I confess that in America I saw more than America; I sought the image of democracy itself, with its inclinations, its character, its prejudices, and its passions, in order to learn what we have to fear or hope from its progress.

For 50 years, it has been constantly repeated to the inhabitants of the United States that they form the only religious, enlightened, and free people. They see that up to now, democratic institutions have prospered among them; they therefore have an immense opinion of themselves, and they are not far from believing that they form a species apart in the human race.

~ Alexis de Tocqueville

The United States of America at the beginning of the 21st century was the undisputed economic leader of the globe. Before and after the crisis that began in 2008 it had by far the world’s largest economy, accounting for close to 30% of world output in 2006. It led nearly all high technology industries and was the driver of world innovation and research and development. In the pre-crisis period it had one of the world’s lowest unemployment rates despite heavy immigration and intense competition from low-wage economies in domestic industry; and its per-capita income was the highest in the world ($44,480 in 2006). Year after year, it places at the top of nearly all competitiveness rankings. It is also seen as a safe refuge by people around the globe. For many observers, the U.S. economy is not only the bastion of modern capitalism, but its greatest success story.

Yet at the same time, the United States was and is reviled by detractors as a country where citizens are insufficiently protected against the risks of poverty, job loss, long-term medical problems or other eventualities. It has been criticized for its environmental record and high and rising inequality in incomes among its citizens. Its patterns of overconsumption were unsustainable and posed dangers for the global financial system as well as the environment. Above all, income is distributed less equally in the United States than in any other developed country, and inequality continues to rise. Many countries hold up the United States not as a benchmark to admire, but as an example of what their economies should avoid.

Which is true? Should the U.S. model be emulated or avoided? Does it set out a path for the world to follow, or do its unique demography, geography and history make it an experiment that cannot be repeated? Did the Great Recession end its preeminence in the global economy and set it, and its economic model, on the path to a steady decline? A careful study of the main facets of the U.S. economy can help answer these questions, and highlight many of the topics of economic theory that help us to evaluate prosperity, competitiveness and success.

1 De Toqueville, a French historian, visited the young United States in the 1830s, when his family was experiencing political persecution in France, and wrote Democracy in America based on his observations there.
GDP AND WELL-BEING: THE PROBLEMS OF AN INDICATOR

The U.S. economy has been the world’s largest for a century. After World War II it represented about half of world GDP, and its share has gradually declined as the economies devastated by the war have prospered and developing countries have grown. In 2010, the United States represented about 4.5% of the world’s population (309 million) and about 20% of its GDP ($14.6 trillion). These figures in themselves do not tell whether the inhabitants of the United States are the world’s most prosperous or have the highest living standards. A better answer can be found in GDP per capita (GDP/population) adjusted for the different levels of purchasing power (PPP) among countries. In GDP per capita, Americans were among the most prosperous in the world in 2011, at just over $47,000.

But income is not the only factor that makes citizens better off. Other considerations such as crime levels, health, environmental quality, innovation, literacy and many others help raise or lower a nation’s standard of living. If these could be combined with per-capita GDP into a single indicator, we could obtain a better picture of how different nations rank in terms of a broader or deeper sense of prosperity. The United Nations has developed one such indicator, the Human Development Index, and it shows that while the United States is one of the world’s most prosperous nations, it ranks slightly lower (4th position in 2010) in human development. Other indicators give different pictures.

Perhaps the most frequent criticism leveled at the United States is that it is the developed country where income is distributed least equally, according to the Gini index. This may not mean that many U.S. citizens are poor in absolute terms, but rather that there are large distances between the richest 10% of the population—which includes the world’s highest-income individuals—and the poorest 10%, which includes millions of newly-arrived immigrants, legal and illegal, from developing countries. The Great Recession and the pressures of globalization have caused income differences to widen, in the United States and in nearly all industrialized countries, which has been one of the key factors behind the Occupy Wall Street protests and the demands for higher income taxes on the very rich. In the presidential election campaign of 2016 many Americans were venting their anger at being left behind in the recovery, by voting for populists outside traditional parties. In 2011, 14.3% of Americans were considered below the poverty line, which was the highest percentage since 1994.

Comparing GDP statistics in order to evaluate welfare raises a much deeper problem. There is no consistent evidence that more GDP per capita actually makes individuals happier. In fact, in the U.S. case there is evidence that although Americans appear to be happy and express a sense of freedom above that of many countries, their happiness has leveled off as they have grown richer. In this sense, the U.S. experience points the way toward a problem that may become common to
all nations as they achieve similar standards of living in the future: more output does not always translate to more happiness or a better quality of life.\(^7\) (See Figures 1-3 below.)

**FIGURE 1**  
**A PLATEAU OF HAPPINESS**

A country’s wealth may not always dictate the happiness of its people.

As part of the World Values Survey project, inhabitants of different countries and territories were asked how happy or satisfied they were. Below is a sampling of happiness rankings, along with economic status.

