Research on the Economy of the United State of America

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Abstract

The paper comprises of the statistical analysis of the economy of the USA. The facts covered within the paper are the history of the US economy, the gross domestic product analysis, the national income and its components. The study has also been done on the consumption and investment multipliers. Through the paper we also come to know about the saving trends of the country, the interests and investment rates, the consumer price indexes and the government spending. The paper also describes us about the trend in the fiscal and monetary policies while some other major aspects of the paper are inflation, analysis of trades, and balance of payments of the country. Lastly the research is done upon the exchange rates concluding with the analysis. The paper gives in depth knowledge about the trends in the economy of US delivering the real time insights and facts and figures of the economy.

Introduction

The united states are a nation with world’s largest economy, there is hardly any other nation that has been as dominant as the US is today in the history of world economics. Despite of the turmoil’s faced in the past, the United States play a very important and vital role in the global economy. The world’s largest economy accounts for 24.7% of the global GDP, and remains superior than that of china which is around 14.9% of the total GDP.

Economy of US

GDP i.e., Gross Domestic Product is an economic measure of the market value of all final goods and services formed over an episode of time. The nominal GDP of US as per reports of 2017 is $19.417 trillion, which makes the United States as largest economy in the world by nominal GDP and second largest according to purchasing power parity (PPP). The advanced technology and developed sciences service sectors contribute around 79.5% to the national GDP. Whereas, contribution from the industry sector is of 19.4%. Although, there is only 1.1% of contribution from the agriculture sector, US is the largest agriculture exporting country in the world, which has been possible due to the advanced technology and liberal government subsidies. It is also the second largest manufacturer in the world. us is the leader in higher-value industries such as aerospace, automobiles, machinery, telecommunications and chemicals.

Innovations, scientific researches, rapid rate of development in technology and increased capital investment are the factors that drive the economic growth of the country. there is one more important factor responsible for the powerhouse status of US in world economy, and that is its access towards the abundant natural resources. the major population of us is well educated, which makes a great workforce at service sectors. this workforce is majorly responsible for the growth in economy as it provides a business oriented environment, including the immigrants.
Economy system: a mixed economy

The economic system of the United States is principally one of private ownership; it is often referred as “free enterprise system”. Mixed economy system is that system where both the private enterprise and a degree of state monopoly coexist. In US both privately owned business and government subsidies play an important role and that is why it is a mixed economy system. Here, the government can plan and control the economy and market output, unlike the free market economy or “pure capitalism”. Though there was a time in the history of US when it was closer to adopt a “free economy market” also referred as “pure capitalism”.

US Economic History

During the colonial times, i.e., 1700-1770’s the main source of economy was through farming, handicraft production and processing of natural resources. Most of the farm production was used for home consumption and survival but some of the goods were sold in the market. Grains and tobacco were the major agricultural export during that period.

In 1787, the US constitution was adopted which established the entire country as a unified market with no internal tariffs or interstate commerce. It was in 1791 that under the leadership of secretary of treasury Alexander Hamilton, the first bank of the United States was chartered. The coming decades were suffered by the imbalance in world peace.

It was towards the end of World War II that marked the beginning of golden era for the US economy. The U.S. GDP grew at an average annual rate of nearly 4% through late 1940s to the early 1970s. Post world war various new inventions were made in the technical as well as agricultural fields. Invention of machines reduced the labor work and development in scientific researches helped in minimizing the costs of agriculture related products. For example, the ammonia from plants which was used during the World War 2 to make explosives became accessible for manufacture of fertilizers, which led to an everlasting decline in the price of fertilizer.

However, the 1970’s were referred as a period of “stagflation” because of the stagnating growth and inflation. A series of economic policies promoted by President Ronald Reagan during 1980s gave rise to Reaganomics. the longest sustained expansion in U. S economic history, and powered a steep rise in employment, income and consumer demand was marked during 1993-2001. The initial years of the 2000s saw a sharp drop in economy activity following the dot-com burst, terrorist attacks on September 11, 2001, and several corporate scandals put a limitation on economic activity and business confidence.

