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The United States: Post Vietnam vs Modern Day

The current economic situation in the United States has followed a long and continuing “war on terror”. Increased military spending on this unpopular war and an equally unpopular presidency has left American’s with little trust in our government. Not only are there concerns of more war in the Middle East economic but conditions at home continue to deteriorate. The beginning of our domestic economic concerns came with the housing bubble burst that began in 2006. Coupled with the recent sub-prime mortgage crisis many Americans have been left with undervalued homes and mortgage payments that they cannot afford. The housing sector isn’t the sole cause of America’s problems. Many recent environmental initiatives have lead to a major increase in alternative fuel production. These bio-fuels require ethanol from corn which has caused food production costs to rise. American’s are not only incurring costs through our alternative fuel production but also increased crude oil costs as well. These economic issues at home aren’t only putting a burden on the bank accounts of American’s but also on the American government. This is a larger problem that an income tax refund bonus can fix.

In many ways the plight of United States economy in recent times isn’t the first of its kind. After the short term of President John F Kennedy (1961-1963) the unpopular war in Vietnam intensified and so did military spending. With increased military spending and Lyndon B Johnson’s vision for a “Great Society” the national debt grew. This strategy 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. (1) The 1973-1974 oil embargoes by 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 along with foreign competition but the stock market lagged.

The term "stagflation" is defined as: relatively high price inflation and low (or negative) rates of economic growth (4). This term fits best to describe the economic condition in the United States during this time. 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 even higher. (1) A combination of automatic cost-of-living clauses in contracts and Social Security payments for retirees helped Americans cope with the excessive inflation. These were only a temporary fix and they still encouraged inflation. The government's increasing need for funds increased the deficit and led to greater government borrowing. This pushed up interest rates and increased costs for businesses and consumers even further. With energy costs and interest rates at a high, business investment remains stagnant and unemployment continued to rise.

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 more successful but less dramatic strategy to prevent inflation involved the "deregulation" of numerous industries, including airlines, trucking, and railroads (2). 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.

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. Thought the recession was difficult for many, it did break the destructive cycle of stagflation. By 1983, inflation had slowed, 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 (3).

The economic recession of the 1970s had important political consequences. Americans expressed concern with government policies by electing Ronald Reagan (1981-1989) as president. Reagan based his economic program on the theory of supply-side economics, which supports reducing tax rates so people could retain more of their income. The theory was that lower tax rates would cause 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. In the early 1980s, while he was cutting taxes, Reagan was also slashing social programs. Reagan also undertook a campaign throughout his term to reduce or eliminate government regulations that affected: the consumer, the workplace, and the environment (6). 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 surpassed the smaller decrease in spending on social programs. As a result, the federal budget deficit grew even beyond the levels it reached during the recession of the early 1980s.

In many ways the United States faces many of the same challenges that it did during the period that followed the Vietnam War. The United States saw trade deficits in seven of the 10 years of the 1970s, and the trade deficit continued to increase throughout the 1980s. Rapidly growing economies in Asia appeared to be challenging America as economic powerhouses. Japan, specifically, with a model for economic growth that emphasized long-term planning and coordination among corporations, banks, and government. Many of the problems our country faces will not go away and they will continue to repeat themselves throughout history. And as seen in the past we will be forced to adjust to the always changing economic conditions.


