HISTORY OF ECONOMIC DEVELOPMENT IN U.S.A

The modern American economy traces its roots to the quest of European settlers for economic gain in the 16th, 17th, and 18th centuries. The New World then progressed from a marginally successful colonial economy to a small, independent farming economy and, eventually, to a highly complex industrial economy. During this evolution, the United States developed ever more complex institutions to match its growth. And while government involvement in the economy has been a consistent theme, the extent of that involvement generally has increased.

North America's first inhabitants were Native Americans -- indigenous peoples who are believed to have traveled to America about 20,000 years earlier across a land bridge from Asia, where the Bering Strait is today. (They were mistakenly called "Indians" by European explorers, who thought they had reached India when first landing in the Americas.) These native peoples were organized in tribes and, in some cases, confederations of tribes. While they traded among themselves, they had little contact with peoples on other continents, even with other native peoples in South America, before European settlers began arriving. What economic systems they did develop were destroyed by the Europeans who settled their lands.

Vikings were the first Europeans to "discover" America. But the event, which occurred around the year 1000, went largely unnoticed; at the time, most of European society was still firmly based on agriculture and land ownership. Commerce had not yet assumed the importance that would provide an impetus to the further exploration and settlement of North America.

In 1492, Christopher Columbus, an Italian sailing under the Spanish flag, set out to find a southwest passage to Asia and discovered a "New World." For the next 100 years, English, Spanish, Portuguese, Dutch, and French explorers sailed from Europe for the New World, looking for gold, riches, honor, and glory.

But the North American wilderness offered early explorers little glory and less gold, so most did not stay. The people who eventually did settle North America arrived later. In 1607, a band of Englishmen built the first permanent settlement in what was to become the United States. The settlement, Jamestown, was located in the present-day state of Virginia.

Colonization

Early settlers had a variety of reasons for seeking a new homeland. The Pilgrims of Massachusetts were pious, self-disciplined English people who wanted to escape religious persecution. Other colonies, such as Virginia, were founded principally as business ventures. Often, though, piety and profits went hand-in-hand.

England's success at colonizing what would become the United States was due in large part to its use of charter companies. Charter companies were groups of stockholders (usually merchants and wealthy landowners) who sought personal economic gain and, perhaps, wanted also to advance England's national goals. While the private sector financed the companies, the King provided each project with a charter or grant conferring economic rights as well as political and judicial authority. The colonies generally did not show quick profits, however, and the English investors often turned over their colonial charters to the settlers. The political implications, although not realized at the time, were enormous. The colonists were left to build their own lives, their own communities, and their own economy -- in effect, to start constructing the rudiments of a new nation.

What early colonial prosperity there was resulted from trapping and trading in furs. In addition, fishing was a primary source of wealth in Massachusetts. But throughout the colonies, people lived primarily on small farms and were self-sufficient. In the few small cities and among the larger plantations of North Carolina, South Carolina, and Virginia, some necessities and virtually all luxuries were imported in return for tobacco, rice, and indigo (blue dye) exports.

Supportive industries developed as the colonies grew. A variety of specialized sawmills and gristmills appeared. Colonists established shipyards to build fishing fleets and, in time, trading vessels. The also built small iron forges. By the 18th century, regional patterns of development had become clear: the New England colonies relied on ship-building and sailing to generate wealth; plantations (many using slave labor) in Maryland, Virginia, and the Carolinas grew tobacco, rice, and indigo; and the middle colonies of New York, Pennsylvania, New Jersey, and Delaware shipped general crops and furs. Except for slaves, standards of living were generally high -- higher, in fact, than in England itself. Because English investors had withdrawn, the field was open to entrepreneurs among the colonists.

By 1770, the North American colonies were ready, both economically and politically, to become part of the emerging self-government movement that had dominated English politics since the time of James I (1603-1625). Disputes developed with England over taxation and other matters; Americans hoped for a modification of English taxes and regulations that would satisfy their demand for more self-government. Few thought the mounting quarrel with the English government would lead to all-out war against the British and to independence for the colonies.