Despite facing challenges at the domestic level along with a quickly transforming global landscape, the U.S. economy is still the largest and most important in the world. More than 1 out of 5 of the companies on fortune global 500 comes from the United States. The U.S. economy is currently emerging from a period of considerable havoc. Various factors, like widespread mortgage lending, low interest rates, high consumer indebtedness excessive risk taking in the financial sector and tax government regulation, led to a major recession that began in 2008. The several major banks collapsed, and the U.S. economy proceeded to contract until the third quarter of 2009. This was the deepest and longest decline ever since the Great Depression.

There was a slow and uneven recovery in the economy after the recession of 2009. Expansionary monetary policies such as the practice of “quantitative easing” in which the interest’s rates are held at lower bound and as per the conventional methods the government buys the larger amount of financial assets to increase the money supply and hold down the increase in interest rates.

In addition, although the most terrible effects of the recession are now vanishing, the economy still faces a variety of major challenges. Rising income inequality, worsening infrastructure, wage stagnation, medical costs, elevated pension as well as large current account and government budget deficit, are all issues facing the US economy.
Gross Domestic Product

GDP of a country is defined as the total value of all the outputs produced in the country, by all the people whether citizen or by foreign owned companies. Thus, total price of these outputs produced every year is known as Gross Domestic Product (GDP).

GDP is considered as the best yardstick to measure the progress of economy. A rise in GDP may not always mean increase in the total output of the country and therefore however, according to some economics, GDP merely is not the correct way to measure country’s progress. If the price of the goods has increased, keeping the quantity same, we will get an increased GDP. Consequently, changes in GDP realized by changes in the value level give us an ambiguous perspective of genuine economic action. To get a clearer picture, we take the approach of real GDP and nominal GDP. Nominal GDP is the estimation of definite output measured in current costs, though real GDP is the estimation of output measured in steady costs. To figure real GDP, we consider the output value after taking into consideration the effects of inflation or deflation.

GDP Growth Rate (Graph 2)

National Income and its Components

\[ Y = C + I + G + (X - M) \]

C: Consumption
I: Investment
G: Government Expenditure
X: Export
I: Import

Consumption

Goods and services used by households are called consumption goods. It is sometimes referred to as consumer spending. Included in this category are all goods and services households purchase in product markets. In 2016, all this consumer spending in USA claims to be 69 percent of annual output.

Investment

It refers to any mechanism that is used for generating income in future. Investment goods are the plants, machinery, and equipment we produce. Net changes in business inventories and expenditures for residential construction are also counted in as investment. To produce any of the investment goods, we must use scarce resources that could be used to produce something else. Investment spending of USA claims about 16 percent of total output in 2016.

Government Spending

Federal, state, and local governments purchase resources to police the streets, teach classes, write laws, and build highways. The resources purchased by the government sector are unavailable for either consumption or investment purposes. In 2016, government spending on goods and services (not income transfers) claims 20 percent of total output.

Net Exports

Some of the goods and services produced each year are used abroad rather than at home. That is, USA exports some of its output to other countries and import some goods and services from other countries. These goods and services aren't part of America's GDP since they weren't produced within its borders.

Thus, exports are added to GDP and imports are subtracted. The difference between the two expenditure flows is called net exports. In 2016, the net export of USA was negative 3% of its total output.

As seen from the data, the adjusted Net National Income (current US$) is increasing year on year and is denoted by Y. It is also referred to as GDP. It includes the income of households, businesses, and the government. And is represented by -:
NNI(Y) = C + I + G + (NX) + net foreign factor income - indirect taxes - manufactured capital depreciation

where

C = Consumption
I = Investments
G = Government spending
NX = net exports (exports minus imports)
NX also can be written as (X-M) which determines current account

Similarly, we can see the other factors which constitutes the net national income i.e.

