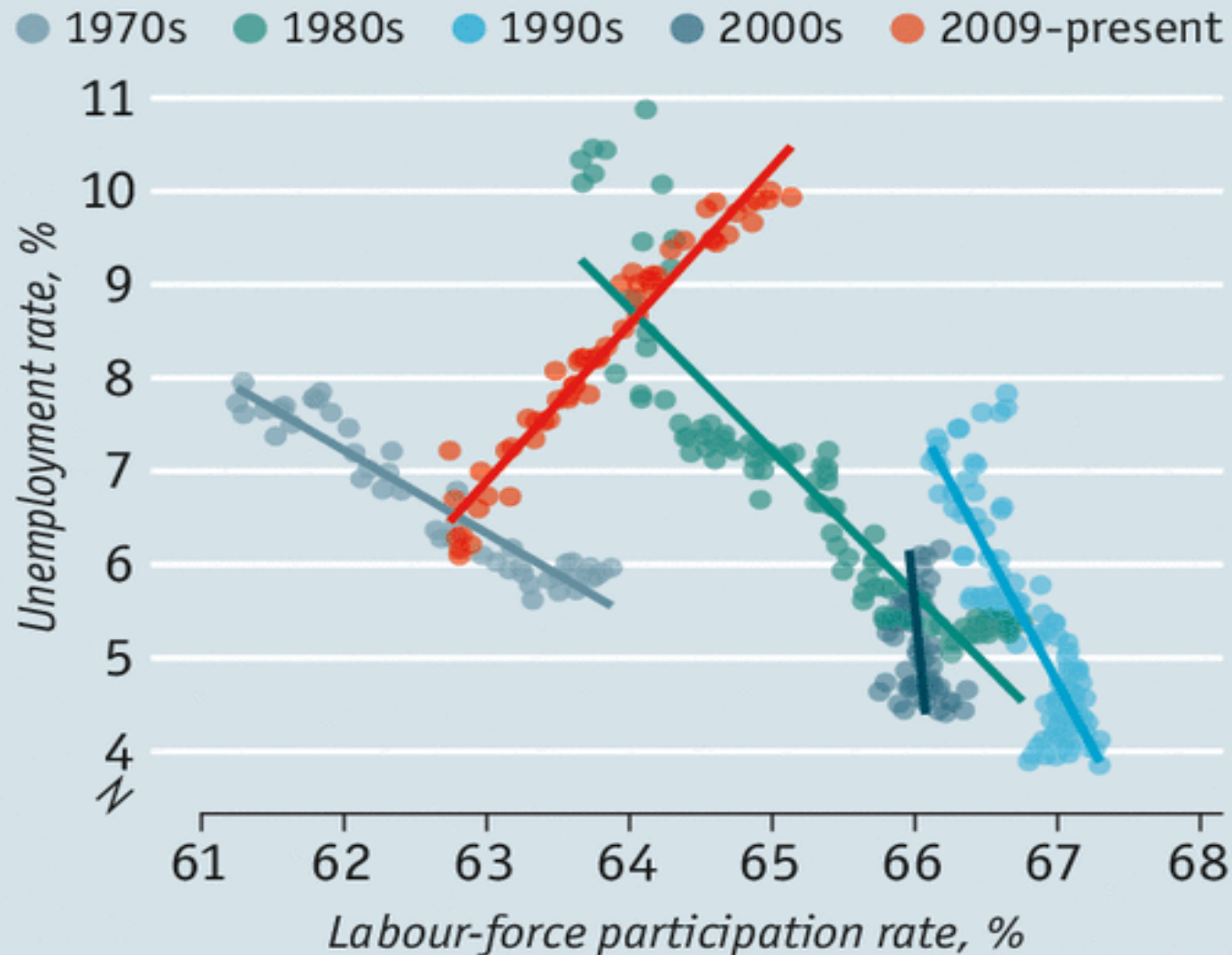
After 2000

- = **healthy EP**
 - great opportunities: ↓↓ r - chairman Greenspan !
 - + ↑↑ G and ↓ T
 - ... fast recovery
- continuous problem - **trade deficit!**
- **recession** at the beginning of 2008
 - problems with financial sector, ...

