

The American Economy from Roosevelt to Trump

Vittorio Valli

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Preface

In 1978, I published a book on the US economic system. After more than thirty years I returned to write about the largest and most powerful economy in the world and on its economic and political relations in a very different, but equally important, historical phase. The first edition of this book was published by Carocci in 2010. It was written in Italian and had a considerable success in the relatively restricted Italian market.

This English edition of the volume is not only a fully revised and updated version of the book, but a new edition. It adds two important chapters. Chapter 5 is devoted to technical progress and to the strong accumulation of physical capital and knowledge, which have been a distinctive feature of American economic success for over a century. The other new chapter is dedicated to the economic consequences of Donald Trump in the first eighteen months of his presidency. Also Obama's presidency and the critical matter of the decline of the American economy have been more fully analyzed.

A remark must be made: the Roosevelt in the title is not Franklin Delano, but Theodore Roosevelt, since my book takes essentially the move from the beginning of the twentieth century.

I have not written a thorough and detailed economic history, but I have tried to give an interpretation of the main long- term economic trends in the country from 1870 up to now. I did not do so as an economic historian, but as a macro-economist, focusing only on main changes and some crucial turning points of the economy of the United States.

The interpretative line, the red thread of the book, is the following.

In the period 1870-1913 the United States had an impressive economic development and a much faster rate of growth than most other countries, becoming the major economy in the world. This had been largely due to the great advantage of the *frontier*, i.e. the possibility to move west using untapped natural resources, new lands to cultivate, new pastures, new mines, etc. This favored large immigration inflows and both extensive and intensive investment, technological progress and economies of scale, facilitating the rapid growth of the economy.

In the early twentieth Century, these benefits gradually weakened. The United States, however, could successfully continue its rapid economic ascent because, since 1908, it had gradually replaced those benefits with the ones derived by the *Fordist model of development*.

Despite the great depression undergone by the U.S. economy after the Wall Street crash of 1929 and throughout the lost decade 1929-39 - when the Fordist model worked backwards - the Fordist model could be partially reactivated after the conclusion of World War II.

Since the 1950s, the dominating U.S. economy had been slowly losing ground because of the outbreak of some creeping, deep weaknesses in the American development mechanism and in the Fordist model itself. The U.S. had gradually become a large net importer of energy and was growing at a slower pace than several Western and Eastern European economies, the Soviet Union, Japan and the four Asian tigers. This led the U.S. to try another solution, namely the attempt at gradually building up *a global economic empire*. Since Bretton Woods the U.S. had strongly pushed towards the establishment of the dollar as the key currency of the international monetary system; it had made a huge mass of foreign direct investment; it had favored a gradual process of liberalization of the international movements of goods and capitals, sustaining from the early 1970s a growing economic and financial globalization; it had taken part into major wars in Korea,

Vietnam, and the Middle East. The dominance in finance, technology, and the internet economy, accompanied by an extensive political and military power, could temporarily relieve the U.S. fears that globalization could on the long run destabilize the very sources of its economic hegemony. The crisis of the Soviet Union and of the Soviet bloc in the late 1980 and the beginning of the 1990s seemed to promise the full achievement of the American aims and to mark the *end of history*, with the final prevalence of western liberal democracy.

But history teaches us that history never ends: it has always trends and cycles, reversals of fortune, sudden upheavals, gradual ascents or decline.

Unregulated globalization and technological changes finally led to a *great backlash*. The rapid industrialization and technological catching up of Japan, South Korea and then China and other emerging countries contributed to accelerate the U.S. de-industrialization and indirectly increase U.S. economic inequalities. We have, moreover, witnessed the passage of part of Eastern Europe to the EU after the dissolution of the Soviet Union, the booming expansion of the Chinese economy and, since 1992, that of India, the growing tensions in the Middle East, the attack on the twin towers on September 11 2001, the wars in Afghanistan, Iraq, Syria and Libya, the advent and semi- defeat of Isis, the desire for resurgence of Russia and of emerging powers, the great recession and the drama of migrants and refugees from Latin America, Middle East and Africa, the Brexit, etc.

The reaction to a part of these events has been the brutal recourse to arms and wars of the two Bush administrations, the more nuanced, but undecided, Obama's international policy and the rough avowal of *America first* and of protectionist measures of Trump's populist policy. All this is leading towards an *imperfect multipolar world*, much more difficult and complex than the *asymmetric bi-polarism* prevailing in the 1946-1989 years, frozen by the hard equilibrium of cold war and nuclear terror. A phase of gradual decline of the American economic

power has moved its first steps.

In economic matters the *great recession* of the 2007-2010 years has proved the inner fragility of an economy dominated by banks and multinationals and in which the political decisions are heavily influenced by the interests of the big finance, the big e-corporations, the multinationals and the super- rich.

In the United States, President Obama saved the majority of financial institutions and some big industrial corporations and helped the recovery of the country by stimulus packages. He tried also to put some timid limits to the unruly action of major financial groups and to extend the health coverage to the majority of the population. Finally, he tried to move some steps towards a “green” policy, but at the same time he favoured the expansion of fracking techniques in the extraction of oil and gas, which reduced the U.S. energy dependence, but caused severe environmental damages in vast zones of the territory. Obama’s major domestic failure is due to his timid reformist and gradualist approach, which could attenuate, but not arrest, the continuing rise of the great fractures in the U.S. economy and society: the rapidly increasing divide between the rich, the poor and the declining middle class, between races and religions, between immigrants and natives. These fractures have indeed been the culture medium of Donald Trump’s populist appeal.

President Trump has announced and then tried to cancel, or reduce, the effects of Obama’s policies on health and on green policies. He also proceeded to extend anti-migration walls, to repudiate some multilateral trade agreements and to raise some tariffs, to try reducing offshoring and attract foreign investment. He finally cut taxation, in particular to corporations and to rich people as himself. His populist policy has helped him to gain the presidential election, but his controversial personality, full of haughtiness and of racist and sexist elements, and his intricate links with the interests of the arm industry, the oil and coal corporations, the construction industry and big finance, can prelude to even

greater social fractures, to trade wars and to a dangerous scenery in international relations and in the social and environmental arenas.