Like the English political turmoil of the 17th and 18th centuries, the American Revolution (1775-1783) was both political and economic, bolstered by an emerging middle class with a rallying cry of "unalienable rights to life, liberty, and property" -- a phrase openly borrowed from English philosopher John Locke's *Second Treatise on Civil Government* (1690). The war was triggered by an event in April 1775. British soldiers, intending to capture a colonial arms depot at Concord, Massachusetts, clashed with colonial militiamen. Someone -- no one knows exactly who -- fired a shot, and eight years of fighting began. While political separation from England may not have been the majority of colonists' original goal, independence and the creation of a new nation -- the United States -- was the ultimate result.

The New Nation's Economy

The U.S. Constitution, adopted in 1787 and in effect to this day, was in many ways a work of creative genius. As an economic charter, it established that the entire nation -- stretching then from Maine to Georgia, from the Atlantic Ocean to the Mississippi Valley -- was a unified, or "common," market. There were to be no tariffs or taxes on interstate commerce. The Constitution provided that the federal government could regulate commerce with foreign nations and among the states, establish uniform bankruptcy laws, create money and regulate its value, fix standards of weights and measures, establish post offices and roads, and fix rules governing patents and copyrights. The last-mentioned clause was an early recognition of the importance of "intellectual property," a matter that would assume great importance in trade negotiations in the late 20th century.

Alexander Hamilton, one of the nation's Founding Fathers and its first secretary of the treasury, advocated an economic development strategy in which the federal government would nurture infant industries by providing overt subsidies and imposing protective tariffs on imports. He also urged the federal government to create a national bank and to assume the public debts that the colonies had incurred during the Revolutionary War. The new government dallied over some of Hamilton's proposals, but ultimately it did make tariffs an essential part of American foreign policy -- a position that lasted until almost the middle of the 20th century.

Although early American farmers feared that a national bank would serve the rich at the expense of the poor, the first National Bank of the United States was chartered in 1791; it lasted until 1811, after which a successor bank was chartered.

Hamilton believed the United States should pursue economic growth through diversified shipping, manufacturing, and banking. Hamilton's political rival, Thomas Jefferson, based his philosophy on protecting the common man from political and economic tyranny. He particularly praised small farmers as "the most valuable citizens." In 1801, Jefferson became president (1801-1809) and turned to promoting a more decentralized, agrarian democracy.

Movement South and Westward

Cotton, at first a small-scale crop in the South, boomed following Eli Whitney's invention in 1793 of the cotton gin, a machine that separated raw cotton from seeds and other waste. Planters in the South bought land from small farmers who frequently moved farther west. Soon, large plantations, supported by slave labor, made some families very wealthy.

It wasn't just southerners who were moving west, however. Whole villages in the East sometimes uprooted and established new settlements in the more fertile farmland of the Midwest. While western settlers are often depicted as fiercely independent and strongly opposed to any kind of government control or interference, they actually received a lot of government help, directly and indirectly. Government-created national roads and waterways, such as the Cumberland Pike (1818) and the Erie Canal (1825), helped new settlers migrate west and later helped move western farm produce to market.

Many Americans, both poor and rich, idealized Andrew Jackson, who became president in 1829, because he had started life in a log cabin in frontier territory. President Jackson (1829-1837) opposed the successor to Hamilton's National Bank, which he believed favored the entrenched interests of the East against the West. When he was elected for a second term, Jackson opposed renewing the bank's charter, and Congress supported him. Their actions shook confidence in the nation's financial system, and business panics occurred in both 1834 and 1837.

Periodic economic dislocations did not curtail rapid U.S. economic growth during the 19th century. New inventions and capital investment led to the creation of new industries and economic growth. As transportation improved, new markets continuously opened. The steamboat made river traffic faster and cheaper, but development of railroads had an even greater effect, opening up vast stretches of new territory for development. Like canals and roads, railroads received large amounts of government assistance in their early building years in the form of land grants. But unlike other forms of transportation, railroads also attracted a good deal of domestic and European private investment.