![Happiness scores from 2000 poll](image)


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\(^7\) Much has been written on this topic and many institutions are now experimenting with a broader index of the quality of life, among them some governments (United States, Canada, the UK are examples). In the United States, an institution called Redefining Progress estimates wellbeing in a broad sense for the U.S. economy over several decades.
FIGURE 2

While the median income in the U.S. is higher than it was 30 years ago, people are not reporting increased happiness, polls show.

Median Household Income
(2003 dollars)

$50,000

1974 2003

*Poll question was not asked every year.
Based on nationwide in-person surveys of adults conducted by the National Opinion Research Center at the University of Chicago.

FIGURE 3

How much freedom do you feel you have to choose and influence the course of events in your life?

(10=A GREAT DEAL; 0=NONE AT ALL)

How much freedom of choice and control do you feel over your life?

DIVERSITY AND DEVELOPMENT: NO BARRIERS TO GROWTH

The rise of the United States from a group of colonies populated mainly by English farmers to the world’s leading economy is a case study of the interplay among factors of production—and the relevance of the human factor—in economic development.

The factors that drive economic growth and development are land and natural resources, labor, capital, technology and the quality of institutions. In the U.S. case, all factors were abundant and/or well suited to rapid economic growth. On the institutional front, the U.S. colonies had the advantage of experience with British institutions, which some consider to be the key factor that made Britain the home of the Industrial Revolution. After declaring independence from Great Britain in 1776, colonial leaders established what has become the world’s oldest liberal democracy, based on a practical and flexible constitution and the same strong defense of property rights that protected innovation and investment in Great Britain. In succeeding years, the government encouraged settlers to move west into uninhabited territories by a system of small land grants that created a large middle class of landed farmers. This not only promoted free movement of labor and settlement of the less attractive interior regions, but also lent stability to democracy and to the protection of free markets and individual property rights, which a landed minority elite might have opposed. The United States also enjoyed the unique advantage over its European counterparts of having no landed, feudal class or aristocracy to stand in the way of development.

Here, it is interesting to note the contrast made by some economic historians between the colonies that were so-called “neo-Europes”, like the United States, and “extractive” colonies. In the “neo-Europes”, colonists created representative institutions that defended what the new settlers wanted, which was political and economic freedom. In the “extractive” states, however, the objective was to rapidly transfer resources to the home country, which meant that institutions tended to be more authoritarian, forced labor was often employed, and incentives to invest in institutions or infrastructure were reduced. As Nobel laureate Douglass North has noted, “countries with better institutions, more secure property rights, and less distortionary policies will invest more in physical and human capital, and will use these factors more efficiently to achieve a greater level of income.” The combination of strong incentives for private investment, property-friendly institutions and a minimal government (see Figure 4 below) accelerated development in the colonial United States and have sustained it over time.

Labor, arguably the key factor of production for an economy, was also abundant and cheap in the United States thanks to massive inflows of immigrants, first from Britain and northern Europe, later from Latin America. The United States, particularly the Southern States, also had a high birthrate.

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from southern and eastern Europe, and finally from other areas of the world, particularly Latin America and Asia. The United States received more than 33 million immigrants between 1820 and 1920; and by 1910, 40% of the population was either foreign-born or had one foreign-born parent. These heavy flows have continued: in 1990-2005, nearly 14 million immigrants entered the country legally. Generally the immigrants were young, willing to take risks and eager to work. Education levels were high (and have remained so) in an international context and schooling was important, raising the quality of the labor force and increasing its stock of human capital (see Table 1).

In the area of labor, the institution of slavery, practiced in the south, must be mentioned. African slaves were used from colonial times on the large and lucrative cotton and tobacco plantations in the southern U.S. states. A total of about 661,000 African slaves were brought to the United States before Congress banned further imports in 1808. This figure represents about 7% of the European slave trade with the colonies in North and South America and the Caribbean. Due to the higher survival rate of U.S. slaves, however, by 1825 the United States was home to about 36% of all slaves in the western hemisphere, and by 1860 African slaves represented more than half of the total population in the southern slave states. These states specialized in farming crops for export and lagged behind the industrialization process in the rest of the country. Opposition to the institution of slavery outside the south led to a devastating Civil War starting in 1860 that abolished slavery in all states. However, a system of virtual apartheid persisted in the south, and the intense racism prevalent there spread outside once the mass migration of African Americans to northern states began in the late 1930s. Its worst manifestations were eradicated after the civil rights movements of the 1960s and integration was promoted with a quota system known as Affirmative Action.

For capital and technology, the United States also benefited from its close links to the world industrial and technological leader, Great Britain, which invested heavily in the new country and whose technological innovations drove its initial phases of growth. The landed middle class and a nascent industrial class also invested in rising industries such as textiles, steel and mining, and in the railroads and canals that linked the country by the middle of the 19th century and permitted more balanced development.

