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*Rise and decline of the American Economy*

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*The American Economy from Roosevelt to Trump*

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# The basic trends of the US economy in the years 1870-2018

- The US had *a great economic rise* until the 1920's largely based on the *advantages of the frontier* up to 1908, then to the *fordist model of development* until the 1929 Wall Street Crash.
- In the lost decade (the 1930s) the economy suffered from the great depression in which the fordist model of development functioned on the reverse.
- In the 1940-1970 years there was a return to the fordist model of development though less intensive than in Japan and in West Europe.
- There was therefore *the attempt* to react to some growing weaknesses. *building an economic empire* by means of a growing globalization.

The *great backlash* was the rise of China and other emerging economies profiting from the third wave of the fordist model of development; the globalization process; the US de-industrialization, its growing difficulties in the balance of current accounts, its rising inequalities and excessive financierization, etc. The great recession and the ascent to power of Donald Trump are further signs of the relative decline of the US economy.

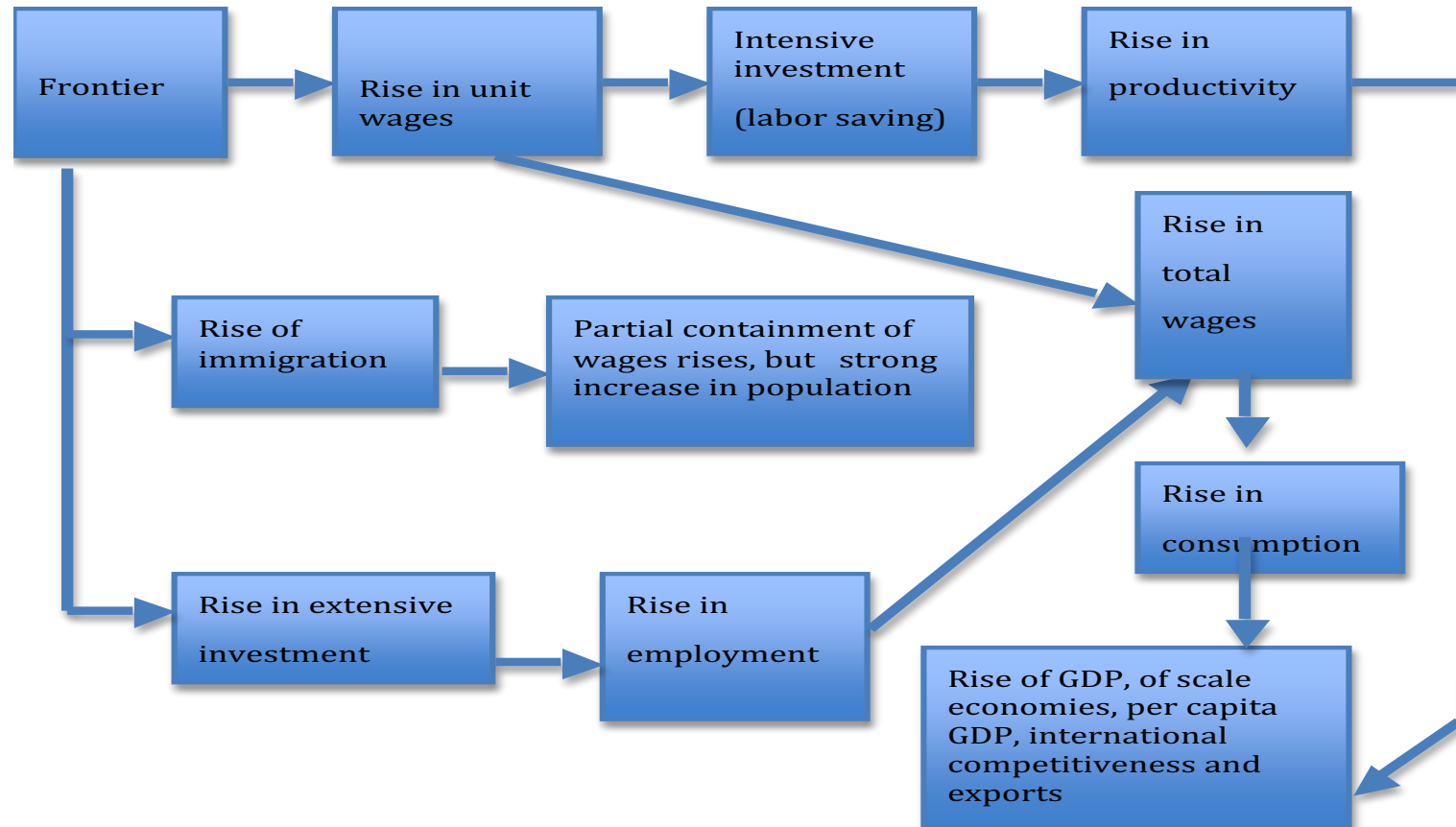
# Population (millions)