In these heady days, get-rich-quick schemes abounded. Financial manipulators made fortunes overnight, but many people lost their savings. Nevertheless, a combination of vision and foreign investment, combined with the discovery of gold and a major commitment of America's public and private wealth, enabled the nation to develop a large-scale railroad system, establishing the base for the country's industrialization.

Industrial Growth

The Industrial Revolution began in Europe in the late 18th and early 19th centuries, and it quickly spread to the United States. By 1860, when Abraham Lincoln was elected president, 16 percent of the U.S. population lived in urban areas, and a third of the nation's income came from manufacturing. Urbanized industry was limited primarily to the Northeast; cotton cloth production was the leading industry, with the manufacture of shoes, woolen clothing, and machinery also expanding. Many new workers were immigrants. Between 1845 and 1855, some 300,000 European immigrants arrived annually. Most were poor and remained in eastern cities, often at ports of arrival.

The South, on the other hand, remained rural and dependent on the North for capital and manufactured goods. Southern economic interests, including slavery, could be protected by political power only as long as the South controlled the federal government. The Republican Party, organized in 1856, represented the industrialized North. In 1860, Republicans and their presidential candidate, Abraham Lincoln were speaking hesitantly on slavery, but they were much clearer on economic policy. In 1861, they successfully pushed adoption of a protective tariff. In 1862, the first Pacific railroad was chartered. In 1863 and 1864, a national bank code was drafted.

Northern victory in the U.S. Civil War (1861-1865), however, sealed the destiny of the nation and its economic system. The slave-labor system was abolished, making the large southern cotton plantations much less profitable. Northern industry, which had expanded rapidly because of the demands of the war, surged ahead. Industrialists came to dominate many aspects of the nation's life, including social and political affairs. The planter aristocracy of the South, portrayed sentimentally 70 years later in the film classic *Gone with the Wind*, disappeared.

Inventions, Development, and Tycoons

The rapid economic development following the Civil War laid the groundwork for the modern U.S. industrial economy. An explosion of new discoveries and inventions took place, causing such profound changes that some termed the results a "second industrial revolution." Oil was discovered in western Pennsylvania. The typewriter was developed. Refrigeration railroad cars came into use. The telephone, phonograph, and electric light were invented. And by the dawn of the 20th century, cars were replacing carriages and people were flying in airplanes.

Parallel to these achievements was the development of the nation's industrial infrastructure. Coal was found in abundance in the Appalachian Mountains from Pennsylvania south to Kentucky. Large iron mines opened in the Lake Superior region of the upper Midwest. Mills thrived in places where these two important raw materials could be brought together to produce steel. Large copper and silver mines opened, followed by lead mines and cement factories.

As industry grew larger, it developed mass-production methods. Frederick W. Taylor pioneered the field of scientific management in the late 19th century, carefully plotting the functions of various workers and then devising new, more efficient ways for them to do their jobs. (True mass production was the inspiration of Henry Ford, who in 1913 adopted the moving assembly line, with each worker doing one simple task in the production of automobiles. In what turned out to be a farsighted action, Ford offered a very generous wage -- $5 a day -- to his workers, enabling many of them to buy the automobiles they made, helping the industry to expand.)

The "Gilded Age" of the second half of the 19th century was the epoch of tycoons. Many Americans came to idealize these businessmen who amassed vast financial empires. Often their success lay in seeing the long-range potential for a new service or product, as John D. Rockefeller did with oil. They were fierce competitors, single-minded in their pursuit of financial success and power. Other giants in addition to Rockefeller and Ford included Jay Gould, who made his money in railroads; J. Pierpont Morgan, banking; and Andrew Carnegie, steel. Some tycoons were honest according to business standards of their day; others, however, used force, bribery, and guile to achieve their wealth and power. For better or worse, business interests acquired significant influence over government.