1. Final consumption expenditure (current US$), which is denoted by C, is increasing year on year as seen in the below graph. Also, it constitutes 74% of the net national income in year 2015, as seen from the pie chart.

2. The Adjusted savings, net national savings (current US$) which is taking as equal to Investment is showing variable increase/decrease over the period of time, which can be seen below and is denoted by I as a contributing factor in net national income. Also, it constitutes 3% in net national income in year 2015, as seen from the pie chart.
3. General government final consumption expenditure (current US$) is showing as increasing trend year on year, is denoted by G as a contributor in net national income. Also, it constitutes 13% in the net national income in year 2015, as seen from the pie chart.

4. Net Export-Import (current US$) is showing variable increase/decrease with the peak in one of the years i.e. in year 2009, which is the recession year. Also during all the years, the net export-import is negative. So, we can say that the value of import is greater than export in USA. During the calculation of net national income, this term is expressed as NX and from the pie chart, for the year 2015, this term constitutes as -10% of the national income.

Some of the other key indicators of Net National Income:

1. Agriculture, value added (current US$)- In this we can see the variable increase/decrease over the period of years. In the span of ten years, the peak level it attained is in the year 2013.

2. Services, etc., value added (current US$)- The service industry of the US is giving an increase in the output over the span of all the years. Thus, aiding in the Net National Income of US.

3. Industry, value added (current US$)- From the line graph, we can see the output value of the
industry rises year on year, but only in one the year, the industry was hard hit, i.e. the period of recession, in the year of 2009.

By regression analysis the autonomous consumption of US since 1997-2015 has been around $496,137,784,345.53 and the Marginal Propensity to Consume is nearly 87% with a standard error of 1.8%.

Therefore, the use MPC falls in range of 85% to 89% approx.

**Consumption Multiplier**

Consumption is looked upon from the point of view of an individual in an Economy.

Firstly talking about the consumption function, it is expressed as \( C=f(Y) \), it accounts for the largest part of aggregate demand in an economy and plays a crucial role in determination of national income.

Consumption Multiplier can be simply explained as a phenomenon in which if consumption increases by eighty cents for each additional dollar of income, then Marginal propensity to Consume is 0.8

Example, if an industrialist puts up a factory with an investment of $5 million, then this investment will be used make factor payments, acquire machine or human resource. Now the factor payments earned will be spent by those who have earned it, money changes hands and every time it does it makes someone’s expenditure as other person’s income.

Consumption Multiplier data is as follow for the USA economy is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumption Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>0.565905251</td>
</tr>
<tr>
<td>2008</td>
<td>0.110954362</td>
</tr>
<tr>
<td>2009</td>
<td>2.063819676</td>
</tr>
<tr>
<td>2010</td>
<td>1.397659514</td>
</tr>
<tr>
<td>2011</td>
<td>1.207893246</td>
</tr>
<tr>
<td>2012</td>
<td>1.92907183</td>
</tr>
<tr>
<td>2013</td>
<td>1.295178273</td>
</tr>
<tr>
<td>2014</td>
<td>1.310514502</td>
</tr>
<tr>
<td>2015</td>
<td>1.214033599</td>
</tr>
</tbody>
</table>

**Regression Result for Multiplier**

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>$496,137,784,345.53</td>
</tr>
<tr>
<td>Real Disposable Income</td>
<td>0.869331637</td>
</tr>
</tbody>
</table>

**Regression Result for Multiplier (Table 12)**

**Consumption Multiplier Data (Graph 13)**
Consumption was seen to be lower around the 2008 period mainly due to the recession in the economy, savings were at an all-time high leading to a by default decrease in consumption due to limited resources.

**Investment Multiplier**

An Investment multiplier refers to the concept that any increase in Public or private investment has more than proportionate positive impact on aggregate income and the general economy.

