

# The United States of America

## CONTEMPORARY HISTORY


In 1945, at the end of World War II, the United States emerged as the strongest nation in the world. Economically, it owned 75% of the world's gold reserves and produced 50% of the world's industrial output. Militarily, it had the mightiest army in the world and the first and only atomic bombs. The US shaped the post-war order, providing massive help to Europe (the Marshall Plan), South Korea, and Japan to aid their reconstruction. It also helped create organizations like the United Nations (UN), the World Bank, and the International Monetary Fund (IMF).



The end of WWII also led in the late 1940s to the beginning of the Cold War, which locked the US and the Soviet Union in a worldwide superpower struggle for political influence and military supremacy. Over this period, the US developed alliance networks in Europe and East Asia. The Cold War led to the biggest arms buildup in history and to major crises all over the world, including the Korean War (1950-53), the Cuban Missile Crisis (1962), and the Vietnam War (1965-1975).

In the 1970s, US global economic dominance was eroded by two oil price shocks, the emergence of Europe and Japan as economic powerhouses, and the high cost of the military build-up caused by the Cold War. However, with the break-up of the former Soviet Union in 1991 and the scattered regional financial crises in the late 1990s, the US became the world's only superpower and regained much of its global economic prestige with its robust economy.

The election in 2000 was one of the closest in American history. The announcement of the winner of the Presidential race was delayed because the vote was too close to call in one state, Florida. Manual counting of the ballots was required. The US Supreme Court stepped in and provided an avenue for the Republican candidate, George W. Bush, to be declared the winner in Florida, thus winning enough electoral votes to be elected. Dem-

<b>United States: Facts</b>																			
<b>Flag</b>																			
	<p><i>The thirteen red and white stripes represent the thirteen original colonies which broke away from Great Britain. The fifty white stars on a blue field symbolize the fifty states in the union.</i></p>																		
	<table> <tr> <td>Capital</td> <td>Washington, DC</td> </tr> <tr> <td>Government</td> <td>Federal Republic</td> </tr> <tr> <td>Government Head (President)</td> <td>Barack Obama</td> </tr> <tr> <td>Economy</td> <td>Capitalist</td> </tr> <tr> <td>Independence</td> <td>1776</td> </tr> <tr> <td>Area (sq. km)</td> <td>9,373,000</td> </tr> <tr> <td>Population (millions)</td> <td>304</td> </tr> <tr> <td>Adult Literacy</td> <td>99%</td> </tr> <tr> <td>Pop. Growth Rate</td> <td>0.88%</td> </tr> </table>	Capital	Washington, DC	Government	Federal Republic	Government Head (President)	Barack Obama	Economy	Capitalist	Independence	1776	Area (sq. km)	9,373,000	Population (millions)	304	Adult Literacy	99%	Pop. Growth Rate	0.88%
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Source: CIA World Fact book. Military data for year 2005. All others for year 2008. GDP figures are in Purchasing Power Parity. Tuberculosis data for year 2006 and Health Care % of GDP for year 2005 from WHO.

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ocratic Candidate Al Gore won the total US popular vote, though by a mere 500,000 votes. But in US Presidential elections, whoever has the most Electoral College votes is declared the winner. President Bush was re-elected in 2004.

Eight years after taking office, Mr. Bush left the White House with public approval ratings averaging 30.5%. At the start of the Iraq War, his ratings had been at 71%. The 40-point drop is almost identical to the drop in approval ratings President Johnson faced in the early 1970s during the unpopular Vietnam War. Besides the Iraq War, additional contributing factors to Mr. Bush's low approval ratings are a deep recession and a tarnished reputation for the US internationally.

As of January 20, 2009, Democratic candidate Barack Obama became the 44th president of the US. He has inherited an economic crisis and two wars--in Iraq and Afghanistan--as well as many other issues that need to be addressed. The next presidential election is in 2012.

President Obama's first priority is a stimulus package to jumpstart the economy. Overall, he hopes to be a president who is more responsive to the needs of the American lower and middle classes. Some of his agenda items are: 1) switching his national security focus on Afghanistan instead of Iraq; 2) supporting alternative energy sources and creating the necessary infrastructure for them; 3) creating a more inclusive health care plan for all Americans; and 4) restoring the US reputation abroad by example and by leading a more collaborative administration than his predecessor.