Countries	1870	1913	1952	1973	1990	2008	2017 (p)
<b>China</b>	358,0	437,1	568,9	881,9	1.135,2	1.318,6	1.380,9
<b>India</b>	253,0	303,7	372,0	580,0	839,0	1.125,3	1.282,2
<b>USSR-Russia</b>	88,7	156,2	185,9	249,7	150,0	143,5	143,8
<b>United States</b>	40,2	97,6	157,5	211,9	250,1	304,7	327,3
<b>Germany</b>	39,2	65,1	69,1	78,9	79,4	82,1	83,9
<b>France</b>	38,4	41,5	43,2	53,3	58,2	64,2	67,1
<b>Japan</b>	34,4	51,7	86,5	108,7	123,5	127,8	125,9
<b>United Kingdom</b>	31,4	45,6	50,4	56,2	57,5	62,1	66,1
<b>Italy</b>	27,9	37,2	47,7	54,8	56,7	58,8	60,7
<b>Brazil</b>	9,8	23,7	56,6	103,5	151,2	194,4	209,8

# The frontier

## The economic consequences of the frontier

Figure 1.1 The economic consequences of the frontier



# Total GDP in PPP in major countries. USA = 100

Source: Conference Board, Nov. 2017. Present borders.

Countries	1870	1913	1952	1952	1973	1990	2008	2017
	GK	GK	GK	EKS	EKS	EKS	EKS	EKS
<b>China</b>	192,9	46,7	18,8	2,7	4,7	18,8	68,8	120,4
<b>India</b>	137,1	39,5	14,4	13,3	11,7	15,8	29,5	47,3
<b>United Kingdom</b>	101,8	43,4	22,0	25,0	19,7	16,7	15,4	14,9
<b>United States</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
<b>USSR-Russia</b>	85,0	44,9	33,6	33,6	42,8	33,2	22,4	20,7
<b>France</b>	73,3	27,9	14,8	17,2	20,3	18,6	15,7	14,7
<b>Germany</b>	73,3	45,9	19,4	26,7	33,4	27,2	22,2	21,5
<b>Italy</b>	42,5	18,5	11,7	15,3	19,5	18,8	14,4	11,9
<b>Japan</b>	25,8	13,8	12,4	13,9	35,6	40,5	30,3	28,0
<b>Brazil</b>	7,1	3,7	6,1	8,8	14,8	16,7	17,4	16,7