The larger the value of the multiplier, the more efficient it is at creating and distributing wealth throughout an economy.

\[ M = \frac{\text{change in income}}{\text{change in investment}} \]

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>-1.16432772</td>
</tr>
<tr>
<td>2008</td>
<td>-0.14193785</td>
</tr>
<tr>
<td>2009</td>
<td>0.941869516</td>
</tr>
<tr>
<td>2010</td>
<td>3.438648857</td>
</tr>
<tr>
<td>2011</td>
<td>5.482388955</td>
</tr>
<tr>
<td>2012</td>
<td>2.112203355</td>
</tr>
<tr>
<td>2013</td>
<td>3.961061948</td>
</tr>
<tr>
<td>2014</td>
<td>4.114747779</td>
</tr>
<tr>
<td>2015</td>
<td>2.31223531</td>
</tr>
</tbody>
</table>

**Personal Savings**

Saving is equal to salary of individual, less related expenses of an individual; it might by and large be that part of the savings which can be utilized for various purposes as per the willingness of the individual be it to procure assets or just wishful spending in times of dissaving.

These savings can remain on the bank accounts for future use or be actively invested in houses, real estate, bonds, shares and other financial instruments.

For years, the savings rate in the United States has declined:

- Tendency to save have been lower in the US economy.
- In the 1970s and 1980s, personal savings rates were in the 5 to 7% range but decreased to 1 to 3% range in the 21st century.
- The savings rate went up in the United States starting in 2008 with the onset of the recession, reaching 8%, but it has come back down, continuing the overall negative trend for savings in the U.S. economy.
- As of June 2016, the savings rate in the United States is 5.5%. Since the Federal Reserve started tracking the savings rate in the United States, the highest the rate has been, was 17% in May 1975.
**Interest Rate**

Interest-rate is the amount paid as a percentage of the principal amount, the amount which is borrowed for utilization. Interest rate is treated as cost of capital and is charged as per time measurement, making it a time-based measure. Usually calculated on a per annum basis.

**Fed Rates and Interest Rates**

Changes in interest rates can have both positive and negative effects on any market, in this case the U.S. market. When the Federal Reserve Board (the Fed) changes the rate at which banks borrow money, this has a ripple effect/bullwhip effect across the entire economy.

Some instances that show the effect of interest rate change are:

- Inflation was at 14% a year, and the Fed raised interest rates to 20%. This caused a severe recession, but it did put an end to the spiraling inflation that the country was seeing. Conversely, falling interest rates can cause recessions to end.

- In 2001 to 2002, when the Fed cut the federal funds rate to 1.25%. This greatly contributed to the economy's 2003 recovery. By raising and lowering the federal funds rate, the Fed can prevent runaway inflation and lessen the severity of recessions.

**Investment Rate**

A rate of return is the gain or loss on an investment over a specified time, expressed as a percentage of the investment’s cost. Gains on investments are defined as income received plus any capital gains realized on the sale of the investment. Rate of return can also be defined as the net amount of discounted cash flows received on an investment.

There was a significant decrease from 2005 to 2009 as people of America were spending and were not investing which lead to crisis at the time of recession. From 2009 to 2011 when interest rate decreased it lowered the cost of borrowing, which encouraged businesses to increase investment spending.

**Consumer Price Index**

Consumer Price Index (CPI) is defined as a measure of changes in price level of a basket of consumer goods and services.

In the USA, the breakdown of major categories with contribution to CPI (Consumer Price Index) in December 2016 is as follows:
Most important factors of CPI are Housing, Transportation and Food and Beverages.

**Government Spending**

Government Spending includes the expenditure government incurs on various objects for its people. It also boosts economic growth and ensures that areas critical for the economy are well funded like the defense forces, healthcare etc.

Government spending is also an effective tool by which the Government may stimulate growth to overcome any shortfall in the economic performance goals.

Talking about the other main stakeholders in Govt Spending i.e. the Individuals, they are very interested to consume services which are offered through govt spending as they are either free or subsidized in nature.