### UNITED STATES TODAY

**T**he US is located on the continent of North America, between Canada and Mexico. In size, it is twice as large as the EU, slightly larger than China, but half the size of Russia. After victories in WWI and WWII, the US became one of the major countries in the world. Since the breakup of the Soviet Union, it is the world's sole remaining superpower.

The US is still dealing with the effects of September 11, 2001. Many domestic and international policies have changed since that day. The country has spent billions of dollars in upgrading its domestic security in an attempt to make sure there is never another terrorist attack on US soil. But the biggest 9/11 legacies are the wars in Afghanistan and Iraq. By December 2001, the

US had routed al Qaeda and its fundamentalist hosts, the Taliban, from Afghanistan. The formation of a democratic government was begun. In 2003, the Bush administration took their sights off of Afghanistan and made Iraq a priority, convinced Saddam Hussein was developing weapons of mass destruction. Six years later the US is still there, longer than it was involved in WWII. And while distracted by Iraq, the Taliban and al Qaeda began a resurgence in Afghanistan. NATO troops are now helping US forces maintain the fragile democracy in that beleaguered country.

As a Senator, Mr. Obama did not vote to invade Iraq. He supports a phased withdrawal of all US troops over the next 16 months. Thus by summer 2010, only a small residual force will remain to continue the search for al Qaeda and to back-up the Iraqi forces as needed. At the same time, President Obama intends to double the number of American soldiers in Afghanistan.

The cost of these wars is having an economic impact on the US. The US has the largest economy in the world, but it is now in an economic recession. Some call it the worst downturn in 26 years. A problem with some risky housing loan mortgages in the US has led to a financial contagion around the world. This is a two-pronged problem: 1) there is a lack of equity capital so banks do not have enough money to make new loans. 2) the housing crisis has caused a decline in the value of houses in most communities. This makes the housing assets the banks are holding worth less. The federal government has lent billions of taxpayer dollars to banks to help them lend again. So far this lack of credit has spread not only internationally, but to other areas of lending such as business lending.

America has been running budget and balance of payment deficits for years. Many of the emerging market countries like China are funding this debt, for the more money US consumers spend, the more likely such big exporting countries will benefit. Some are questioning if the US can continue its economic global dominance while simultaneously running large deficits.

The rise in global trade in the past 20 years and the importance of oil have created many new up-and-coming players in the international community. The post-World War II leading nations, such as the US, are beginning to include such countries in discussions on global issues. By giving these new leaders a say on the pressing world problems, it is hoped that they will feel

more responsible to contribute to their solutions. But the status quo is hard to break. The challenge is to move the world away from a 20th century concept that views the world as a jumble of individual nations that require separate policies. The 21st century perspective points to a world more intertwined.

On the Statue of Liberty these words are engraved: "Give me your tired, your poor, your huddled masses yearning to breathe free." While the United States is far from a perfect society, it still acts as a beacon of hope for people coming from war, poverty, or other hardships. Many hope that President Obama and the strength of America's fundamentals will allow it to regain its way, for the world still counts on the US to play a visionary leadership role.

## Human Rights

The United States constitution guarantees full and equal human rights to all citizens. These guarantees have been strengthened over the years by many constitutional amendments and by the civil rights movements. The government is highly accountable to the people as a result of the governmental division of power and a strong and assertive press.

The 9/11 attacks have made the protection of individual rights far more complex. Under traditional US laws, the finding of guilt or innocence depends on the ability to prove guilt. But in this modern age of fast, anonymous computer transactions, terrorists can hide their illegal activities and cross national borders with the click of a mouse. Thus the ability of the legal system to prove guilt means it must match the terrorists' level of sophistication in the use of computer technology. It also could mean coordinating with other countries' law enforcement agencies to find evidence. The government contends that it may not be able to find enough evidence for conviction under the traditional US legal system. It cites the example of Zacarias Moussaoui, the lone defendant charged with aiding the 9/11 hijackers. Arrested a month before the planes were flown into the World Trade Center, investigators could not obtain permission to check his computer under US laws, for he had committed no crime. If access had been obtained, officials might have found a crucial link to the other terrorists prior to 9/11.

As a result, the US government has spent the last eight

years trying to navigate in a world of heightened terrorist threats. Just a month after the 9/11 attacks, Congress approved a bill dubbed The Patriot Act. The bill was passed to increase the government's enforcement mechanisms to identify, detain, and prosecute suspected terrorists. Legal aliens from certain countries are being asked to provide more documentation about themselves. However, processing delays have made it harder for some individuals to obtain the necessary clearance to come to the US for a visit.