Morgan, perhaps the most flamboyant of the entrepreneurs, operated on a grand scale in both his private and business life. He and his companions gambled, sailed yachts, gave lavish parties, built palatial homes, and bought European art treasures. In contrast, men such as Rockefeller and Ford exhibited puritanical qualities. They retained small-town values and lifestyles. As church-goers, they felt a sense of responsibility to others. They believed that personal virtues could bring success; theirs was the gospel of work and thrift. Later their heirs would establish the largest philanthropic foundations in America.

While upper-class European intellectuals generally looked on commerce with disdain, most Americans -- living in a society with a more fluid class structure -- enthusiastically embraced the idea of moneymaking. They enjoyed the risk and excitement of business enterprise, as well as the higher living standards and potential rewards of power and acclaim that business success brought.

As the American economy matured in the 20th century, however, the freewheeling business mogul lost luster as an American ideal. The crucial change came with the emergence of the corporation, which appeared first in the railroad industry and then elsewhere. Business barons were replaced by "technocrats," high-salaried managers who became the heads of corporations. The rise of the corporation triggered, in turn, the rise of an organized labor movement that served as a countervailing force to the power and influence of business.

The technological revolution of the 1980s and 1990s brought a new entrepreneurial culture that echoes of the age of tycoons. Bill Gates, the head of Microsoft, built an immense fortune developing and selling computer software. Gates carved out an empire so profitable that by the late 1990s, his company was taken into court and accused of intimidating rivals and creating a monopoly by the U.S. Justice Department's antitrust division. But Gates also established a charitable foundation that quickly became the largest of its kind. Most American business leaders of today do not lead the high-profile life of Gates. They direct the fate of corporations, but they also serve on boards for charities and schools. They are concerned about the state of the national economy and America's relationship with other nations, and they are likely to fly to Washington to confer with government officials. While they undoubtedly influence the government, they do not control it -- as some tycoons in the Gilded Age believed they did.

Government Involvement

In the early years of American history, most political leaders were reluctant to involve the federal government too heavily in the private sector, except in the area of transportation. In general, they accepted the concept of laissez-faire, a doctrine opposing government interference in the economy except to maintain law and order. This attitude started to change during the latter part of the 19th century, when small business, farm, and labor movements began asking the government to intercede on their behalf.

By the turn of the century, a middle class had developed that was leery of both the business elite and the somewhat radical political movements of farmers and laborers in the Midwest and West. Known as Progressives, these people favored government regulation of business practices to ensure competition and free enterprise. They also fought corruption in the public sector.

Congress enacted a law regulating railroads in 1887 (the Interstate Commerce Act), and one preventing large firms from controlling a single industry in 1890 (the Sherman Antitrust Act). These laws were not rigorously enforced, however, until the years between 1900 and 1920, when

Republican President Theodore Roosevelt (1901-1909), Democratic President Woodrow Wilson (1913-1921), and others sympathetic to the views of the Progressives came to power. Many of today's U.S. regulatory agencies were created during these years, including the Interstate Commerce Commission, the Food and Drug Administration, and the Federal Trade Commission.

Government involvement in the economy increased most significantly during the New Deal of the 1930s. The 1929 stock market crash had initiated the most serious economic dislocation in the nation's history, the Great Depression (1929-1940). President Franklin D. Roosevelt (1933-1945) launched the New Deal to alleviate the emergency.

Many of the most important laws and institutions that define American's modern economy can be traced to the New Deal era. New Deal legislation extended federal authority in banking, agriculture, and public welfare. It established minimum standards for wages and hours on the job, and it served as a catalyst for the expansion of labor unions in such industries as steel, automobiles, and rubber. Programs and agencies that today seem indispensable to the operation of the country's modern economy were created: the Securities and Exchange Commission, which regulates the stock market; the Federal Deposit Insurance Corporation, which guarantees bank deposits; and, perhaps most notably, the Social Security system, which provides pensions to the elderly based on contributions they made when they were part of the work force.

