ECONOMY AND CAPİTALİSM IN THE USA

CHAPTER 1: COMMUNİTY AND CHANGE

The United States entered 21st. century with an economy that was bigger, and by many measures more successful, than ever. Not only had it endured two world wars and a global depression in the first half of the 20th. Century, but it had over challenges ranging from a 40 year Cold War with the Soviet Union to prolonged bouts of sharp inflation, high unemployment and enormous government budget shortage in the second half of the century. The nation finally enjoyed a period of economic calm in the 1990s; prices were stable, unemployment dropped to its lowest level in the almost 30 years, the government posted a budget excess and thee stock market experienced an unbelievable boom.

In 1998, America’s gross domestic product- the total output of goods and services- exceeded 8.5 trillion dollar. Though the United States held less than %5 of the world’s population, it accounted for more than %25 world economic output. Japan, the world’s second largest economy, produced about half as much. And while Japan and many of the world’s other economies dealt with slow growth rate and other problems in the 1990s, the American economy recorded the longest nonstop period of expansion in its history.

As in earlier periods, although the United States was undergoing profound economic change at the beginning of the 21st. century. A wave of technological innovations in computing system, telecommunications and the biological sciences were profoundly affecting how Americans work and play. At the same time, the fall of communism in the Soviet Union and Eastern Europe, the growing economic strength of Western Europe, the emerge of powerful economies in Asia, widening economic opportunities in Latin America and Africa, and the increased global integration of business and finance posed new opportunities as well as risks. All of these changes were leading Americans to re-examine everything from how they organize their workplaces to the role of government. Probably as a result, many employers, while content with their current status, looked to the future with uncertainty.

The economy also faced some continuing long-term challenges. However, many Americans had achieved economic security and some had accumulated great wealth, significant numbers continued to live in misery. Disparities in richness, while not as great as in some other countries, were larger than in many. Environmental quality remained a major concern. Substantial numbers of Americans not to be health insurance. The aging of the large post World War II baby boom generation promised to tax the nations pension and health care systems early in the 21st. century. And global economic integration had brought some dislocation along with many advantages. In particular, traditional manufacturing industries had suffered setbacks, and the nation had a large and seemingly irreversible deficient in its trade with other countries.

Along the continuing upheaval, the nation adhered to some bedrock principles in its approach to economic affairs. First, and most important, the United States remains a “market economy.” Americans continue to believe that an economy generally operates best when decisions about what to produce and what prices to charge for goods are made through the give and take of millions of independent buyers and sellers, not by government or by powerful private interests. In a free market system, Americans believe, prices are most likely to reflect te true value of things, and thus can best guide the economy to produce what is most needed.

Furthermore believing that free markets promote economic efficiency, Americans see them as a way of promoting their political values as well , especially their commitment to individual freedom and political pluralism and their opposition to extreme concentrations of power. Indeed, government leaders showed a renewed commitment to market forces in the 1970s, 1980s and 1990s by dismantling regulations that had sheltered airlines, railroads, trucking companies, banks, telephone monopolies and event electric utilities from market competition. And they pressed strongly for other countries to reform their economies to operate more on market principles too.

The American belief in “free enterprise” has not precluded a major role for government, although. Americans at times have looked to government to break up or regulate companies that appeared to be developing so much power that they could go against market forces. They have relied on government to address matters the private economy overlooks, from education to protecting the environment. And despite their advocacy of market principles they have used government at times to nurture new industries, and at times event to protect. American companies from competition.

As the sometimes inconsistent approach to regulation demonstrates, Americans often disagree about the appropriate role of government in the economy. In general, government grew larger and intervened more aggressively in the economy from the 1930s untıl the 1970s. But economic hardships in the 1960s and 1970s left Americans skeptical about the ability of government to address many social and economic issues. Major social programs- including Social Security and Medicare for the elderly- survived this period of reconsideration. But the growth of the federal government slowed in the 1980s.

The pragmatism and flexibility of Americans has resulted in an unusually dynamic economy. Change has been a constant in American economic history. As a result, the once agricultural country is for more urban-and suburban- today than it was 100, or even 50, years ago. Services have become increasingly important relative to traditional manufacturing. In some industries, mass production has given way to more specialized production that emphasizes product diversity and customization. Large corporations have merged, split up, and reorganized in numerous ways. New industries and companies that did not exist at the midpoint of the 20th century now play a major role in the nation’s economic life. Employers are becoming less paternalistic and employees are expected to be more self-reliant. And increasingly, government and business leaders emphasize the importance of developing a highly skilled and flexible work force in order to ensure the country’s future economic success.