Many are concerned that the government will misuse its increased surveillance abilities to falsely accuse the innocent. They see this as an assault on American civil rights. The secretive nature of inquiries allowed under the Patriot Act reminds many of how the FBI used anonymous surveillance to discredit Vietnam War protesters 30 years ago.

As a result of some of these concerns, a new bill nicknamed the Patriot Act II was defeated. It would have granted the government even more surveillance and intelligence-gathering powers, free from judicial oversight. While the concerns about a retreat from civil rights protection are legitimate, the stakes are quite high. As we have tragically seen, the failure to catch terrorists can mean not just a few lives lost, but thousands.

Human rights promotion has become a major component of US foreign policy. US developmental aid is often tied to human rights improvements. However, when building an international coalition to undertake the war effort against the Taliban in Afghanistan and Saddam Hussein in Iraq, the US had sought as allies some countries criticized for their human rights records. Furthermore, some suspected al Qaeda terrorists have been kept in semi-isolation in Guantanamo Bay, Cuba, which is controlled by the US. The American government considers these detainees, "enemy combatants" from the war in Afghanistan. This label allows the government to hold these men indefinitely. Many inside and outside the US questioned the legality of keeping enemy combatants in Guantanamo. Under such pressure, many detainees have been returned to their home countries. Others have been given access to special legal counsel and tried in a special court. In his first week in office, president Obama announced he will close Guantanamo in the next 12 months.

Aside from the issues being debated about protection against terrorists, the US human rights situation still

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has room for improvement. First, there are major inequalities in socioeconomic status in the US. Some social and economic groups do not have full access to quality education and decent jobs and housing. In addition, incidents of racially motivated police brutality occur occasionally in large US cities like New York, Los Angeles, and Philadelphia. The police use of racial profiling is a new subject of public debate.

The US has a much smaller child labor problem than many countries in the world. Nevertheless, illegal child labor exists in the US. Most child workers in the US (over 90%) work in non-agricultural industries, in food preparation and service, as operators, helpers, and laborers. The remainder work in agriculture. The problem of child labor is made worse because it is not known exactly how many illegal immigrant children are employed in the US. An Associated Press report estimated that close to 300,000 children worked illegally in the US in 1996. The US and Somalia are the only two countries that have not ratified the Covenant on the Rights of the Child. The US has signaled its intention to sign the document at some point in the future. The US has signed the ILO's Convention #182, the Worst Forms of Child Labor. It has not signed #138, the Minimum Age Convention.

Women's rights have advanced further in the US than in most other countries in the world. The women's movement in the US has succeeded in creating more opportunities for women in various institutions and workplaces. The first legislation that President Obama signed was a law that ended a timing restriction on a women's ability to sue for pay discrimination. However, there are still many areas of inequality for women, even in the US. For example, in jails there have been alleged cases of sexual assault by prison officials. In addition, domestic violence against women continues to occur. Although economic opportunities have increased for women in the last few decades, women are still underrepresented at the highest levels in many institutions and organizations.

Human traffickers use the US as a destination and transit point for their usually unsuspecting victims. It is estimated that 14,500 to 17,500 people, primarily women and children, are trafficked to the US annually. The US government began to monitor human trafficking in 1994. Originally US monitoring focused on sex trafficking, but it has broadened to include labor exploitation. In 2000, the US government passed the Traffick-

ing Victims Protection Act, which has improved existing prosecution measures for traffickers, enhanced the protection for victims of trafficking and given benefits to victims of particularly severe cases. The Trafficking Victims Protection Reauthorization Act of 2003 provides resources and initiatives to assist the US victims. Internationally, the US has assisted other countries in organizing anti-trafficking and development programs to prosecute offenders, help victims, and raise awareness about trafficking. While there are good rules in place, crimes of this type can oftentimes go unnoticed until someone brings it to the authorities' attention.

Regarding minority relations, the US just elected its first African American President. While this event shattered a racial glass ceiling, the US still feels the lingering effects of its contentious history of slavery and racial discrimination. Although there are many other tangible examples of racial progress, discrimination on the basis of race or ethnicity still exists, and members of ethnic minority groups are sometimes both educationally and economically disadvantaged. Immigrants have a higher standing in the US than in most nations, but debates about the openness of US borders to immigration occur periodically. Tragically, hate crimes against Arabs and Muslims since 9/11 have increased.