Government spending is also driven by politics as the existing policy makers use state funds to generate lucrative short-term benefits for the public to use them as a vote bank.

Total Government spending as a % of GDP has shown a steep rise to nearly 30% of GDP. this spending might have counter effects that could hamper economic growth by making private investment ineffective.

**Fiscal Policy**

US Government followed the Laissez-Faire approach until the great depression, after that it realized how government intervention was important to maintain balance and budget.

Having a fiscal policy is a very important part of the budgeting process as it takes up a huge part of the revenues that the government earns.

Some fiscal policy changes and their effects:

<table>
<thead>
<tr>
<th>Policy decision</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Government Spending</td>
<td>Infrastructural improvement, employment generation</td>
</tr>
<tr>
<td>Taxation policy</td>
<td>Increase/ decrease in individual spending, consumption, savings decision</td>
</tr>
<tr>
<td>Social security and healthcare</td>
<td>Improved individual satisfaction,</td>
</tr>
<tr>
<td>Crisis management</td>
<td>Pulling out the economy from situations like great depression</td>
</tr>
<tr>
<td>Education policy</td>
<td>Effective human resource management</td>
</tr>
</tbody>
</table>

Highlights from the current fiscal policy:

- Reduction of overall fiscal deficit from 8.7% to 6.5% of GDP in 2017
- Further reduction of fiscal deficit to 3% of GDP in 2018 as a medium term fiscal consolidation plan

Highlights from 2017 Budget regarding Fiscal policy

- Reduction in various taxes and levies
- Reduction in exemptions to high net worth individuals

Important Historical Fiscal Policy decision:

- Implementing a Debt ceiling in 2013, to prevent economic shutdown
- Omnibus budget reconciliation act, 1993
Monetary Policy of US

In USA (United states of America) federal reserve implement the monetary policy of the country. It was established in 1913. The federal reserve bank is 12 banking corporation, that work as independent body but are accountable through the auspices of governors of federal bank. The federal bank of USA follows three tools to formulate the monetary policy of the country i.e. open market operations, discount rate and reserve requirements. These instruments determine the demand and supply of the money balances they are hold by commercial bank. The amount of dollar changes the federal fund rate which is placed with the federal reserve. Federal fund rate is changed due the dollar amount placed with the federal bank. Federal fund rate is the rate at which bank and other USA depositary institution lend their deposits to another bank and depositary institution. Federal fund rate is the interest rate that bank charges another banks for borrowing money overnight. In a country’s monetary policy, it is shown that federal reserve keeps the deposits of the money loaned out. The federal fund rate establishes short term and long-term interest rate. Federal fund rate also establishes short term and long-term interest rate. It also establishes foreign currency exchange rates and economic phenomena such as inflation is influenced by federal reserve rate.

The Open market operations are the buying and selling of government-issued securities like us treasury bills. By this method USA monetary policy is implemented. The short-term purpose of these operations is to get a preferred amount of reserves held by the central bank and to alter the price of money through the federal fund rate. The cost of borrowing, or the interest rate is decreased when Federal Reserve decides to buy T-bills from the market, and when federal bank federal bank decides to sells treasury bills to the market it is a signal that interest rate will be increased, this happens because this action will take money out of the market because it converts into liquidity which can result into inflation which in turn increases the demand for money and cost of borrowings. The rate at which banks and other depository institutions are charges interest to borrow from the Federal Reserve is called as discount rate. The federal program initiates that qualified depository institutions can receive credit under three different facilities: primary credit, secondary credit and seasonal credit. Each form of credit has its own interest rate. The discount rate is the primary rate. The primary rate is used for short-term loans. When short-term loans are given at primary rate they are basically extended overnight to banking and depository facilities with a solid financial reputation. This rate is usually put above the short-term market-rate levels. The secondary credit rate is slightly higher than the primary rate. The secondary rate is extended to those institutions that have liquidity problems or severe financial crises. There is one more rate that is called as seasonal credit rate and it is given to those institutions that need extra support on a seasonal basis such as a farmer’s bank these rates are established from an average of chosen market rate.