This book examines how the American economy works, and explores how it evolved. It begins by providing a broad overview in chapter 2 and description of the historical development of the modern American economy in chapter 3. Next, chapter 4 discusses different forms of business enterprise, from small businesses to the modern corporation. Chapter 5 explains the role of the stock market and other financial markets in the economy. The two subsequent sections describe the role of government in the economy. Chapter 6 by explaining the many ways government shapes and regulates free enterprise, and chapter 7 by looking at how the government seeks to manage the overall pace of economic activity in order to achieve price stability, growth and low unemployment. Chapter 8 examines the agricultural sector and the evolution of American farm policy. Chapter 9 looks at the changing role of labor in the American economy. Finallyi chapter 10 describes the development of current American policies concerning trade and international economic affairs.

As these chapters should make clear, the American commitment to free markets endured at the dawn of the 21st century, even as its economy remained a work in progress.

CHAPTER 2 : HOW IS UNITED STATES ECONOMY WORKS?

In every economic system, entrepreneurs and managers bring together natural resources, and technology to produce and distribute goods and services. But the way these different elements are organized and used also reflects a nation’s political ideals and its culture.

The U.S. is often described as a “capitalist” economy, a term coined by 19th century German economist-social theorist Karl Marx to describe a system in which a small group of people who control large amounts of money, or capital, make the most important economic decisions. Marx contrasted capitalist economies to “ socialist” ones, which vest more power in the political system. Marx and his followers believed that capitalist economies concentrate power in the hands of wealthy business people, who aim mainly to maximize profits, socialist economies, on the other hand , would be more likely to feature greater control by government, which tends to put political aims, ahead of profits.

While those categories, though oversimplified, have elements of truth to them, they are far less relevant today. If the pure capitalism described by Marx ever existed, it has long since disappeared, as governments in the U.S. and many other countries have intervened in their economies to limit concentrations of power and address many of the social problems associated with unchecked private commercial interest. As a result, the American economy, with government playing and important role along with private enterprise.

Although Americans often disagree about exactly where to draw the line between their beliefs in both free enterprise and government management, the mixed economy they have developed has been remarkably successful.

**2.1.Basic Contents Of The United States Economy**

The first content of a nation’s economic system is its natural resources. The United States is rich in mineral resources and efficient farm soil, and it is blessed with a moderate climate. It also has extensive coastlines on both the Atlantic and Pacific oceans, as well as on the Gulf of Mexico. Rivers flow from far within the continent and the Great Lakes provide additional shipping access. These extensive waterways have helped shape the country’s economic growth over the years and helped bind America’s 50 individual states together in a single economic unit.

The second ingredient is labor, which converts natural resources into goods. The number of available workers and more importantly, their productivity help determine the health of an economy. Throughout its history, the U.S. has experienced steady growth in the labor force, and that, in turn, has helped fuel almost constant economic growth. Until shortly after World War I., most workers were immigrants from Europe, their immediate descendants, or African Americans whose ancestors were brought to the Americans as slaves. In the early years of the 20th century large numbers of Asians immigrated to the U.S., while many Latin American İmmigrants came in later years.

Although the U.S. has experienced some periods of high unemployment and other times when labor was in short supply, immigrants tended to come when jobs were plentiful. Often willing to work for somewhat lower fees than acculturated workers, they generally prospered, earning far more than they would have in their native lands. The nation prospered as well, so that the economy grew fast enough to absorb even more newcomers.

The quality of available labor is at least as important to a country’s economic success as the number of workers. In the early days of the U.S., frontier life required hard work, and what is known as the Protestant work ethic make strong that trait. A strong emphasis on education, including technical and vocational training, also contributed to American’s economic success, as did a willingness to experiment and to change.

Labor mobility has likewise been important to the capacity of the American economy to adapt to changing conditions. When immigrants flooded labor markets on the East Coast, many workers moved inland, often to farmland waiting to be tilled. Similarly, economic opportunities in industrial, northern cities attracted black Americans from southern farms in the first half of the 20th century.

