



Changes in the US Economy 1945-1989

History – Leaving Cert

Quick Notes

1.0 Essay 1: Changes in the US Economy from 1945-1989

1.1 Boom (1945-1968)

- **Intro**
 - 100% Economic Growth during this period.
 - 7% population-50% manufacture.
 - “American Dream”-High Standard of Living
- **WWII**
 - War industry-2% unemployment-\$134 billion in government bonds-huge spending period after war.
 - There were also much higher wages and increase in overtime.
 - 6 million women join workforce.
 - Government began to receive a huge amount of tax-enough to pay for half of WWII costs. Income tax first charged in 1943.
- **Trends**
 - Franchises (McDonalds)-Huge benefits such as encouraging entrepreneurs/Mergers/Transnational/Globalisation (global economy in 1955 dominated by companies such as Exxon).
 - There were those for and those against globalisation.
 - It occurred due to the dollar being the main currency throughout the world, it was cheap to set up factories abroad and foreign countries promised lower taxes.
 - There was also an Americanisation with things such as Coca Cola.
 - 50% of manufacturers controlled by 150 companies.
 - US became largest overseas investor in the world.
- **Investment**
 - Domestic-Keynesian Economy “Priming the pump” (pump money to avoid recession).
 - 1944 G.I Bill (cheap veteran loans-gave out \$20 billion to 7.8 m).
 - Social Welfare-1948 Truman Fair Deal reforms (raised minimum wage)/Federal-Aid Highway Act (68,000 km). Johnson Great Society-\$800 million
 - Foreign-Martial Plan to Italy, France, Portugal (\$13.5 billion)/Lent money abroad in return for trade/tried to end communism. “Trade for aid”-Imperial Economics.
- **Defence**
 - Korea/Vietnam/Arms Race/Cold War/Space Race-NASA (9,000 companies).
 - Conscript army-defence industries profit-weapons related companies.
 - Military bases were set up in 30 countries.
 - This caused industrial expansion of the Sun Belt which includes California.
 - As a result the GNP rose to \$500,000 million by 1960.
- **Other**
 - Energy-oil and cars (controlled 65% of world oil reserves with British and Dutch). First Nuclear power station set up in 1957. By 1970-atomic energy accounted for 8% of total electivity.

- New technology-electronics expanded-US a world leader.
- Baby Boom-1946-4 million babies born. Demands for goods and services such as cars. 1950's-Over 130 million cars.

1.2 Bust (1968-1989)

- **Tension**
 - Tension between economy and defence spending.
 - 1980-1983 saw the worst recession since the 1930's
 - John Kennedy-New Frontier-1960. (increased defence spending and social welfare).
- **Deficit Spending**
 - Johnson took office in 1963.
 - Great Society-cut income taxes-\$800 m.
 - Vietnam overspending and increased government borrowing with higher prices and higher unemployment. Cost US \$100 billion a year.
- **Oil crisis/Domestic Recession**
 - 1973.
 - US offered Israel a \$2.2 billion arms deal to try to raise money after its war with Egypt.
 - Organisation of Petroleum Exporting Countries increases price of oil which caused higher inflation.
 - The effect was so big as America was currently importing 30% of its oil
 - Stagflation-combination of high inflation with low growth and trade deficits. There was also a drop in income and government spending.
 - 1960's-unemployment rises to 8.5% and America sees decline in exports.
 - Manufacturing was in decline, but there were not enough white collar workers which affect economy and employment also.
- **Economy worsens**
 - Nixon was forced to resign after revaluing the dollar and freezing price rises for 3 months). Ford takes over and began to cut spending and increase taxes.
 - America had 8 years of trade deficits during the 1970's.
 - Called for Americans to "Whip Inflation Now" as it was at 7%.
 - This failed to have any affect.
 - In 1975 there was a change of tactic with income tax rebates and a lowering of Corporation Tax. However, this did not help much and unemployment was at around 8%.
 - Carter then took office and another oil crisis hit and he set up a Department of Energy to try and raise awareness about conserving supplies. He also increased government spending and interest rates.
 - No notice was taken and by 1979 inflation was 13%. The economy was on the brink of collapse.
- **Reagan (1981)**
 - "Reaganomics"-cutting welfare, encouraging work and reducing taxes which helped economy to improve.
 - Inflation fell to 4% with unemployment at 5% after he left office. It also led to the creation of 13 m new jobs.

- Most of it was due to deficit spending with government borrowing soaring. It reached \$2.6 trillion in 1988.
- Also the number of millionaires increased by 100,000 each year but the policies did little for the poor and the gap between rich and poor widened.
- **Competition**
 - This came to a head in 1970's when America imported more than it exported.
 - It was overtaken economically by the EEC.
 - Heavy competition from car industry in West Germany and Japan. By 1987, America imported 37% of its cars from 1%.
 - Share of world trade fell to 15% as imports began to flood in due to the free trade that Reagan had been committed to.
 - Foreign investors came to America and bought up stocks and property.
 - This caused a decline of domestic products and a rise in unemployment.

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