Liberal gun laws have made access to powerful weapons very easy, creating a very high violent crime rate for a developed country. Thus while America has some good legal protections in place for human rights, there are many areas in which the US could show improvement.

## Environment

**R**elative to its population, the US has the world's most serious pollution problem. Water and air pollution (from cars and industry) result in acid rain and smog in many cities. Many significant improvements have been made, such as long-term use of unleaded gasoline, catalytic converters in automobiles, and more stringent industrial water and pollution controls. Until recently, the strong environmentalist movement was actively opposed by business interests and by labor unions that downplayed the environmental impacts of many economic activities. Economic growth and life comforts are often given priority. However, more definitive evidence is now available concerning the consequences of global warming.

With only 4% of the world's population, America produces 20% of greenhouse gas emissions. The US was involved in the initial 1997 Kyoto, Japan conference on global warming that created the Kyoto Protocol agreement. Through negotiations, the US committed itself to a major emissions cut by 2012 (a 7% reduction from the 1990 level, which represents a real cut by 40% over normal emissions levels). When the US Senate voted 95-0 against the treaty early in the Bush administration, the President withdrew the US from further negotiations. Mr. Bush did not see any hope of ratification with such strong business and congressional opposition.

A problem the US cited when it withdrew from the Kyoto Protocol is that the agreement exempted 80% of the world from compliance--the developing countries were excluded. The Bush administration also argued that such substantial emissions cuts would negatively impact the US economy.

Something that is not shouted from the rooftops is the fact that very few countries are on target to meet their Kyoto Protocol goals. Only three countries in the EU are within striking distance. Canada is so far over their goals that they have almost given up. The argument can be made that it was more honest not to sign because the goals would be hard to achieve instead of signing and quietly not meeting the targets.

In the absence of strong direction provided by the former Bush administration, state and local governments took on more responsibility to create a regulatory environment to reduce greenhouse gas emissions (GHG). Here are some examples: 1) California adopted a sweeping law in 2006 requiring reductions of about 25% in GHG emissions by 2020; 2) New York and nine other Northeastern states are putting caps on power plant emissions and developing a system to trade emissions allowances; 3) five Midwestern states announced a joint plan to reduce emissions; 4) city governments such as San Francisco, Seattle, and New York have introduced significant measures to roll back emissions.

In addition to state and local governments, businesses are more willing to see the profit potential from licensing and/or producing green friendly products. For example, US investment firm Kleiner Perkins has invested \$600 million in 45 green tech start-ups. The company plans to invest in 40 more in 2009-10. Venture capitalists invested more than \$1.8 billion in clean en-

ergy companies in California in 2008. They poured about \$5 billion in green tech projects nationwide. However, John Doerr, whose early investments helped launch Google and Amazon, warns that the lack of leadership in the past eight years has caused the US to fall behind in the green tech revolution. He recently told the US Congress that just six of the top 30 companies in solar, wind and advanced batteries are American. His investment company's largest two investments are with foreign firms, because their US counterparts did not have the most advanced technology.

The credit crisis is also negatively impacting the march to provide alternative energy solutions. While the prices of such things as wind turbines and solar panels have come down in the past year, companies are struggling to find the money to finance wind or solar installations. For example, there used to be 18 banks and financial institutions willing to fund wind and solar farms. Now there are only four. A wind developer, Renewable Energy Systems Americas, projects it will only built 50% as many wind installations this year as in 2008 due to the credit crunch.

Another way of looking at the issue of global warming came to light in 2008. Oilman T. Boone Pickens pointed out that we are sending \$700 billion a year overseas to buy oil from sometimes questionable governments, supporting such regimes financially. He strengthened the argument for alternative energy sources by adding a new facet to the economic incentives to do so.

While the official position of the former Bush administration was a retreat from mandatory reductions in GHG emissions, several laws were signed by the former president to provide incentives to businesses to build non-GHG emission plants. Two of the bills provide incentives mainly for new nuclear power plants, Nu-

### United States: Health

Birth Rate	14/1,000
Death Rate	8/1,000
Life Expectancy - Male	75
Life Expectancy - Female	81
Infant Mortality	6/1,000
HIV/AIDS Cases	950,000
HIV/AIDS Prevalence Rate	6/1,000
Tuberculosis Rate	4.3/100,000

clear Power 2010 Program and the Energy Policy Act.