Labor-force quality continues to be an important issue. Today, Americans consider “human capital” a key to success in numerous modern, high-technology industries. As a result, government leaders and business officials increasingly stress the importance of education and training to develop workers with the kind of nimble minds and adaptable skills needed in new industries such as computers and telecommunications.

But natural resources and labor account for only part of and economic system. These resources must be organized and directed as efficiently as possible. In the American economy, managers, responding to signals from markets, perform this function. The traditional managerial structure in America is based on a top-down chain of command; authority flows from the chief executive in the boardroom, who makes sure that the entire business runs smoothly and efficiently, through various lower levels of management responsible for coordinating different parts of the enterprise, down to the foreman on the shop floor. Numerous tasks are divided among different divisions and workers. In early 20th century America, this specialization or division of labor, was said to reflect “scientific management” based on systematic analysis.

Many enterprises continue to operate with this traditional structure, but others have taken changing views on management. Facing heightened global competition. American businesses are seeking more flexible organization structures, especially in high technology industries that employ skilled workers and must develop, modify and even customize products rapidly. Excessive hierarchy and division of labor increasingly are thought to inhibit creativity. As a result, many companies have “ flattened” their organizational structures, reduced the number of managers, and delegated more authority to interdisciplinary teams of workers.

Before managers or teams of workers can produce anything, of course, they must be organized into business ventures. In the U.S., the corporation has proved to be an effective device for accumulating the funds needed to launch a new business or to expand an existing one. The corporation is a voluntary association of owners, known as stockholders, who form a business enterprise governed by a complex set of rules and customs.

Corporations must have financial resources to acquire the resources they need to produce goods or services. They raise the necessary capital largely by selling stock (ownership shares in their assets)or bonds (long term loans of money) to insurance companies, banks, pension, funds, individuals and other investors. Some institutions, especially banks, also lend money directly to corporations or other business enterprise. Federal and state governments have developed detailed rules and regulations to ensure the safety and soundness of this financial system and to foster the free flow of information so investors can make well informed decisions.

The gross domestic product measures the total output of goods and services in a given year. In the U.S. it has been growing steadily ,rising from more than 3.4 trillion dollar in 1983 to around 8.5 trillion dollar to 1998. But while these figures help measure the economy’s health, they do not gauge every aspect of national well being. GDP shows the market value of the good and services an economy produces, but it does not weigh a nation’s quality of life. And some important variables are entirely beyond its scope.

**2.2. A Mixed Economy: The Role Of The Market**

The U.S. is said to have a mixed economy because privately owned businesses and government both play important roles. Indeed, some of the most enduring debates of American economic history focus on the relative roles of the public and private sectors.

The American free enterprise system emphasizes private ownership. Private businesses produce most goods and services and almost two-thirds of the nation’s total economic output goes to individuals for personal use. The consumer role is so great, in fact, that the nation is sometimes characterized as having a “consumer economy.”

This emphasis on private ownership arises, in part, from American beliefs about personal freedom. From the time the nation was created. Americans have feared excessive government power, and they have sought to limit government’s authority over individuals its role in the economic realm. In addition, American generally believe that an economy characterized by private ownership is likely to operate more efficiently than one with substantial government ownership.

Why? When n economic forces are unfettered, Americans forces believe, supply and demand determine the prices of goods and services. Prices, in turn , tell businesses what to produce; if the people want more of a particular good than the economy is producing, the price of the good rises. That catches the attention of new or other companies that, sensing an opportunity to earn profit, start producing more of that good. On the other hand, if the people want less of the good, prices fall and less competitive producers either go out of business or start producing different goods. Such a system is called a market economy. A socialist economy, in contrast, is characterized by more government ownership and central planning. Most Americans are convinced that socialist economies are inherently less efficient because government, which relies on tax revenues, is far less likely than private businesses to heed price signals or to feel the discipline imposed by market forces.

There are limits to free enterprise, however. Americans have always believed that some services are better performed by public rather than private enterprise. For instance, in the U.S. , government is primarily responsible for the administration of justice, education, the road system, social statistical reporting and national defense. In addition, government often is asked to intervene in the economy to correct situations in which price system does not work. It regulates “natural monopolies”, for example and it uses antitrust laws to control or break up other business combinations that become so powerful that they can surmount market forces. It provides welfare and unemployment benefits to people who cannot support themselves, either because the encounter problems in their personal lives or lose their jobs as a result of economic up heal; it pays much of the cost of medical care for the aged and those who live in poverty; it regulates private industry to limit air and water pollution; it provides low cost loans to people who suffer losses as a result of natural disasters; and it has played the leading role in the exploration of space, which is too expensive for any private enterprise to handle.