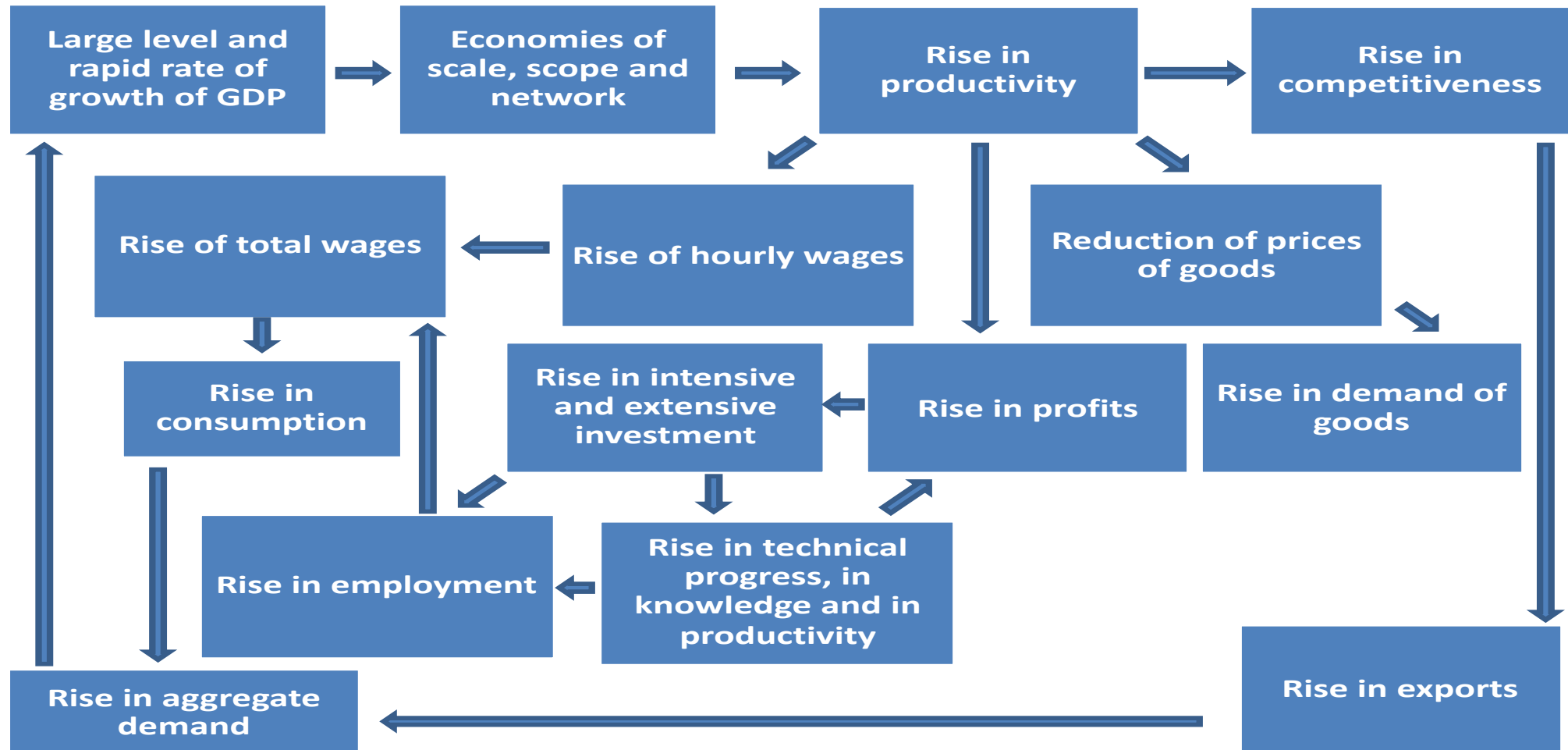
# PER CAPITA GDP IN PPP IN MAJOR ECONOMIES