No new nuclear power plants have been built in the US for 20 years. The plants are not cost effective to build. They cost 60% more to construct than a coal or natural gas plant. Several plants were cancelled in the 1980s due to a strong activist anti-nuclear movement in the US. However, due to global warming, there is renewed interest in nuclear power. Such plants have the advantage of not needing to burn fossil fuels to operate. With the incentives provided in the Nuclear Power 2010 Program, two new applications for nuclear power plants were accepted in 2007.

The question that has to be asked of nuclear power is, are we substituting short-term advantages for long-term problems? Nuclear energy requires the storage of radioactive waste for thousands of years. No nuclear power country has yet been able to open a long-term storage facility. Many predict that the US storage facility in Yucca Mountain, Nevada will never open. Recognized environmental leaders France and the UK have been quietly polluting the English Channel with radioactive runoff from their plutonium reprocessing plants.

H.R. 6, the Energy Independence and Security Act of 2007 (December 2007) was another new law to address global warming. It increased the fuel economy standards for automobiles 40% by 2020. It was the first required increase in 30 years. Prior to the 2008 bailout of the US automobile companies, they were strongly opposed to this law.

President Obama has strongly declared that Mr. Bush did not go far enough to address global warming. In his second week in office, President Obama reversed the environmental policies of the former Bush administration. He signed two executive orders concerning greenhouse-gas emissions. One of the orders instructed the EPA to reconsider a ruling by the Bush administration in 2008 that barred California from regulating greenhouse gas emissions from cars. He has also appointed a respected negotiator for future discussions on the Kyoto Protocol and subsequent international agreements on global warming.

President Obama dubs his energy plan, "New Energy for America" His plan will: 1) help create five million new jobs in the US by strategically investing \$150 billion over the next 10 years to aid private efforts to build a clean energy future; 2) within 10 years, save more oil

than the US currently import from the Middle East and Venezuela combined; 3) put one million plug-in hybrid cars -- cars that can get up to 150 miles per gallon -- on the road by 2015; 4) ensure 10% of US electricity comes from renewable sources by 2012, and 25% by 2025; 5) implement an economy-wide cap-and-trade program to reduce greenhouse gas emissions 80% by 2050.

The US health care system consists of both public and private facilities and services, including public and private insurance systems to fund them. The US faces two great challenges in health care. One is to make health care services available to segments of the population that have not been able to afford private insurance. The other is to successfully fund services to an aging population.

President Obama has made health care reform a priority for his administration. He states that "on health care reform, the American people are too often offered two extremes -- government-run health care with higher taxes or letting the insurance companies operate without rules...these extremes are wrong, and that's why (he) proposes a plan that strengthens employer coverage, makes insurance companies accountable and ensures patient choice of doctor and care without government interference." The president has already signed a health care law that will extend coverage to more children.

While the new president's priority on health care is admirable, it is unclear if the economic recession will allow him to devote the time and resources to his goals. Republicans and businesses alike are objecting to the billions of dollars it would take to provide health coverage for all Americans.

Another possible hitch was the withdrawal of former senator Tom Daschle as his health and human services secretary. The author of a book on health care reform, Mr. Daschle would have spearheaded Mr. Obama's health reform plan.

Currently, the US spends 15.2% of its GDP on health-related expenditures. About 55% is paid from private sources. Most funding for public spending comes from payroll taxes shared by both employers and employees or from taxes on the self-employed. Limited government programs exist for financing medical care for the elderly or the indigent.

The inequity in access to basic health care services is reflected in infant mortality rates. The rate for the US as a whole is about 7 per 1,000. The rate for African-Americans is over 14 per 1,000. A similar discrepancy exists for all basic health indicators.

The average life expectancy for the overall population is 78 years. The incidence of HIV/AIDS among the adult population is 6 per 1,000. The incidence of tuberculosis is 4.3 per 100,000.

## Economy

The US has the world's largest and most technologically advanced economy in the world. Until the current financial crisis, individuals and business firms made most of the economic decisions instead of the federal government. This gives businesses far more freedom and flexibility than in most countries. However, we have seen recently that under-regulation can have a tremendous downside.

The rise in computers and technology of the past 30 years has created a "two-tier" labor market. Many low-skilled jobs that could be exported to other countries have made that transition. Thus Americans that lack education and professional skills will fall further behind in pay raises, health insurance coverage, and other benefits. Since 1975, practically all the gains in household income have gone to the top 20% of households. This means that the gap between rich and poor is widening in the US, just as it is in many other countries. One of President Obama's goals is to make sure the great wealth this country generates is shared on a more equal basis.