New Deal leaders flirted with the idea of building closer ties between business and government, but some of these efforts did not survive past World War II. The National Industrial Recovery Act, a short-lived New Deal program, sought to encourage business leaders and workers, with government supervision, to resolve conflicts and thereby increase productivity and efficiency. While America never took the turn to fascism that similar business-labor-government arrangements did in Germany and Italy, the New Deal initiatives did point to a new sharing of power among these three key economic players. This confluence of power grew even more during the war, as the U.S. government intervened extensively in the economy. The War Production Board coordinated the nation's productive capabilities so that military priorities would be met. Converted consumer-products plants filled many military orders. Automakers built tanks and aircraft, for example, making the United States the "arsenal of democracy." In an effort to prevent rising national income and scarce consumer products to cause inflation, the newly created Office of Price Administration controlled rents on some dwellings, rationed consumer items ranging from sugar to gasoline, and otherwise tried to restrain price increases.

The Postwar Economy: 1945-1960

Many Americans feared that the end of World War II and the subsequent drop in military spending might bring back the hard times of the Great Depression. But instead, pent-up consumer demand fueled exceptionally strong economic growth in the postwar period. The automobile industry successfully converted back to producing cars, and new industries such as aviation and electronics grew by leaps and bounds. A housing boom, stimulated in part by easily affordable mortgages for returning members of the military, added to the expansion. The nation's gross national product rose from about $200,000 million in 1940 to $300,000 million in 1950 and to more than $500,000 million in 1960. At the same time, the jump in postwar births, known as the "baby boom," increased the number of consumers. More and more Americans joined the middle class.

The need to produce war supplies had given rise to a huge military-industrial complex (a term coined by Dwight D. Eisenhower, who served as the U.S. president from 1953 through 1961). It did not disappear with the war's end. As the Iron Curtain descended across Europe and the United States found itself embroiled in a cold war with the Soviet Union, the government maintained substantial fighting capacity and invested in sophisticated weapons such as the hydrogen bomb. Economic aid flowed to war-ravaged European countries under the Marshall Plan, which also helped maintain markets for numerous U.S. goods. And the government itself recognized its central role in economic affairs. The Employment Act of 1946 stated as government policy "to promote maximum employment, production, and purchasing power."

The United States also recognized during the postwar period the need to restructure international monetary arrangements, spearheading the creation of the International Monetary Fund and the World Bank -- institutions designed to ensure an open, capitalist international economy.

Business, meanwhile, entered a period marked by consolidation. Firms merged to create huge, diversified conglomerates. International Telephone and Telegraph, for instance, bought Sheraton Hotels, Continental Banking, Hartford Fire Insurance, Avis Rent-a-Car, and other companies.

The American work force also changed significantly. During the 1950s, the number of workers providing services grew until it equaled and then surpassed the number who produced goods. And by 1956, a majority of U.S. workers held white-collar rather than blue-collar jobs. At the same time, labor unions won long-term employment contracts and other benefits for their members.

Farmers, on the other hand, faced tough times. Gains in productivity led to agricultural overproduction, as farming became a big business. Small family farms found it increasingly difficult to compete, and more and more farmers left the land. As a result, the number of people employed in the farm sector, which in 1947 stood at 7.9 million, began a continuing decline; by 1998, U.S. farms employed only 3.4 million people.

Other Americans moved, too. Growing demand for single-family homes and the widespread ownership of cars led many Americans to migrate from central cities to suburbs. Coupled with technological innovations such as the invention of air conditioning, the migration spurred the development of "Sun Belt" cities such as Houston, Atlanta, Miami, and Phoenix in the southern and southwestern states. As new, federally sponsored highways created better access to the suburbs, business patterns began to change as well. Shopping centers multiplied, rising from eight at the end of World War II to 3,840 in 1960. Many industries soon followed, leaving cities for less crowded sites.