In this mixed economy, individuals can help guide the economy not only through the choices they make as consumers but through the votes they cast for officials who shape economic policy. In recent years, consumers have voiced concerns about product safety, and potential health risks and promote the general public welfare.

The U.S. economy has changed in other ways as well. The population and the labor force have shifted dramatically away from farms to cities, from fields to factories, and above all to service industries. In today’s economy, the providers of personal and public services far outnumber producers of agricultural and manufactured goods. As the economy has grown more complex, statistics also reveal over the last century a sharp long-term trend away from self-employment toward working for others.

**2.3. Government’s Role In The Economy**

While consumers and producers make most decisions that mold the economy, government activities have a powerful effect on the U.S. economy in the least for areas.

1. **Stabilization and Growth**

Perhaps most importantly, the federal government guides the overall pace of economic activity, attempting to maintain steady growth, high levels of employment and price stability. By adjusting spending and tax rates or managing the money supply and controlling the use of credit, it can slow down or speed up the economy’s rate of growth- it the process, affecting the level of prices and employment.

For many years following the Great Depression of the 1930s, recession- periods of slow economic growth and high unemployment – were viewed as the greatest of economic threats. When the danger of recession appeared most serious, government sought to strengthen the economy by spending heavily itself or cutting taxes so that consumers would spend more, and by fostering rapid growth in the money supply, which also encouraged more spending. In the 1970s, major price increases, particularly for energy, created a strong fear of inflation- increases in the overall level of prices. As a result, government leaders came to concentrate more on controlling inflation than on combating recession by limiting spending, resisting tax cuts, and reining in growth in the money supply.

Ideas about the best tools stabilizing the economy changed substantially between 1960s and the 1990s. In the 1960s, government had great faith in fiscal policy-manipulation of government revenues to influence the economy. Since spending and taxes are controlled by the president and the Congress, these elected officials played a leading role in directing the economy. A period of high inflation, high unemployment, and huge government deficits weakened confidence in fiscal policy as a tool for regulating the overall pace of economic activity. Instead, monetary policy, assumed growing prominence. Monetary policy is directed by the nation’s central bank, known as the Federal Reserve Board, with considerable independence from the president and the Congress.

1. **Regulation And Control**

The United States federal government regulates private enterprise in numerous ways. Regulation falls into two general categories. Economic regulation seeks, either directly or indirectly, to control prices. Traditionally, the government has sought to prevent monopolies such as electric utilities from raising prices beyond the level that would ensure them reasonable profits. At times, the government has extended economic control to other kinds of industries as well. In the years following the Great Depression, it devised a complex system to stabilize prices for agricultural goods, which tend to fluctuate wildly in response to rapidly changing supply and demand. A number of other industries successfully sought regulation themselves to limit what they considered harmful price-cutting.

Another form of economic regulation, antitrust law, seeks to strengthen market forces so that direct regulation is unnecessary . The government have used antitrust law to prohibit practices or mergers that would unduly limit competition.

Government also exercises control over private companies to achieve social goals, such as protecting the public’s health and safety or maintaining a clean and healthy environment. The United State Food and Drug Administration bans harmful drugs, for example; the Occupational Safety and Health Administration protects workers from hazards they may encounter in their jobs; and the Environmental Protection Agency seeks to control water and air pollution.

American attitudes about regulation changed substantially during the final three decades of the 20th century. Beginning in the 1970s, policy-makers grew increasingly concerned that economic regulation protected inefficient companies at the expense of consumers in industries such as airlines and trucking. At the same time, technological changes spawned new competitors in some industries, such as telecommunications, that once were considered natural monopolies. Both developments led to a succession of laws easing regulation.