In resources, the United States benefited not only from a temperate climate and cheap land in an abundance not known in Europe, but also from large deposits of many important resources. The United States became the world’s leading mineral economy at the same time that it became a global leader in manufacturing (1890-1910), and by 1913 it was the top producer of nearly all major industrial minerals (see Table 2). This attracted heavy investment into new resource technologies, and made U.S. industry intensive in the use of resources that were abundant domestically. This is best illustrated by petroleum, whose usefulness was discovered in the United States and where the U.S. dominated world production for more than a century, and returned to position of the world’s
top producer in the 21st century. The petroleum-intensive nature of U.S. industry may become a handicap if petroleum again becomes scarce and prices rise again in the 21st century. Thus in the young United States there were few or no barriers to rapid economic growth. Two additional factors stimulated development: large, relatively prosperous and well connected domestic markets and freedom from external military threats throughout the 19th century (except brief wars with Great Britain and Mexico). As a result, the United States developed steadily throughout the 19th century, at rates of growth in per capita income of around 1.5% a year. By 1913 it had passed the United Kingdom in GDP per capita and productivity levels and established its global industrial leadership. By the 1920s it had already begun the transition to a service-based economy.

At the present time, both the United States and its economy are diverse and dynamic. On the population side, continuing immigration at levels near those of the 19th century (legal inflows of 9-11% of foreign-born population per year) has made the United States different from European nations in many ways. The U.S. population has become steadily more diverse, moving from predominantly white and British to a racially and ethnically diverse country (see Table 3 and Figure 5). Immigrants give it higher birth rates, demographic growth and a relatively young population (see Figure 6), which makes the pensions crisis that looms over Europe and Japan a less serious concern. The United States has incorporated immigrants into society and engaged them in the work ethic and the drive for success, avoiding the dangers of a marginalized, idle population that threatens some European nations. The proportion of immigrants who are highly skilled, lured by jobs in the dynamic high-tech sectors, is higher than in any other nation, adding to the country’s human capital. Additionally, U.S. citizens and immigrants are extraordinarily mobile, lending extra flexibility to the nation’s labor markets (see Figure 7). Possibly due to its past and present as a “melting pot” of diverse peoples, feelings toward foreigners are less negative in the United States, while the sense of national identity is stronger than in many developed nations (see Figures 8-11 below).

Among the drawbacks suffered by immigrant nations is that they seem to be more prone to violence due to racial and ethnic clashes; and they often lack a cultural identity to hold their diverse populations together. Some analysts doubt that the United States can remain cohesive as the influx of foreigners, particularly from Latin America, grows ever larger. Large immigrant flows also aggravate income inequality, which is already higher than other developed countries and is on the rise (see Figure 12). Although mobility from lower to higher income brackets is high, it has declined, and as specialization in high-tech, human capital-intensive industries continues, the income gap between workers with college degrees and those without is rising (it has doubled since 1979). This, along with the concentration of immigrants in low-wage industries suffering from foreign competition, could put pressure on the consensus of such diverse groups over the U.S. model and fuel social conflict in the future.

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23 For one recent discussion of this issue, see Mineral Resources and Economic Development, Gavin Wright and Jesse Czelusta, Stanford University, October 2003 (Paper prepared for the Conference on Sector Reform in Latin America).
24 In the 18th and 19th centuries, Great Britain and France spent 15-20% of their GDP in different periods on wars.
25 For today’s developing countries, these growth rates appear on the low side.
27 For a discussion of this issue, see Francis Fukuyama, summarized in “U.S. model for Europe: Immigrant work ethic”, International Herald Tribune, December 6, 2005, p. 2.
28 See new OECD series on migration and the foreign-born.
29 For a recent discussion of this problem, see Samuel Huntington, Who Are We? The Challenges to National Identity, 2004.
30 Katharine Bradbury and Jane Katz for the Federal Reserve Bank of Boston found that in the 1970s, 65% of people changed their social position (that is, moved out of the income bracket in which they had started the decade). In the 1990s, only 60% did. Study cited in The Economist, July 14, 2005.
### FIGURE 4
REGULATION AND SIZE OF GOVERNMENT, 2003 AVG. SCORE (HIGHER=FAIRER MARKET)

Source: Economic Freedom Index. The Heritage Foundation.

### TABLE 1
EDUCATION AND LITERACY IN THE UNITED STATES AND SELECTED COUNTRIES, 1850

<table>
<thead>
<tr>
<th>Country</th>
<th>Adult literacy around 1850</th>
<th>Primary school enrollment per 10,000, 1850</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>90%</td>
<td>n.a.</td>
</tr>
<tr>
<td>United States</td>
<td>85-90%</td>
<td>1,800</td>
</tr>
<tr>
<td>Scotland</td>
<td>80%</td>
<td>1,045&lt;sup&gt;31&lt;/sup&gt;</td>
</tr>
<tr>
<td>Germany</td>
<td>80%&lt;sup&gt;32&lt;/sup&gt;</td>
<td>1,600</td>
</tr>
<tr>
<td>England and Wales</td>
<td>67-70%</td>
<td>1,045&lt;sup&gt;33&lt;/sup&gt;</td>
</tr>
<tr>
<td>France</td>
<td>55-60%</td>
<td>930</td>
</tr>
<tr>
<td>Austria (excluding Hungary)</td>
<td>55-60%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Belgium</td>
<td>55-60%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Italy</td>
<td>20-25%</td>
<td>463&lt;sup&gt;34&lt;/sup&gt;</td>
</tr>
<tr>
<td>Spain</td>
<td>25%</td>
<td>663</td>
</tr>
<tr>
<td>Russia</td>
<td>5-10%</td>
<td>98&lt;sup&gt;35&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Source: Calculated from Carlo M. Cipolla, Literacy and Development in the West (Harmondsworth, 1969), and Richard E. Easterlin, "Why Isn’t the Whole World Developed?", Journal of Economic History, 41 (March 1981).<sup>36</sup>