Years of Change: The 1960s and 1970s

The 1950s in America are often described as a time of complacency. By contrast, the 1960s and 1970s were a time of great change. New nations emerged around the world, insurgent movements sought to overthrow existing governments, established countries grew to become economic powerhouses that rivaled the United States, and economic relationships came to predominate in a world that increasingly recognized military might could not be the only means of growth and expansion.

President John F. Kennedy (1961-1963) ushered in a more activist approach to governing. During his 1960 presidential campaign, Kennedy said he would ask Americans to meet the challenges of the "New Frontier." As president, he sought to accelerate economic growth by increasing government spending and cutting taxes, and he pressed for medical help for the elderly, aid for inner cities, and increased funds for education. Many of these proposals were not enacted, although Kennedy's vision of sending Americans abroad to help developing nations did materialize with the creation of the Peace Corps. Kennedy also stepped up American space exploration. After his death, the American space program surpassed Soviet achievements and culminated in the landing of American astronauts on the moon in July 1969.

Kennedy's assassination in 1963 spurred Congress to enact much of his legislative agenda. His successor, Lyndon Baines Johnson (1963-1969), sought to build a "Great Society" by spreading benefits of America's successful economy to more citizens. Federal spending increased dramatically, as the government launched such new programs as Medicare (health care for the elderly), Food Stamps (food assistance for the poor), and numerous education initiatives (assistance to students as well as grants to schools and colleges).

Military spending also increased as American's presence in Vietnam grew. What had started as a small military action under Kennedy mushroomed into a major military initiative during Johnson's presidency. Ironically, spending on both wars -- the war on poverty and the fighting war in Vietnam -- contributed to prosperity in the short term. But by the end of the 1960s, the government's failure to raise taxes to pay for these efforts led to accelerating inflation, which eroded this prosperity. The 1973-1974 oil embargo by members of the Organization of Petroleum Exporting Countries (OPEC) pushed energy prices rapidly higher and created shortages. Even after the embargo ended, energy prices stayed high, adding to inflation and eventually causing rising rates of unemployment. Federal budget deficits grew, foreign competition intensified, and the stock market sagged.

The Vietnam War dragged on until 1975, President Richard Nixon (1969-1973) resigned under a cloud of impeachment charges, and a group of Americans were taken hostage at the U.S. embassy in Teheran and held for more than a year. The nation seemed unable to control events, including economic affairs. America's trade deficit swelled as low-priced and frequently high-quality imports of everything from automobiles to steel to semiconductors flooded into the United States.

The term "stagflation" -- an economic condition of both continuing inflation and stagnant business activity, together with an increasing unemployment rate -- described the new economic malaise. Inflation seemed to feed on itself. People began to expect continuous increases in the price of goods, so they bought more. This increased demand pushed up prices, leading to demands for higher wages, which pushed prices higher still in a continuing upward spiral. Labor contracts increasingly came to include automatic cost-of-living clauses, and the government began to peg some payments, such as those for Social Security, to the Consumer Price Index, the best-known gauge of inflation. While these practices helped workers and retirees cope with inflation, they perpetuated inflation. The government's ever-rising need for funds swelled the budget deficit and led to greater government borrowing, which in turn pushed up interest rates and increased costs for businesses and consumers even further. With energy costs and interest rates high, business investment languished and unemployment rose to uncomfortable levels.

In desperation, President Jimmy Carter (1977-1981) tried to combat economic weakness and unemployment by increasing government spending, and he established voluntary wage and price guidelines to control inflation. Both were largely unsuccessful. A perhaps more successful but less dramatic attack on inflation involved the "deregulation" of numerous industries, including airlines, trucking, and railroads. These industries had been tightly regulated, with government controlling routes and fares. Support for deregulation continued beyond the Carter administration. In the 1980s, the government relaxed controls on bank interest rates and long-distance telephone service, and in the 1990s it moved to ease regulation of local telephone service.

But the most important element in the war against inflation was the Federal Reserve Board, which clamped down hard on the money supply beginning in 1979. By refusing to supply all the money an inflation-ravaged economy wanted, the Fed caused interest rates to rise. As a result, consumer spending and business borrowing slowed abruptly. The economy soon fell into a deep recession.