<b>United States: Economics</b>	
GDP (trillion)	\$14.58
GDP Per Capita	\$48,000
GDP Growth Rate	1.4%
Unemployment	5.7%
Inflation Rate	4.2%
Exports (trillion)	\$1.4
Imports (trillion)	\$2.19
External Debt (trillion)	\$12.25

Long-term problems with the American economy include inadequate investment in infrastructure, rapidly rising medical and pension costs of an aging population, and sizable trade and budget deficits. On the positive side, the US has been experiencing large gains in productivity and the unemployment rate, while rising in 2008-09, averages a lower rate than most EU countries.

According to the Bureau of Economic Research, the US officially entered a recession in December 2007. This announcement was based on job losses and other factors. As of December 2008, the GDP shrank 3.5% in the fourth quarter. Big-ticket items like cars, furniture, and appliances suffered a whopping 22.7% decline.

The problem began in 2006 with a housing market downturn. This created a domino effect, causing mortgage lenders to fail and a lack of available credit spread across many industries. As homes started to decline in value, consumers began to curtail their spending. As consumers cut back on purchases, companies stopped producing as many goods. With less production, workers were laid off. As US citizens lost jobs, more of them struggled to make their mortgage payments. Mortgage default rates rose, adding to the existing credit woes. Finally in the fall of 2008, banks and a few other housing-related companies began to fail. So that they did not drag down the rest of the economy, the US Congress approved a \$700 billion bailout for ailing financial firms. This is the biggest intervention in the markets since the Great Depression of the 1930's. Some banks have been absorbed by banks that were not as exposed to the housing meltdown. Others have taken loans from the federal government as part of the bailout. While most economists agree intervention was needed, this has compromised the independence of the US banking system. The US has had one of the most free market economic systems in the world for the past 20 years. Tighter regulation is almost inevitable.

Due to the problem with the availability of credit, it is projected that the US economy will not begin to show a recovery until mid or late 2009. Even when it recovers, it is expected to take one-three years for the economy to show anything but weak growth. One bright spot is that the number of home sales grew 6.5% in November and December of 2008. It is assumed this was due to people picking up bargain-priced properties.

When private demand is collapsing, the government becomes the spender of last resort. The bailout has flooded the credit markets with money, but banks still are not lending. This is partly because the worth of the assets they hold (properties) has declined to the point that the net worth of the banks has fallen to levels that makes it unsafe for them to lend. At this point, the bailout money is only keeping them from failing altogether. Unfortunately, most experts believe that another round of bailouts will be necessary soon for US financial institutions. Any additional sum will be added to the growing budget deficit.

Companies that take bailout money are required to pay the money back eventually, with interest, once the economy recovers. But if a company fails, the government may regain a percentage of loaned funds or none at all. So the bailout creates an inherent risk for the US taxpayers.

To further jumpstart the economy, it is expected that the US government will pass an \$800-\$900 billion stimulus plan in February 2009. Even though this will be the largest stimulus in history, some experts are saying that the plan is too small. The recession is likely to idle almost \$1 trillion of resources (buildings, equipment and people) this year and next. But an \$800 billion plan will only fill 1/2 this hole. Another criticism is that the bill was put together in a very partisan way. Republicans contend that it is riddled with wasteful spending and pork-barrel special interest payoffs. Spending on infrastructure is a good way to stimulate an economy. But the argument is that there is not enough infrastructure spending in the stimulus plan. Republicans would also prefer to see more tax cuts. President Obama is open to adding tax cuts as long as they specifically encourage spending.

The debate surrounding the stimulus plan is over what type of funding, besides infrastructure, will create jobs. This is a tempting opportunity for a new president to build the new economic structures he envisions. It is rare to have such a chance to spend such large sums of money in one fell swoop. It is probably inevitable that some projects high on president Obama's agenda will be folded into the stimulus plan.

The credit problems that began with the US have spread to many other countries. It is assumed that America's trading partners will be negatively impacted by the US recession. Countries like China and Japan, which rely

on exports to fuel their economies, will be impacted the most, unless their citizens agree to buy more goods. Many other countries are developing bank bailouts and stimulus plans of their own.