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<sup>31</sup> United Kingdom  
<sup>32</sup> Prussia  
<sup>33</sup> United Kingdom  
<sup>34</sup> 1860  
<sup>35</sup> 1870  
### TABLE 2

**US SHARE OF WORLD TOTALS, SEVERAL BASIC MINERALS (1913, 1989)**

<table>
<thead>
<tr>
<th>Resource</th>
<th>1913 output (as % world output)</th>
<th>1989 reserves as % world reserves</th>
<th>1989 reserves plus cumulative 1913-1989 production (% world)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum</td>
<td>65</td>
<td>3.0</td>
<td>19.8</td>
</tr>
<tr>
<td>Copper</td>
<td>56</td>
<td>16.4</td>
<td>19.9</td>
</tr>
<tr>
<td>Phosphate</td>
<td>43</td>
<td>9.8</td>
<td>36.3</td>
</tr>
<tr>
<td>Coal</td>
<td>39</td>
<td>23.0</td>
<td>23.3</td>
</tr>
<tr>
<td>Bauxite</td>
<td>37</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Zinc</td>
<td>37</td>
<td>13.9</td>
<td>14.0</td>
</tr>
<tr>
<td>Iron ore</td>
<td>36</td>
<td>10.5</td>
<td>11.6</td>
</tr>
<tr>
<td>Lead</td>
<td>34</td>
<td>15.7</td>
<td>18.1</td>
</tr>
<tr>
<td>Gold</td>
<td>20</td>
<td>11.5</td>
<td>8.6</td>
</tr>
<tr>
<td>Silver</td>
<td>30</td>
<td>11.7</td>
<td>16.3</td>
</tr>
</tbody>
</table>


### TABLE 3

**U.S. POPULATION COMPOSITION, 2000 AND PROJECTIONS**

<table>
<thead>
<tr>
<th></th>
<th>2000 %</th>
<th>2050 %</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-hispanic white</td>
<td>195.7</td>
<td>69.4</td>
<td>210.3</td>
</tr>
<tr>
<td>Black</td>
<td>35.8</td>
<td>12.7</td>
<td>61.4</td>
</tr>
<tr>
<td>Hispanic</td>
<td>35.6</td>
<td>12.6</td>
<td>102.6</td>
</tr>
<tr>
<td>Asian</td>
<td>10.7</td>
<td>12.6</td>
<td>33.4</td>
</tr>
<tr>
<td>Others</td>
<td>4.3</td>
<td>1.5</td>
<td>12.2</td>
</tr>
<tr>
<td>Total</td>
<td>282.1</td>
<td>100.0</td>
<td>419.9</td>
</tr>
</tbody>
</table>

**FIGURE 5**

American pies
Population, %

- Hispanic: 20%
- Black: 12%
- Asian: 6%
- Other: 2%
- White non-Hispanic: 58%

Total: 264m
2004 (estimate)
2030 (projection)

2030 figures include some overlap between Hispanics, blacks, Asians and others.
Source: US Census Bureau

**FIGURE 6**

Staying young
Median age

<table>
<thead>
<tr>
<th>Country</th>
<th>2000</th>
<th>2050 projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>45</td>
<td>50</td>
</tr>
<tr>
<td>Britain</td>
<td>42</td>
<td>47</td>
</tr>
<tr>
<td>United States</td>
<td>38</td>
<td>43</td>
</tr>
<tr>
<td>South Korea</td>
<td>36</td>
<td>40</td>
</tr>
<tr>
<td>China</td>
<td>27</td>
<td>31</td>
</tr>
<tr>
<td>Brazil</td>
<td>24</td>
<td>29</td>
</tr>
<tr>
<td>Nigeria</td>
<td>22</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: UN Population Division

**FIGURE 7**

How footloose?
% of Americans moving each year

- Different house
- Different state

Source: William Frey

**FIGURE 8**

Exceptional America
"Are you proud to be...?" 2003, % answering "very proud"

<table>
<thead>
<tr>
<th>Country</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>American</td>
<td>80</td>
</tr>
<tr>
<td>British</td>
<td>50</td>
</tr>
<tr>
<td>French</td>
<td>30</td>
</tr>
<tr>
<td>Italian</td>
<td>20</td>
</tr>
<tr>
<td>German</td>
<td>20</td>
</tr>
</tbody>
</table>

FIGURES 9-11
WHICH OF THESE PEOPLE WOULD YOU LEAST LIKE TO HAVE AS A NEIGHBOR? RANKED BY PERCENTAGE OF
RESPONDENTS WHO CHOSE THE GIVEN ANSWER.