The Economy in the 1980s

The nation endured a deep recession throughout 1982. Business bankruptcies rose 50 percent over the previous year. Farmers were especially hard hit, as agricultural exports declined, crop prices fell, and interest rates rose. But while the medicine of a sharp slowdown was hard to swallow, it did break the destructive cycle in which the economy had been caught. By 1983, inflation had eased, the economy had rebounded, and the United States began a sustained period of economic growth. The annual inflation rate remained under 5 percent throughout most of the 1980s and into the 1990s.

The economic upheaval of the 1970s had important political consequences. The American people expressed their discontent with federal policies by turning out Carter in 1980 and electing former Hollywood actor and California governor Ronald Reagan as president. Reagan (1981-1989) based his economic program on the theory of supply-side economics, which advocated reducing tax rates so people could keep more of what they earned. The theory was that lower tax rates would induce people to work harder and longer, and that this in turn would lead to more saving and investment, resulting in more production and stimulating overall economic growth. While the Reagan-inspired tax cuts served mainly to benefit wealthier Americans, the economic theory behind the cuts argued that benefits would extend to lower-income people as well because higher investment would lead new job opportunities and higher wages.

The central theme of Reagan's national agenda, however, was his belief that the federal government had become too big and intrusive. In the early 1980s, while he was cutting taxes, Reagan was also slashing social programs. Reagan also undertook a campaign throughout his tenure to reduce or eliminate government regulations affecting the consumer, the workplace, and the environment. At the same time, however, he feared that the United States had neglected its military in the wake of the Vietnam War, so he successfully pushed for big increases in defense spending.

The combination of tax cuts and higher military spending overwhelmed more modest reductions in spending on domestic programs. As a result, the federal budget deficit swelled even beyond the levels it had reached during the recession of the early 1980s. From $74,000 million in 1980, the federal budget deficit rose to $221,000 million in 1986. It fell back to $150,000 million in 1987, but then started growing again. Some economists worried that heavy spending and borrowing by the federal government would re-ignite inflation, but the Federal Reserve remained vigilant about controlling price increases, moving quickly to raise interest rates any time it seemed a threat. Under chairman Paul Volcker and his successor, Alan Greenspan, the Federal Reserve retained the central role of economic traffic cop, eclipsing Congress and the president in guiding the nation's economy.

The recovery that first built up steam in the early 1980s was not without its problems. Farmers, especially those operating small family farms, continued to face challenges in making a living, especially in 1986 and 1988, when the nation's mid-section was hit by serious droughts, and several years later when it suffered extensive flooding. Some banks faltered from a combination of tight money and unwise lending practices, particularly those known as savings and loan associations, which went on a spree of unwise lending after they were partially deregulated. The federal government had to close many of these institutions and pay off their depositors, at enormous cost to taxpayers.

While Reagan and his successor, George Bush (1989-1992), presided as communist regimes collapsed in the Soviet Union and Eastern Europe, the 1980s did not entirely erase the economic malaise that had gripped the country during the 1970s. The United States posted trade deficits in seven of the 10 years of the 1970s, and the trade deficit swelled throughout the 1980s. Rapidly growing economies in Asia appeared to be challenging America as economic powerhouses; Japan, in particular, with its emphasis on long-term planning and close coordination among corporations, banks, and government, seemed to offer an alternative model for economic growth.

In the United States, meanwhile, "corporate raiders" bought various corporations whose stock prices were depressed and then restructured them, either by selling off some of their operations or by dismantling them piece by piece. In some cases, companies spent enormous sums to buy up their own stock or pay off raiders. Critics watched such battles with dismay, arguing that raiders were destroying good companies and causing grief for workers, many of whom lost their jobs in corporate restructuring moves. But others said the raiders made a meaningful contribution to the economy, either by taking over poorly managed companies, slimming them down, and making them profitable again, or by selling them off so that investors could take their profits and reinvest them in more productive companies.