Importance of USD in 2010



Many are no longer seeking work



Source: Bureau of Labour Statistics

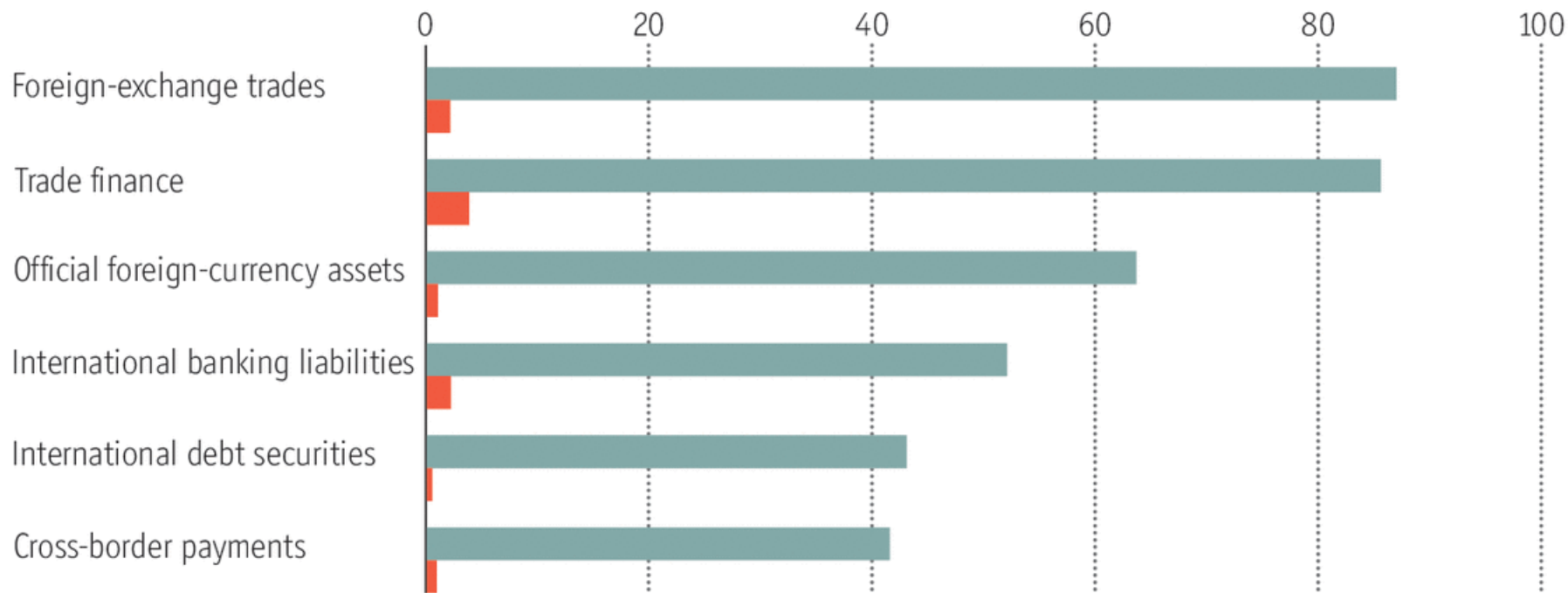
THE 15 COUNTRIES WITH THE HIGHEST MILITARY EXPENDITURE IN 2015

Rank		Country	Spending, 2015 (\$ b.)	Change, 2006-15 (%)	World share 2015 (%)	Spending as a share of GDP (%) ^b	
2015	2014 ^a					2015	2006
1	1	USA	596	-3.9	36	3.3	3.8
2	2	China	(215)	132	(13)	(1.9)	(2.0)
3	4 ↓	Saudi Arabia	87.2	97	5.2	13.7	7.8
4	3 ↑	Russia	66.4	91	4.0	5.4	3.5
5	6 ↓	UK	55.5	-7.2	3.3	2.0	2.2
6	7 ↓	India	51.3	43	3.1	2.3	2.5
7	5 ↑	France	50.9	-5.9	3.0	2.1	2.3
8	9 ↓	Japan	40.9	-0.5	2.4	1.0	1.0
9	8 ↑	Germany	39.4	2.8	2.4	1.2	1.3
10	10	South Korea	36.4	37	2.2	2.6	2.5
11	11	Brazil	24.6	38	1.5	1.4	1.5
12	12	Italy	23.8	-30	1.4	1.3	1.7
13	13	Australia	23.6	32	1.4	1.9	1.8
14	14	UAE ^c	(22.8)	136	(1.4)	(5.7)	(3.2)
15	15	Israel	16.1	2.6	1.0	5.4	7.5
Total top 15			1 350		81		
World total			1 676	19	100	2.3	2.3

Greenback v redback

Global share, %

Dollar Renminbi



Sources: Bank for International Settlements; IMF

Economist.com

Thanks for
your attention