Source all three tables: World Values Survey 2000.
POLICY AND ECONOMIC PERFORMANCE

On most key macroeconomic indicators, the U.S. economy had shown excellent results from the 1990s until the eve of the Great Recession that started in 2008, and its recovery from the crisis has been the most solid of any industrialized country. Average GDP growth rates had accelerated to above those of most developed countries despite the negative contribution to growth of the foreign sector. The sharp contraction of demand in 2001 following the dotcom bust and the attack on the Twin Towers did not materialize into a full-blown recession, thanks possibly to monetary policy management under former Fed chairman Alan Greenspan. Inflation had been largely kept at bay even as oil prices accelerated, partly because productivity growth, the key factor that drives rising incomes, was high after a slump that began in the 1970s, and partly due to a flood of cheap imported goods, especially from China. Meanwhile, unemployment rates were among the lowest in the world even in the face of heavy immigration and intense trade with Mexico and China37, thanks in part to flexible and deregulated U.S. labor markets38. The combination of all of these factors caused average real incomes to climb steadily into the first decade of the 21st century, which in turn sustained continued private consumption and investment growth and fueled growth in GDP (see Figure 13).

It should be noted that these successes were achieved with a single monetary policy, implemented by one of the world’s oldest independent central banks, in a very large and structurally diverse economy, much like the euro area. U.S. regions range from the oil-producing states of Texas, North Dakota and Alaska to the farming communities of the interior, the world financial center in New York, and the global leaders of the entertainment and software industries in Washington and California. Unemployment and inflation rates vary widely across regions39 and events such as

37 See discussion below.
38 The United States is the only developed country that has almost no legislation protecting workers against dismissal. The only law is the 1988 Worker Adjustment and Retraining Notification Act (WARN), which requires companies to give their employees 60 days notice prior to layoffs, only in plants that employ more than 100 workers and which plan to lay off at least 50 employees and more than one-third of their work force. However, about 30% of U.S. workers have private dismissal packages signed with their employers, and union agreements also have provisions.
39 To compare state unemployment rates, see Map of U.S. unemployment rates.
hurricane Katrina or the bursting of the dotcom bubble may cause heavy damage in one or two
groups with much less effect on the others. A single monetary policy is able to achieve economic
stabilization thanks to very flexible labor markets (helped by a single language), complete freedom
of trade and enterprise and the large federal budget, which can use fiscal policy to transfer huge
sums of money across regions through programs such as unemployment benefits, family aid and
disaster relief (see Figure 14).

Despite these economic successes, the U.S. economy had a worrying downside even before the
financial crisis that started in 2007. Consumers, investors and government spent more than they
earned, encouraged in part by very low interest rates. This led to large and rising levels of debt in
both the public and private sectors. The clearest reflection of this overconsumption is the current-
account deficit, which reached record levels in the United States at more than 6.3% of GDP before
the crisis and declined to about 3% afterward, which is still far short of balance. The current-
account gap is driven by a massive deficit on the U.S. trade account, which moved from traditional
surpluses in the 1950s and 1960s to growing and chronic deficits starting in the 1970s. Increasing
exposure to trade with low-wage developing countries has eroded the competitiveness of primary
products and labor-intensive industries in the U.S. economy, which have declined as a share of
output while higher-technology sectors have expanded, absorbing many of the lost jobs (see
Figures 17-20). A large part of the massive trade deficit is the imbalance in trade with China,
which has led to cries for protection from many U.S. industries and some presidential candidates,
especially in the wake of the crisis.

The “twin deficits” in the U.S. economy—the large public-sector deficit (Figure 16) and the massive
current-account gap—cause the United States to borrow heavily, from its own citizens and
foreigners, to finance its consumption. As foreign investors pour their excess dollars into U.S.
assets, including Treasury bonds, to finance the current-account deficit, the net foreign asset
position of the United States turns more sharply negative. At some point more money may flow out
of the country to finance its foreign liabilities than will flow in from its external assets, causing
further pressure on the current account through the net income account. One solution to the “twin
deficits” would be to reduce consumption and encourage savings with selective reforms and
restrictive policy. The crisis has pushed U.S. consumers back toward the saving behavior that was
once traditional, as they attempted to reduce debt and boost their assets. However, the size of
government “dissaving”, reflected in a fiscal deficit of close to 10% of GDP in 2010, offsets some of
this private savings and keeps the current account in deficit. The Federal Reserve could cool off
the economy by continuing to raise interest rates, following its first increase in nearly a decade in
December 2015, but turbulence and uncertainty on international markets make further increases
less likely.

The crisis that struck the United States and the world in 2008 was the most severe since the Great
Depression. According to Bureau of Economic Analysis estimates, U.S. GDP collapsed by 8.9% in
the final quarter of 2008 and by 3.5% in 2009. Unemployment rates during the crisis were at the
highest level since the 1980s, at more than 9%, and soaring U.S. debt received its first-ever
downgrade from Standard & Poor’s in August 2011, from AAA to AA+. However, appropriate fiscal
and monetary policies during the crisis brought the United States to a much faster recovery than
other developed economies. In 2016 its unemployment rates were only 5% even though, according
to OECD estimates, it was still in a recessionary gap. The great problem looming over the economy
was its public debt of more than 100% of GDP, the highest level ever in peacetime for the United
States. Congress showed no indication that it could come up with a workable plan to bring the debt
down to more sustainable levels that would meet with bipartisan support.