While leaders of both political parties generally favored economic deregulation during the 1970s, 1980s, and 1990s there was less agreement concerning regulations designed to achieve social goals. Social regulation had assumed growing importance in the years following the Depression and World War II., and again in the 1960s and 1970s. But during the presidency of Ronald Reagan in the 1980s, the government relaxed rules to protect workers, consumers, and the environment, arguing that regulation interfered with free enterprise, increased the cost of doing business, and thus contributed to inflation. Still, many Americans continued to voice concerns about specific events or trends, prompting the government to issue new regulations in some area, including environmental protection.

Some citizens, meanwhile, have turned to the courts when they feel their elected officials are not addressing certain issues quickly or strongly enough. For instance, in the 1990s, individuals, and eventually government itself, sued tobacco companies over the health risks of cigarette smoking. A large financial settlement provided states with long-term payments to cover medical costs to treat smoking-related illnesses.

1. **Direct Services**

Each level of government provides many direct services. The federal government, for example, is responsible for national defense, backs research that often leads to the development of new products, conducts space exploration and runs numerous programs designed to help workers develop workplace skills and find jobs. Government spending has a significant effect on local and regional economies.

State governments, meanwhile, are responsible for the construction and maintenance of most highways. State, county, or city government plays the leading role in financing and operating public schools. Local governments are primarily responsible for police and fire protection. Government spending in each of these areas can also affect local and regional economies, although federal decisions generally have the greatest economic impact.

Overall, federal, state and local spending accounted for almost 18 percent of gross domestic product in 1997.

1. **Direct Assistance**

Government also provides many kinds of help to businesses and individuals.It offer low-interest loans and technical assistance to small businesses and it provides loans to help students attend college. Government sponsored enterprises buy home mortgages from lenders and turn them into securities that can be bought and sold by investors, thereby encouraging home lending. Government also actively promotes exports and seeks to prevent foreign countries from maintaining trade barriers that restrict imports.

Government supports individuals who cannot adequately care for themselves. Social Security, which is financed by a tax on employers and employees, accounts for the largest portion of American’s retirement income. The Medicare program pays for many of the medical costs of the elderly. The Medicaid program finances medical care for low-income families. In many states, government maintains institutions for the mentally ill or people with severe disabilities. The federal government provides Food Stamps to help poor families obtain food, and the federal and state governments jointly provide welfare grants to support low-income parents with children.

Many of these programs, including Social Security, trace their roots to the “New Deal” program of Franklin D. Roosevelt, who served as the United States president from 1933 to 1945. Key to Roosevelt’s reforms was a belief that poverty usually resulted from social and economic causes rather than from failed personal morals. This view rejected a common notion whose roots lay in New England Puritanism that success was a sign of God’s favor and failure a sign of God’s displeasure. This was an important transformation in American social and economic thought. Even today, however, echoes of the older notions are still heard in debates around certain issues, especially welfare.

Many other assistance programs for individuals and families, including Medicare and Medicaid, were begun in the 1960s, during President Lyndon Johnson’s, “War on Poverty). Although some of these programs encouraged financial difficulties in the 1990s and various reforms were proposed, they continued to have strong support from both of the U.S. major political parties. Critics argued, however, that providing welfare to unemployment but healthy individuals actually created dependency rather than solving problems. Welfare reform legislation enacted in 1996 under President Bill Clinton requires people to work as a condition of receiving benefits and imposes limits on how long individuals may receive payments.

**2.4. Poverty and Inequality**

Americans are proud of their economic system believing it provides opportunism for all citizens to have good lives. Their faith is clouded, hawover, by the fact that poverty persist in many parts of the country. Government anti-poverty efforts have made some progress but have not eradicated the problem. Similarly, periods of strong economic growth, which bring more jobs and higher wages, have helped reduce poverty but have not eliminated it entirely.

The federal government defines a minimum amount of income necessary for basic maintenance of a family of four. This amount may fluctuate depending on the cost of living and the location of the family. In 1998, a family of four with an annual income below 16.530 dollar was classified as living in poverty.

The percentage of people living below the poverty level dropped from 22.4 percent in 1959 to 11.4 percent in 1978. But since then, it has fluctuated in a fairly narrow range. In 1998, it stood at 12.7 percent.

What is more, the overall figures mask much more severe pockets of poverty. In 1998, more than one-quarter of all African-Americans lived in poverty; though distressingly high, that figure did represent an improvement from 1979, when 31 percent of blacks were officially classified as poor, and it was the lowest poverty rate for this group since 1959. Families headed by single mothers are particularly susceptible to poverty. Partly as a result of this phenomenon, almost one in five children was poor in 1997. The poverty rate was 36.7% among African-Americans children and 34.4% among Hispanic children.