Because of the size of its domestic economy, the US is not as dependent on international trade for its economic prosperity as these other countries. Nevertheless, the US is the world's foremost champion of reducing barriers to international trade. American firms face higher barriers to enter other country's markets than foreign firms face entering US markets. "Buy-American" provisions in the US stimulus plan drew howls of protests internationally. Countries began to threaten to retaliate by throwing up trade barriers for American imports. American exporters are concerned about retaliation against their exports. While President Obama agreed to soften the exclusionary provisions, it is known that other countries are quietly putting domestic-purchasing requirements in their own stimulus plans.

America's trade deficit has been growing for many years now. This will continue to happen as long as the US imports more goods than it exports. The trade deficit reached a staggering \$847 billion in 2007. However, not all the news is negative. With the lower price of the dollar, exports grew twice as fast as imports in 2007, for the first time since 2005. In the last three months of 2007, growing exports and shrinking imports added nearly a percentage point to the annual rate of GDP growth.

The US is a member of such trade agreements as the World Trade Organization (WTO) and the North American Free Trade Association (NAFTA). For many years the former Bush administration tried to negotiate a free trade zone throughout the Americas. The US would benefit tremendously from the lifting of trade restrictions around the world because US multinational companies are big enough and advanced enough to compete successfully in foreign markets. However, many Americans fear that international trade leads to job losses in the US, especially in manufacturing, which can often be done more cheaply abroad. Critics also complain that it is not possible for American companies to compete with developing countries that have less stringent health and environmental standards than America has. This conflict of interest has led to the US adopting a dual free trade policy. On the one hand, the US supports free trade and the initiation of a new round of global trade negotiations. On the other hand, the US

still protects many of its domestic industries through subsidies and tariffs on imports. One example of a protected domestic industry is the steel industry. The US imposes tariffs of up to 30% on imported steel. This has angered the international community. Complaints have been filed at the [WTO](#) by other countries or groups such as the [EU](#), China, Mexico and Japan. So far these rulings have been against the US. The US government counters that other countries are dumping steel in the US, by subsidizing it at home. This is threatening the jobs of American steelworkers. Many also argue that imported steel can be inferior in quality. The quality of steel in load-bearing structures such as bridges and high rises is critical. However, even American car companies are upset by the US government's position. They contend that it has cost them an extra \$3 billion since 2004.

Regarding the financing of its economy, up until 2006 the United States was able to raise much of the capital it needed through its financial markets, they are the most developed and dynamic in the world. But beginning that year, a housing meltdown caused by upward interest rate adjustments on subprime loans has infected the US credit markets. Such interest rate adjustments can quickly increase the mortgage rate on adjustable rate loans, making them unaffordable. Subprime loans already carried a greater risk for both buyers and lenders, for the buyers had blemished or unconventional credit histories. Many feel that companies that collect fees when a house is sold, from title companies to home appraisers, were too eager to make the sale and failed to use good business judgment when qualifying some-time risky loan-to-income ratios for homeowners. The counter argument is that the practice extended credit to people who otherwise would not have access to the credit market.

Only about 6% of home loans in the US are considered subprime loans. About 20% of subprime loans are in foreclosure or payments have fallen behind. While a high number, this also means that 80% of subprime homeowners are currently keeping up with their payments. In one interesting example from San Francisco, some first time buyers were given an eight-hour training program on how to select a mortgage. Of those who took the class, 100% avoided subprime loans. Currently only one individual's home is in foreclosure who took the training. So when provided with good information, first-time home buyers are better able to judge the risks of the home loans that are available.

Stock prices also fell, a downward spiral influenced by the credit shortage. Stocks of the Dow Jones Industrial average fell by 33.8% for the year 2008. In monetary terms the Dow Jones Wilshire 5000 Index, which covers most US stocks, lost \$6.9 trillion in capitalization for 2008. Where did this money go? TrimTabs Investment Research reports that between 2003 and 2007, the market value of all stocks traded worldwide grew from about \$20 trillion to \$45 trillion. Only about \$1.5 trillion in cash went into the market. Debt funded some of the remaining increase. But most of the stock value was "perceived" value, created by high demand. For example, the iPhone has perceived value, so people are willing to pay \$100s more for it than a comparable phone. With stocks, once people stop buying, demand falls. When demand falls, perceived value, which only exists on paper, evaporates.

Stable, liquid financial markets and banks play a vital role in supporting the economy by making credit available to consumers and businesses. The flexibility of the regulatory agencies is being tested by this crisis. For example, the \$700 financial bail-out package, while necessary, tends to reward borrowers and lenders who make poor economic decisions, US taxpayers will end up paying for the poor or greedy decisions of a few. And by bailing out the banks this time, this will encourage even riskier economic behavior in the future.