40 Note that 6% of U.S. GDP is a number that is greater than the entire output of many large economies, such as Brazil,
Mexico or Spain.

41 For a discussion of how the trade deficit and the offshoring phenomenon have affected employment in the United
States, see Erica L. Groshen, Bart Hobijn and Margaret M. McConnell, “U.S. Jobs Gained and Lost Through Trade: A
New Measure” (Federal Reserve of New York, August 2005) at http://www.ny.frb.org/research/current_issues/ci11-
8/ci11-8.html; or the remarks by Fed Chairman Ben Bernanke at the Distinguished Speaker Series, Fuqua School of
Even with low unemployment, the labor market still gives cause for concern in the United States. Globalization—not only trade, but also extensive outsourcing by U.S. companies—and technology have made huge inroads into manufacturing employment, which provided jobs for mainly lower-educated men. In 2009, the labor-force participation rate for men in the 25-54 age bracket was the lowest for the OECD countries at just below 90%. This has severe implications for the country’s economic potential as well as for poverty rates and public spending. On the bright side, there was some indication that multinational manufacturers were contemplating moving from emerging economies, where wages were rising, back closer to home, which could boost job creation in the United States.

The declining growth rates of the U.S. economy and the specter of a new recession will have ripple effects that will be felt worldwide. The United States has been the engine of world growth for many decades, contributing close to one-third of world demand before the crisis (Figure 21). No other country appears poised to take over that role in the global economy in the immediate future. Hence a slowdown in U.S. overconsumption from its current levels would mean lower income growth for the rest of the world, at least in the short and medium term and possibly into the long term as well.

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42 For a full discussion of this issue, see The Economist, “Decline of the working man”, April 30, 2011, pp. 64-66.

43 For a discussion, see The Economist, “Moving back to America”, May 14, 2011, pp. 67-68.
FIGURE 15

*The cost of the crisis*

Real GDP per person, Q2 2011

- % change since Q4 2007
- % change relative to trend*

Germany
France
Japan
Canada
Italy
United States
Britain

Source: The Economist

Assumes growth continued at average pace 1997-2007 for Q2 2011 estimate

Source: The Economist, August 20, 2011

FIGURE 16

U.S. GDP growth and public-sector deficit, 1987-2006 (%)

FIGURE 17

DISTRIBUTION OF U.S. OUTPUT BY INDUSTRY, 1947-2004

Structure of US Output (% GDP)

Source: U.S. Bureau of Economic Analysis, Industry economic accounts
http://www.bea.gov/bea/industry/gpotables/gpo_action.cfm

FIGURE 18

Net Imports by Sector

FIGURE 19

Chart 2
Job Gains and Losses as a Percentage of Employment, 1992-2003
Quarterly Rate, Seasonally Adjusted

Percent


FIGURE 20

U.S. Jobs Embodied in Gross and Net Imports

Millions of jobs

Jobs embodied in gross imports

Jobs embodied in net imports

A DIFFERENT MODEL OF ADVANCED CAPITALISM: AN ALTERNATIVE TO THE WELFARE STATE

Despite its high income, the United States has not opted for the large, universal welfare state adopted by most prosperous nations as a way of meeting the social needs of its population. U.S. social services are provided by both the private and the public sectors, and those that are publicly provided are normally “means-tested”: that is, they can only be received free if recipients can demonstrate that they are poor. (An exception is the old-age pension system and free medical care for the retired through Medicare.) This gives the United States lower government spending and tax levels than in Europe, and may help keep unemployment rates down. However, the United States is the only advanced Western democracy without universal health insurance or family allowances, which leaves many of its citizens (particularly the “working poor44”) vulnerable in case of serious illness or inability to work. President Barack Obama’s health care reforms, dubbed “Obamacare”, have extended medical insurance to millions of Americans, but many Republicans have sworn to reverse Obamacare as soon as possible.

How “minimal” is the U.S. welfare state? Different approaches to measuring social spending give varying pictures of its coverage. In the conventional measurement—social spending as % of GDP—U.S. spending on social services shows up well below the OECD average and especially below

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44 This refers to the fact that some low-wage workers do not have employer-provided benefits such as health insurance, yet are not “poor” enough to qualify for free services.
European figures (Figure 22). This is partly due to the fact that unemployment benefits are more limited in the United States—they are difficult to collect in non-recession periods for more than 6-9 months without demonstrating incapacity to work; pensions are on average only half of pre-retirement income, compared to 70% and above in most European countries; and income benefits in general are limited to five years over the life of a normal individual.

However, other features of the U.S. system need to be factored in for an adequate comparison with other developed countries, such as the level of taxation of benefits and tax deductions for family spending on some social services such as child care or education45. If all of these elements are included and spending is calculated on a per capita basis46, the “minimal” U.S. welfare state moves up to an average position (Figures 23-24).