Source: Conference Board. Nov. 2017. Present borders. USA=100

Countries	1870	1913	1952	1952	1973	1990	2008	2017
	<i>GK</i>	<i>GK</i>	<i>GK</i>	<i>EKS</i>	<i>EKS</i>	<i>EKS</i>	<i>EKS</i>	<i>EKS</i>
<b>United Kingdom</b>	<b>130,5</b>	<b>92,8</b>	<b>68,7</b>	<b>70,7</b>	<b>74,2</b>	<b>72,9</b>	<b>75,5</b>	<b>73,7</b>
<b>United States</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<b>France</b>	<b>76,7</b>	<b>65,7</b>	<b>53,9</b>	<b>56,7</b>	<b>80,8</b>	<b>80,0</b>	<b>74,7</b>	<b>71,5</b>
<b>Germany</b>	<b>75,2</b>	<b>68,8</b>	<b>44,1</b>	<b>55,1</b>	<b>89,6</b>	<b>85,8</b>	<b>82,6</b>	<b>83,8</b>
<b>Italy</b>	<b>61,3</b>	<b>48,4</b>	<b>38,7</b>	<b>45,8</b>	<b>75,3</b>	<b>83,1</b>	<b>74,5</b>	<b>64,3</b>
<b>USSR-Russia</b>	<b>38,6</b>	<b>28,0</b>	<b>28,5</b>	<b>28,5</b>	<b>36,3</b>	<b>56,1</b>	<b>47,6</b>	<b>47,2</b>
<b>Japan</b>	<b>30,0</b>	<b>26,2</b>	<b>22,6</b>	<b>22,9</b>	<b>69,4</b>	<b>82,0</b>	<b>72,3</b>	<b>72,8</b>
<b>Brazil</b>	<b>29,2</b>	<b>15,3</b>	<b>17,0</b>	<b>22,2</b>	<b>30,4</b>	<b>27,7</b>	<b>27,3</b>	<b>26,1</b>
<b>India</b>	<b>21,8</b>	<b>12,7</b>	<b>6,1</b>	<b>5,1</b>	<b>4,3</b>	<b>4,7</b>	<b>7,9</b>	<b>12,1</b>
<b>China</b>	<b>21,7</b>	<b>10,4</b>	<b>5,2</b>	<b>0,7</b>	<b>1,1</b>	<b>4,1</b>	<b>15,9</b>	<b>28,5</b>

# The Fordist model of Economic development

- The Fordist model



# Rise, fall and revival of the the Fordist model in the US

- **1908-1929: in the US first wave of the Fordist model of development**
- **1930- 1933 : in the great depression the Fordist model functioned *backwards*: low utilization of capacity; lower economies of scale; fall in productivity; fall in consumption, investment, wages, employment, exports, aggregate demand, etc.**
- **In the 1950s and the 1960s there was a partial revival of the fordist model,**
- ***But:***
- **more competitors (Western Europe, then Japan, etc.)**
- **increasing dependency on imports of raw materials**
- **In the 1960s and 1970s some sectors approached maturity (less growth due to scale economies)**
- **beginning of de-industrialization**
- **the cost of wars (Vietnam, etc.)**



# The attempt at creating an economic empire

- **Since the mid-1940s the US tried to powerfully push in favour of the expansion of international trade, FDI and movements of portfolio capital in the Western bloc, both directly and through the major international organizations and the GATT.**
- **Since the end of the 1960s, when their balance of current accounts became negative and their dependency on the imports of oil and gas and other raw materials became important, they tried to push in favour of the *globalization*, which was greatly amplified in the 1990s after the dissolution of the Soviet Union and the growing opening of Eastern Europe, China, India and most other countries to external trade, FDI and movements of capitals.**
- **They counted on the enormous size of their economy, the technological leadership, the political, military and financial supremacy and their vast cultural influence through mass media, movies, academia, etc.**

# Structural weaknesses

- Since the 1970s and before the great recession and Obama's and Trump's presidencies, four main structural problems have characterized the American economy. These trends were:
- **A) *the progressive de-industrialization***, in part associated to the third wave of globalization and to the rise of new great competitors in the world market (Japan, South Korea, China, etc.).
- **B) *the structural worsening in the balances of trade and of current accounts*** and the shift, since the late 1980s, from the status of creditor country to the one of the largest debtor country in the world.
- **C) the growing *financialization*** of the economy and the creation of structural bubbles in the housing and stock exchange markets.
- **D) *the progressive widening in wage, income and wealth inequalities*** and the relative reduction of *relatively stable and decently paid jobs* for medium and low skilled workers and, therefore, the marked decline of the middle class.