In USA Private corporation play a major role. More than 95% of money supply in USA is created the private banking system. The U.S. government receives income overall from seignior age, these are those costs which are associated with money supply.

Private banking corporation in USA bears interest as a condition of its existence. Whenever open market operations are exercised federal reserve lends money in fractional reserve lending. Additional bank deposits act as a debt because of open market operations. The private banking system charges interest to borrowers as a cost to borrow the money. Those who borrow money, the interest rate borne by them because without this borrowing, open market operations would be unsuccessful in maintaining the broad money supply. Banking system pay interest on their savings as depositors of fund.

Determinants

The rate is decided by the speed of amendment during an index number. The foremost cited and analyzed index number within U. S. is that the shopper index number for All Urban customers, or CPI-U, that is discharged by the Bureau of Labor Statistics every month (the personal consumption expenditures (PCE) index covers all U.S. personal consumption). the patron index number for All Urban customers could be a weighted basket of products and services, starting from food and food to education and recreation. A second,
often-quoted index number is that the producer index number (PPI).

**Inflation**

![Inflation US (Graph 20)](image)

Source: [https://tradingeconomics.com/united-states/inflation-cpi](https://tradingeconomics.com/united-states/inflation-cpi)

The Graph can be explained as:

Consumer prices in the United States rose 2 percent year-on-year in October of 2017. It rose by 2.2% in September. Cost decline for gasoline and fuel oil after hurricane-related production disruptions at oil refineries in the Gulf Coast area which ultimately gave a boost to energy prices during September and August.

**Trade Analysis**

Being the largest economy of the world and the second largest producer of manufactured goods (making around 20% of the total goods produced in the world, it stands at the 2nd position, when it comes to exporting goods to other countries. These export products majorly include:

- Mineral fuels including oil (around 6.5% of total exports)
- Machinery, nuclear reactors, boilers (13.1%)
- Aircrafts and spacecrafts (9.3%)
- Vehicles (8.5%)

Imports from other countries are mainly for the following products:

- Electrical machinery and equipment (15% of total imports)
- Vehicles (12.7%)
- Mineral fuels including oil (7.3%)

The difference between the exports and imports of goods and services gives us the trade balance of a country and in the case of USA this figure turns out to be negative showing a trade deficit of $405,225 million dollars as of September 2017.

This deficit hit a record low in 2006 for the following reasons:

- A series of debts amounting to a total of $80 trillion
- Illegal immigration
- Serious deterioration in the net international investment position (-24% of GDP)

This lead to a serious downfall in the economy wherein business failed, workers were displaced, and inequality rose leading to long term devastation of various communities. To address this issue, in around 2009 measures were taken to increase the manufacturing base by 20%.

Currently the shown trade deficit is because of a debt of more than $20.1 trillion. Two-thirds of which is held by the public (buyers of U.S. treasury bills, bonds etc.) and one-third is intragovernmental.

**U.S. International Trade in Goods and Services**

**EXPORTS, IMPORTS AND BALANCES.**

(in million dollars, seasonally adjusted)

![U.S. International Trade in Goods and Services](image)
Balance of Payments

It is a record of all the financial transactions of a country wherein a surplus means that the country exports more goods and services when compared to imports. In a deficit situation the opposite is true.

The components of BoP include three accounts which are mentioned in the graph, i.e. current account (includes international trade, direct payments and income on investments) capital account (records financial transactions that do not affect economic output) and financial account (deals with ownership of assets abroad).

US has seen a deficit current account since decades because of its high consumer spending. As people of this country have a higher disposable income when compared to the Asian subcontinent, their consumption rate is high, resulting in huge amounts imports. As these do not balance out with the exports, the current account has shown negative balances. Also, the recessions of 2001 and 2008 resulted in stock market crashes, as investors withdrew their stocks due to lack of funds and non-promising returns. The current account deficit has decreased after the 2006 crises as exports increased due to increase in production capital, leading to a jump in the GDP. This eventually resulted Asia Central Bank investing in US stocks as stability in returns were forecasted.