Whether or not spending levels are different, it is clear from the way the U.S. system is administered that it is meant to be a safety net and not a set of universal, free services such as those provided under European welfare states. Why have Americans opted for a different model? One reason may be that, like in other immigrant states, citizens tend to favor policies that promote opportunity over those that pursue equality, possibly because they believe in the “American dream” and expect to join the high-income categories during their lifetimes.47 (Table 4, Figure 25). This bias is one reason for higher income inequality in the United States, which in Europe is reduced by higher taxes and transfer payments. Another explanation could be race: in European states, the poor have always been the same race as the taxpaying middle class, while in the United States their race or ethnic origin tends to be different. Some experts think this makes taxpayers less willing to support transfer payments48. Additionally, U.S. conservatives have campaigned to “roll back” the size of government spending since the Reagan revolution of the 1980s, due to their convictions that government spending was wasteful and inefficient, and transfers undermined incentives for work and other productive activity. The Tea Party movement has most recently taken up this banner and campaigned for smaller government. Before the crisis, government spending had been relatively constant over time despite increased spending on national security, meaning there had probably been a certain retrenchment in social spending (Figure 26). Given the high inflows of poor immigrants and the large number of low-wage workers displaced from their jobs by foreign competition, this could give cause for concern.

**FIGURE 23**

![Graph showing Spending as % of GDP, 2001](image)

Source: OECD Social Spending Database.

45 Charitable giving and volunteer activity are also much higher in the United States than in Europe. See Adema and OECD for comparisons.

46 Calculating spending as a % of GDP leads to the “Bill and Melinda problem”: Bill and Melinda Gates spend a much smaller proportion of their large income on food than their neighbors without going hungry. Comparisons made as a % of GDP can also be distorting. For a discussion, see Christopher Howard, “Just How Exceptional is the American Welfare State?”, 2002.


48 For this argument, see Alberto Alesina and Edward Glaeser, Fighting Poverty in the US and Europe: A World of Difference, Oxford University press, 2005.
FIGURE 24

Net public social spending/GDP (%)


TABLE 4
State Whether You Agree With The Following Statements (percentages refer to “yes” answers)

<table>
<thead>
<tr>
<th>Statement</th>
<th>U.S.A.</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>The poor are trapped in poverty</td>
<td>29%</td>
<td>60%</td>
</tr>
<tr>
<td>Luck determines income</td>
<td>30%</td>
<td>54%</td>
</tr>
<tr>
<td>The poor are lazy</td>
<td>60%</td>
<td>24%</td>
</tr>
</tbody>
</table>

APPLYING THE U.S. MODEL: IS IT SUSTAINABLE?

In many ways, the U.S. economy is an example of how successful development can raise the income of a large and growing population (the United States is the only one of the world’s most populous countries that has high living standards). Despite the weaknesses that were brought into sharp relief by the crisis, the economy’s performance over time has been impressive, while its competitiveness, stability and resilience and its enduring status as a safe haven for free markets and private property made it a point of reference for the world.

However, the U.S. model suffers from a profound and probably unsolvable flaw: it has achieved a standard of living that places disproportional pressure on the world’s resources (see Figure 27). Development theory, foreign aid programs and even charitable giving to developing countries all aim at raising the income of the citizens in those countries to a level more like U.S. or European levels. All of these programs overlook a basic problem: the world probably could not sustain the environmental impact that would result from all or most of its citizens enjoying an American or European-style standard of living.
Although environmental indicators are imprecise and models of growth, resource use and sustainability have been notoriously inaccurate, this does not obscure the fact that economic development and rising incomes are increasingly straining the world’s scarce resources. Trusting technology to solve the problems may not be a panacea: technology, which has pushed back the Malthusian limits to population and income growth, has also generated some of the world’s most serious environmental problems, such as chlorofluorocarbons and nuclear technology. Economists generally assume that more intense use of non-renewable resources and “free” goods such as clean air and water will lead to higher market prices for those goods, inducing greater conservation and helping to avoid depletion. However, even if that process enables economies to keep using many basic resources without depleting them, clearly their prices will rise, reducing real incomes. The most certain prospect for the future, in the United States, Europe and some emerging economies, is that real incomes will fall, possibly sharply, as the depletion of basic resources and clean air and water takes its toll. As one expert puts it: “The prosperity that the First World enjoys at present is based on spending down its environmental capital in the bank (its capital non-renewable energy sources, fish stocks, topsoil, forests, etc.). Spending capital should not be misrepresented as making money. It makes no sense to be content with our present comfort when it is clear that we are currently on a non-sustainable course.”

On most environmental indicators, the United States demonstrates a more intensive use of resources per unit of output than most countries (except for other petroleum producers). This is at least partly due to the low price of gasoline in a country where less fuel-efficient cars are popular, automobile use is extraordinarily high due to distances and insufficient public transport, and the gasoline tax is low (raising it is an issue that is so politically unpopular that most lawmakers do not dare to discuss it). Low gas prices and insufficient investment in transport infrastructure are two problems that aggravate one another and keep the United States from moving toward a more sustainable model. The ecological footprint, which summarizes the impact of each country’s average citizen on the environment in all its forms, places the United States among those with the largest “footprint” on the earth, along with the United Arab Emirates and Canada (Figure 28). Additionally, although the United States was one of the first countries to enact environmental protection legislation in the 1970s, it has been reluctant to support multilateral efforts to find solutions to problems such as carbon emissions. President Obama’s intentions to bring the United States into climate-change agreements have floundered in a polarized Congress, and when the United States joined the cop21 Paris agreements on carbon emissions in 2015, it was on a non-binding basis, since Congress would have vetoed any treaty arrangements.