The 1990s and Beyond

The 1990s brought a new president, Bill Clinton (1993-2000). A cautious, moderate Democrat, Clinton sounded some of the same themes as his predecessors. After unsuccessfully urging Congress to enact an ambitious proposal to expand health-insurance coverage, Clinton declared that the era of "big government" was over in America. He pushed to strengthen market forces in some sectors, working with Congress to open local telephone service to competition. He also joined Republicans to reduce welfare benefits. Still, although Clinton reduced the size of the federal work force, the government continued to play a crucial role in the nation's economy. Most of the major innovations of the New Deal, and a good many of the Great Society, remained in place. And the Federal Reserve system continued to regulate the overall pace of economic activity, with a watchful eye for any signs of renewed inflation.

The economy, meanwhile, turned in an increasingly healthy performance as the 1990s progressed. With the fall of the Soviet Union and Eastern European communism in the late 1980s, trade opportunities expanded greatly. Technological developments brought a wide range of sophisticated new electronic products. Innovations in telecommunications and computer networking spawned a vast computer hardware and software industry and revolutionized the way many industries operate. The economy grew rapidly, and corporate earnings rose rapidly. Combined with low inflation and low unemployment, strong profits sent the stock market surging; the Dow Jones Industrial Average, which had stood at just 1,000 in the late 1970s, hit the 11,000 mark in 1999, adding substantially to the wealth of many -- though not all -- Americans.

Japan's economy, often considered a model by Americans in the 1980s, fell into a prolonged recession -- a development that led many economists to conclude that the more flexible, less planned, and more competitive American approach was, in fact, a better strategy for economic growth in the new, globally-integrated environment.

America's labor force changed markedly during the 1990s. Continuing a long-term trend, the number of farmers declined. A small portion of workers had jobs in industry, while a much greater share worked in the service sector, in jobs ranging from store clerks to financial planners.

If steel and shoes were no longer American manufacturing mainstays, computers and the software that make them run were.

After peaking at $290,000 million in 1992, the federal budget steadily shrank as economic growth increased tax revenues. In 1998, the government posted its first surplus in 30 years, although a huge debt -- mainly in the form of promised future Social Security payments to the baby boomers -- remained. Economists, surprised at the combination of rapid growth and continued low inflation, debated whether the United States had a "new economy" capable of sustaining a faster growth rate than seemed possible based on the experiences of the previous 40 years.

Finally, the American economy was more closely intertwined with the global economy than it ever had been. Clinton, like his predecessors, had continued to push for elimination of trade barriers. A North American Free Trade Agreement (NAFTA) had further increased economic ties between the United States and its largest trading partners, Canada and Mexico. Asia, which had grown especially rapidly during the 1980s, joined Europe as a major supplier of finished goods and a market for American exports. Sophisticated worldwide telecommunications systems linked the world's financial markets in a way unimaginable even a few years earlier.

While many Americans remained convinced that global economic integration benefited all nations, the growing interdependence created some dislocations as well. Workers in high-technology industries -- at which the United States excelled -- fared rather well, but competition from many foreign countries that generally had lower labor costs tended to dampen wages in traditional manufacturing industries. Then, when the economies of Japan and other newly industrialized countries in Asia faltered in the late 1990s, shock waves rippled throughout the global financial system. American economic policy-makers found they increasingly had to weigh global economic conditions in charting a course for the domestic economy.

Still, Americans ended the 1990s with a restored sense of confidence. By the end of 1999, the economy had grown continuously since March 1991, the longest peacetime economic expansion in history. Unemployment totaled just 4.1 percent of the labor force in November 1999, the lowest rate in nearly 30 years. And consumer prices, which rose just 1.6 percent in 1998 (the smallest increase except for one year since 1964), climbed only somewhat faster in 1999 (2.4 percent through October). Many challenges lay ahead, but the nation had weathered the 20th century -- and the enormous changes it brought -- in good shape.

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