The capital account has shown fluctuating balances which had last seen a surplus of $6904 million in 2012, after which a series of deficits have led to a balance of $-59 million as of 2016.

Exchange rates

It is the rate at which the currency of a country fluctuates with respect to another country’s currency. Exchange rates depend on imports and exports amounts and the devaluation methods which the country follows We have compared the dollar with INR and CNY. The current rate is-

1$= 64.39 INR (India is highly dependent on imports which exceeds the goods it exports and therefore has a weaker currency)
1 $= 6.02 CNY (China being the largest exporter of commodities to the world, it has a relatively stronger position when compared to the US).

### Conclusion and Analysis

Despite facing challenges at the domestic level along with a rapidly transforming global landscape, the U.S. economy is still the largest and most important in the world. The U.S. economy represents about 20% of total global output, and is still larger than that of China. Moreover, according to the IMF, the U.S. has the sixth highest per capita GDP (PPP). The U.S. economy features a highly-developed and technologically-advanced services sector, which accounts for about 80% of its output. The U.S. economy is dominated by services-oriented companies in areas such as technology, financial services, healthcare and retail. Large U.S. corporations also play a major role on the global stage, with more than a fifth of companies on the Fortune Global 500 coming from the United States.

Even though the services sector is the main engine of the economy, the U.S. also has an important manufacturing base, which represents roughly 15% of output. The U.S. is the second largest manufacturer in the world and a leader in higher-value industries such as automobiles, aerospace, machinery, telecommunications and chemicals. Meanwhile, agriculture represents less than 2% of output. However, large amounts of arable land, advanced farming technology and generous government subsidies make the U.S. a net exporter of food and the largest agricultural exporting country in the world.

The U.S. economy maintains its powerhouse status through a combination of characteristics. The country has access to abundant natural resources and a sophisticated physical infrastructure. It also has a large, well-educated and productive workforce. Moreover, the physical and human capital is fully leveraged in a free-market and business-oriented environment. The government and the people of the United States both contribute to this unique economic environment. The government provides political stability, a functional legal system, and a regulatory structure that allow the economy to flourish. The general population, including a diversity of immigrants, brings a solid work ethic, as well as a sense of entrepreneurship and risk taking to the mix. Economic growth in the United States is constantly being driven forward by ongoing innovation, research and development as well as capital

The U.S. economy is currently emerging from a period of considerable turmoil. A mix of factors, including low interest rates, widespread mortgage lending, excessive risk taking in the financial sector, high consumer indebtedness and lax government regulation, led to a major recession that began in 2008. The housing market and several major banks collapsed, and the U.S. economy proceeded to contract until the third quarter of 2009 in what was the deepest and longest downturn since the Great Depression. The U.S. government intervened by using USD 700 billion to purchase troubled mortgage-related assets and propping up large floundering corporations to stabilize the financial system. It also introduced a stimulus package worth USD 831 billion to be spent across the following 10 years to boost the economy.

The economy has been recovering slowly yet unevenly since the depths of the recession in 2009. The economy has received further support through expansionary monetary policies. This includes not only holding interest rates at the lower bound, but also the unconventional practice of the government buying large amounts of financial assets to increase the money supply and hold down long-term interest rates—a practice known as “quantitative easing”.

While the labor market has recovered significantly, and employment has returned to pre-crisis levels, there is still widespread debate regarding the health of the U.S. economy. In addition, even though the worst effects of the recession are now fading, the economy still faces a variety of significant challenges going forward. Deteriorating infrastructure, wage stagnation, rising income inequality, elevated pension and medical costs, as well as large current account and government budget deficits, are all issues facing the US economy.

References