Thus the U.S. example of strong and sustained growth and very high income may not be a viable model for other countries. Rather than offering its capitalistic success as an example to emulate, the United States should use its position of technological, political and economic leadership to head off a serious environmental crisis while marking out a path that will enable world poverty to be addressed. How and when that will be done and what the results will be for the living standards of future generations are the great question marks on the economic future of not only the United States, but all other nations on the globe.

49 Thomas Malthus, the 18th-century economic historian (and Protestant minister), believed that the world’s population would always return to some equilibrium level due to the fact that geometric increases in population would outpace the arithmetic increases in food, leading to periodic crises of starvation and declining population.

50 Jared Diamond, 

FIGURE 28
Living Planet Report


FIGURE 29

TABLE 5
KEY U.S. DATA, 2000-2005

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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<tr>
<td>GDP (% change)</td>
<td>3.66</td>
<td>0.75</td>
<td>1.6</td>
<td>2.5</td>
<td>3.6</td>
<td>2.9</td>
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<tr>
<td>Inflation (%)</td>
<td>3.38</td>
<td>2.83</td>
<td>1.59</td>
<td>2.27</td>
<td>2.68</td>
<td>3.39</td>
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<tr>
<td>Unemployment (%)</td>
<td>3.99</td>
<td>4.75</td>
<td>5.78</td>
<td>5.99</td>
<td>5.52</td>
<td>5.09</td>
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<tr>
<td>Employment (% change)</td>
<td>0.03%</td>
<td>-0.33%</td>
<td>0.92%</td>
<td>1.10%</td>
<td>1.76%</td>
<td>1.65%</td>
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<tr>
<td>Budget deficit (% GDP)</td>
<td>2.4</td>
<td>1.3</td>
<td>-3.3</td>
<td>-4.3</td>
<td>-4.3</td>
<td>-3.4</td>
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<tr>
<td>Interest rate (%)</td>
<td>6.24</td>
<td>3.88</td>
<td>1.8</td>
<td>1.2</td>
<td>1.6</td>
<td>3.5</td>
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<tr>
<td>Debt (% GDP)</td>
<td>58.0</td>
<td>60.3</td>
<td>57.6</td>
<td>60.9</td>
<td>61.9</td>
<td>62.3</td>
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<tr>
<td>Debt service (% GDP)</td>
<td>2.5</td>
<td>2.3</td>
<td>2.1</td>
<td>1.9</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Current account (% GDP)</td>
<td>-4.24</td>
<td>-3.85</td>
<td>-4.4</td>
<td>-4.8</td>
<td>-5.3</td>
<td>-5.9</td>
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<tr>
<td>Productivity growth (%)</td>
<td>0.9</td>
<td>2.8</td>
<td>2.5</td>
<td>2.6</td>
<td>1.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD, Federal Reserve, DataStream.
### TABLE 6
**KEY U.S. DATA, 2010-2015**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011f</th>
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<td>GDP (% change)</td>
<td>2.8</td>
<td>2.0</td>
<td>1.1</td>
<td>-2.6</td>
<td>2.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>3.2</td>
<td>2.9</td>
<td>3.8</td>
<td>-0.3</td>
<td>1.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>4.6</td>
<td>4.6</td>
<td>5.8</td>
<td>9.3</td>
<td>9.6</td>
<td>8.8</td>
</tr>
<tr>
<td>Budget balance (% GDP)</td>
<td>-2.8</td>
<td>-2.9</td>
<td>-6.3</td>
<td>-11.3</td>
<td>-10.6</td>
<td>-10.1</td>
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<tr>
<td>Interest rate (% avg.)</td>
<td>5.2</td>
<td>5.2</td>
<td>3.2</td>
<td>0.9</td>
<td>0.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Debt (% GDP)</td>
<td>61.7</td>
<td>61.8</td>
<td>71.0</td>
<td>84.3</td>
<td>93.6</td>
<td>101.1</td>
</tr>
<tr>
<td>Debt service (net) (% GDP)</td>
<td>2.0</td>
<td>2.1</td>
<td>1.9</td>
<td>1.4</td>
<td>1.6</td>
<td>1.9</td>
</tr>
<tr>
<td>Current account (% GDP)</td>
<td>-6.0</td>
<td>-5.1</td>
<td>-4.7</td>
<td>-2.7</td>
<td>-3.2</td>
<td>-3.7</td>
</tr>
<tr>
<td>Productivity growth (%)</td>
<td>1.1</td>
<td>1.1</td>
<td>1.7</td>
<td>1.7</td>
<td>3.6</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: OECD