What were the strengths and weaknesses of the US economy, 1945-1989? (2016)

After WWII, the US economy grew rapidly and became the single most dominant economy in the world. Multinational corporations and franchises allowed for globalisation and American culture spread. However, booms cannot last forever and in the late 60s, cracks in the economy began to show. The government borrowed heavily and as the oil crises emerged, traditional industries closed and economic policies failed, the mood and habits of Americans were forced to change.

WWII was the spark That allowed for the boom of prosperity. The war had allowed the US to enjoy full employment and to increase productivity and development dramatically. Infrastructure and buildings had remained untouched in the US. Therefore, all the government had to do was convert the armament factories' production to consumer goods in 1945/6. A consumer boom began as people began to spend the $140billion of private savings that had accumulated during the war. The government had also broadened their tax base from $7billion to $151billion between 1940 and 1945. This allowed the government to stimulate the economy with large scale defence spending and public work schemes.

There had been heavy investment into technology and research during the war. This led to the growth of some industries and the spawn of others. Technological advancements in jet aircrafts, for example, made interstate and international airlines a commercial reality. The US also benefited from captured German rocket equipment and repatriated specialists like Werner von Braun. This allowed for a huge space industry to develop and created 400,000 jobs. German intellectual property received by the US as reparations created $20billion in the economy.

The post war years also saw a significant change in economic thinking. Traditionally, the US had had a laissez-faire attitude but in the 30s, President Roosevelt had changed this with his New Deal scheme to counter the depression. After the war, Truman continued this with his Fair Deal, which aimed to keep unemployment as low as 4%. He also foresaw problems that could arise from such massive military demobilisation and tried to limit them with his GI Bill. This bill provided education, training and various grants to returning veterans so they wouldn't become a burden on the economy.

The government also embraced John Maynard Keynes' theory of "priming the pump". They put massive amounts of public investment into education, welfare and defence. One significant example is Eisenhower's 1956 Highway Act. Overall public investment increased from $10billion in 1940 to $580billion in 1980. Economic growth was at an average of 3.8% from 1946 to 1973, showing the tangible results government investment had on the American economy.

The baby boom was both a cause and consequence of the economic boom of this period. Declining death rates, increased birth rates and to a lesser extent, immigration led to a population increase of 50million between 1940 and 1946. Entirely new markets were born as a result. The 'Pepsi generation' or teenage demographic became an important market. The increased number of children meant more goods such as toys were demanded. Materialism and consumer impulse became a central trait of this new optimistic generation on American Society as a whole. This huge domestic population insured manufacturers had a strong market to fall back on.

Multinational expansion began in this period and has revolutionised our global economy as a whole. It began with the mergers of small companies after the war, which eventually led to huge economic power in the hands of a few influential companies, such as Exxon and Boeing. In the 50s, they began to expand abroad. In 1950, $19billion was invested abroad by MNCs. This did lead to some job losses in the US, but the access it provided American companies with to lucrative foreign markets, like the EEC, proved invaluable. It also ensured the US dollar became the international common currency. Most the high end financial, admin, and research and development jobs were retained in the USA so the many benefits outweighed the job losses.

The establishment of global institutions like IMF and the World Bank benefited America further. Globalisation was made easier again by the signing of GATT in 1947. It loosened import restrictions and allowed MNCs from the US to further exploit profitable foreign markets. Globalisation had far reaching effects, all of which were a direct result of the expansion of these MNCs. In the late 50s and 60s, US culture became widespread. Brands and institutions like Levi's and Coca Cola became household names. In some countries this was seen as negative because it led to the erosion of local culture. As a whole, it helped to extend the USA's sphere of influence.

The greatest effect of globalisation was on American citizens themselves. Between 1946 and 1973, the median income of each household surged 74%. Ordinary people had more disposable income than ever before and the media of this affluent society constantly bombarded people with images of an ideal life. Car industry boomed as the automobile became the symbol of freedom.

Huge sprawling suburbs emerged, and the tourism and sport industries flourished as people had the time and money to spend on leisure. For many ‘WASPs’ (white Anglo Saxon Protestant), the American dream became a reality, but for ethnic minorities it seemed as far away as ever. The prosperity of the 50s could only temporarily hide the Crocs that were soon to emerge in the 60s and 70s.

Problems first emerged during LBJ’s presidency. His ‘war on poverty’ through his Great Society programme proved more difficult than expected because of the Vietnam War acting as a huge drain on government resources. To try and deliver on his promises, he borrowed huge amounts. The federal deficit grew rapidly, and national debt soared. By the end of the 60s, the US was facing great economic difficulties.

In 1973, there was a global oil crisis after the Arab-Israeli war, leading to a global recession. In the US, inflation and unemployment rose, while the real income of workers plummeted. Many traditional industries closed but workers didn't have the skills for new high-tech jobs. The government seemed unable to help and discontent grew

In 1974, Ford attempted to ‘whip inflation now’ by cutting spending and raising taxes, however, the economy continued to stagnate. In 1977, Carter increased interest rates, but the second oil crisis of 1979 hindered his efforts. It caused an even greater jump in inflation and led to stagflation; a combination of low growth, high inflation and unemployment.

By 1980, the US was in deep recession. Republican Reagan introduced a policy of monetarism. He cut public spending massively and introduced tax cuts. As the economy began to recover, he put tax cuts for the wealthy in place and increased military spending. However, borrowing had soared under his leadership. By the end of his eight years of presidency, he had accumulated three times more debt than all the previous 39 presidents.

Reagan saw the creation of 100,000 new millionaires every year, but poor Americans saw their incomes drop and the gap between rich and poor widened. Internationally, competition emerged as economic blocs were formed in Europe and South East Asia. In 1989, the only jobs being created in the US were low paid service jobs. The USA was no longer the dominant power that had emerged after WWII.