# The consequences of the great recession: Obama's policy

- **Obama partially succeeded in his economic policy facing the «great recession». He could speed up the economic recovery by means of a neo-Keynesian fiscal policy; a strongly expansionary monetary policy of the FED; a solid industrial, innovation and «green» policy; the bail out of several banking, insurance and automobile corporations; and welfare measures such as Obamacare and the assistance of people severely hit by the sub-prime crisis. This, however, led to a worsening of public finance and to a strong opposition of the Republican party. On international economic policy Obama tried to extend multilateral agreements with Asian countries and Europe, but Trump, when elected president, halted the process, favouring bilateralism.**
- **However, Obama was not able to face the long-run structural problems, such as the rapid de-industrialization under the pressure of globalization, the continuous deficit in the balance of payment, the «great divergence» in wages, income and wealth. This was one of the main factors that opened the way to the success of Trump's populist approach.**

# Trump's policy = populism + nationalism + right-wing ideas

- **Obama's and the democratic party semi- failure to solve U.S. structural problems and to regulate globalization and immigration was one of the keys used by Trump to gain the 2016 presidential elections defeating Hillary Clinton.**
- **Trump used his populist appeal to defeat the other republican candidates in the primaries and then to marginally gain three crucial, traditionally democratic states, (Pennsylvania, Illinois, Michigan) in the presidential election.**
- **According to Jan - Werner Muller (2017), populism is based on anti-elitism, exclusiveness and the rejection of pluralism.**
- **In his electoral campaign Trump trumpeted against elites and Wall Street, though later nominating several Goldman Sachs men and financiers in his government. Moreover he used nationalistic (America first) and anti-immigrant slogans to get the votes of many "white angry men" of the working class.**
- **The slogan *America first*, introduced by W. Wilson in the 1920s, and widely used by Donald Trump, implies, in Trump's version, an anti-globalization and anti-immigration policy. The anti-globalization approach, based on rise of tariffs and the return to bilateralism, can, however lead to dangerous foreign retaliations and trade wars.**

More divisions, more weapons, more public debt, less healthcare, more pollution ..

- **Although for the moment, partly due to the favourable world conjuncture, U.S. macro-economic trends have been acceptable, Trump's policy has increased public deficit and public debt; it has begun to increase the spending in weapons, has tried to demolish two key-points of Obama's policies (Obamacare and the green policy). Trump's policy has, above all increased divisions both internationally and internally (between super-rich and poor through his December 2017 Tax Act; between races and genders; between natives and immigrants).**
- **Internationally, his policy is based on strength. Bilateral trade agreements are preferred to multilateral ones, because of the great imbalance of power between the U.S. and the other countries, with the partial exception of China and Russia.**
- **This can cause trade wars, changes of alliances and the weakening of NATO, as it is possibly happening with Turkey.**
- **Domestically, some jobs saved in the traditional manufacturing activities, can be accompanied by less jobs in the green economy, less innovation, less welfare, more pollution and the nurturing of other great financial crises.**

# Towards a relative economic decline ? The rise of China and other large economies and the recovery of Russia.

- In the 1950s the US were largely first in the world as regards:
  - A) Economic size, total exports and FDI, per capita GDP among main economies
  - B) scientific and technological level
  - C) financial, military and political power
- In 2018:
  - A) The US had been surpassed by China in the size of the economy and in exports, not in per capita GDP in which China has less than 1/3 of US level, although growing much more rapidly. The US was also harshly competing with the EU, which unfortunately is not a real Union, and, for some goods, with Japan, South Korea, etc.
  - B) It remained the leader in scientific and technological level, in which, however, China is rapidly catching up.
  - C) The US remained the leader also in financial, military and political power in which, however China, India, Russia are catching up. In the long-run, if the present trends will not change, also the leadership in financial power will go to China.