Some analysts have suggested that the official poverty figures overstate the real extend of poverty because they measure only cash income and exclude certain government assistance programs such as Food Stamps, health care, and public housing. Others point out, however, that these programs rarely cover all of a family’s food or health care needs and that there is a shortage of public housing. Some argue that even families whose incomes are above the official poverty level sometimes go hungry, skimping on food to pay for such things as housing, medical care, and clothing. Still others point out that people at the poverty, level sometimes receive cash income from casual work and in the “underground” sector of the economy, which is never recorded in official statistics.

In any event, it is clear that the American economic system does not apportion its rewards equally. In 1997, the wealthiest one-fifth of American families accounted for 47.2% of the nation’s income, according to Economic Policy Institute, a Washington-based research organization. In contrast, the poorest one-fifth earned just 4.2% of the nation’s income, the poorest 40% accounted for only 14% of income.

Despite the generally prosperous American economy as a whole, concerns about inequality continued during the 1980s and 1990s. Increasing global competition threatened workers in many traditional manufacturing industries, and their wages stagnated. At the same time, the federal government edged away from tax policies that sought to favor lower-income families at the expense of wealthier ones, and it also cut spending on a number of domestic social programs intended to help the disadvantaged. Meanwhile, wealthier families reaped most of the gains from the booming stock market.

In the late 1990s, there were some signs these patterns were reversing, as wage gains accelerated- especially among poorer workers. But at the end of the decade, it was still too early to determine whether this trend would continue.

**2.5. The Growth of Government**

The United States government grew substantially beginning with President Franklin Roosvelt’s administration. In an attempt to end the unemployment and misery of the Great Depression, Roosevely’s Great Deal created many new federal programs and expanded many existing ones. The rise of the U.S. as the world’s major military power during and after World War II also fueled government growth. The growth of urban and suburban areas in the postwar period made expanded public services more feasible. Greater educational expectations led to significant government investment in schools and colleges. An enormous national push for scientific and technological advances spawned new agencies and substantial to health care in the 1960s. And the growing dependence of many Americans on medical and retirement programs that had not existed at the dawn of the 20th century federal spending further.

While many Americans think that the federal government in Washington has ballooned out of hand, employment figures indicate that this has not been the case. There has been significant growth in government employment, but most of this has been at the state and local levels. From 1960 to 1990, the number of state and local government employees increased from 6.4 million to 15.2 million, while the number of civilian federal employees rose only slightly, from2.4 to 3 million. Cutbacks at the federal level saw the federal labor force drop to 2.7 million by 1998, but employment by state and local governments more than offset that decline, reaching almost 16 million in 1998.

The rising costs of taxes to pay expanded government services, as well as the general American distaste for “ big government” and increasingly powerful public employee unions, led many policy-makers in the 1970s, 1980s and 1990s to question whether government is the most efficient provider of needed services. A new word, “ privatization” was coined and quickly gained acceptance worldwide to describe the practice of turning certain government functions over to the private sector.

In the U.S., privization has occurred primarily at the municipal and regional levels. Major United States cities such as New York, Los Angeles, Philadelphia, Dallas and Phoenix began to employ private companies or nonprofit organizations to perform a wide variety of activities previously performed buy the municipalities themselves, ranging from streetlight repair to solid-waste disposal and from data processing to management of prisons. Some federal agencies, meanwhile, sought to operate more like private enterprises; the U.S. Postal Service, for instance, largely supports itself from its own revenues rather than relying on general tax dollars.

Privatization of public services remains controversial, however. While advocates insist it reduces coasts and increases productivity, other argues the opposite, noting that private contractors need to make a profit and asserting that they are not necessarily being more productive. Public sector unions, not surprisingly, adamantly oppose most privatization proposals. They contend that private contractors in some cases have submitted very low bids in order to win contracts, but later raised prices substantially. Advocates counter that privization can be effective if it introduces competition. Sometimes the spur of threatened privatization may even encourage local government workers to become more efficient.

As debates over regulation, government spending, and welfare reform all demonstrate, the proper role of government in the nation’s economy remains a hot topic for debate more than 200 years after the U.S.A became an independent nation.