Another question is, what is happening to the people in danger of losing their homes? The Center for Responsible Lending points out that published results by Hope Now-a consortium of mortgage lenders and investors established to assist struggling homeowners-clearly show that the foreclosure crisis continues to overwhelm the industry's voluntary attempts to renegotiate unaffordable home loans. Even worse, a recent study shows that the voluntary loans modifications by lenders typically are increasing a borrower's principal debt, and that many modifications are not even reducing monthly payments.

What everyone can agree on is that reforms are needed. The US is still in the middle of this situation, and it will take some time for the housing and credit markets to recover, and for reforms to be identified and put in place. Banks have already tightened their lending requirements.

One bright spot is that Americans began to save more money and reduce their debt in the later months of 2008.

Savings rates increased from about 1% to 3.5%. Countries like China and Japan have individual savings rates closer to 30%, which helps fuel their economies. The dilemma for the US is that the more Americans save their money, the less they have to spend to stimulate the economy. The world has gotten used to an America that promotes consumerism over savings. But it was a form of consumerism gone wild. Americans not only did not save their money, but they borrowed on their assets to fuel their spending. When housing prices and stock prices fell, such borrowing became their undoing, and contributed to the overall economic meltdown.

For the first time ever, Americans reduced their household debt in 2008. The drop in the debt rate was 0.8% for the July-September period. While some of the reduction can be contributed to caution on the part of consumers, it was also due to the credit squeeze, which made it harder for Americans to borrow money.

The final source of funding for the US economy is foreign direct investment. Under normal times, the US is the world's largest receiver of FDI, both through its financial markets and through direct investment by foreign individuals and organizations. As providers of foreign investment, US companies invest heavily overseas. They are a major source of foreign investment in many Latin American economies. The US also provides money and policy guidance to international lending institutions such as the International Monetary Fund and the World Bank. The US opposes the idea that developed countries must give large amounts of aid and technology to developing countries. Instead, it advocates economic reforms and good government in developing countries.

America had a large budget deficit in the 1980s but the 1990s saw several years of large budget surpluses that were projected to continue for years. However, the slowing economy, former President Bush's large tax cut, the wars in Afghanistan and Iraq, and increased government spending connected with 9/11 have meant a return to deficit spending. With the \$700 billion bailout and the \$900 billion stimulus plan, the deficit will be over \$1 trillion for 2009. Many economists are concerned that such large budget deficits will eventually lower American's standard of living. The interest payments to pay down this debt will absorb much of the US budget that could go for needed social programs.

## Security

Having emerged victorious from the Cold War, the United States entered the 21st century as the world's unrivaled military, economic, and technological power. Former Secretary of State Madeleine Albright referred to the US, with some justification, as “the essential country” in any diplomatic initiative.

America has troops stationed all over the world, from Saudi Arabia to South Korea, from Germany to the island of Diego Garcia in the Indian Ocean. It is one of the world's seven acknowledged nuclear powers and, with the demise of the Soviet Union, has by far the world's largest and most advanced nuclear arsenal. As a permanent member of the UN Security Council, it has effective veto power over Council actions.

The United States faces formidable security challenges now and in the coming decades. America's widespread interests mean that it can be dragged into conflicts worldwide. There is growing resentment of its power and policies by peoples around the globe. New challenges, including the rise of China and the spread of radical Islamic fundamentalism, provide American policy makers with difficult and important decisions. No other country equals America's wealth and power, but the challenges facing it are vast and complex.

The United States played a leading role in the coalition of countries that prevailed in WWII. Peace was short-lived, however, and the US quickly found itself in a “cold” war with its WWII ally, the Soviet Union. Tensions centered on the division of Europe into Soviet and America zones of influence. Eastern countries formed the Warsaw Pact security alliance and most

### United States: Security (Armed Forces)

Military expense as % of GDP (2005)	4.06%
Military expenditures (millions)	\$370,700
Military expense per capita	\$1,231.56

western ones joined the North Atlantic Treaty Organization (NATO).

Conflict was not limited to Europe, however, and America fought communist governments in Korea (1950-53) and Vietnam (1963-75). The US also supported anti-communist regimes around the world. These included the Nationalist party in China (and then in Taiwan) and governments in countries as diverse as Zaire (now the Congo), Greece, the Philippines, Indonesia, and most states in Latin America. This policy led to the support of a number of authoritarian regimes and the occasional use of CIA-backed revolts to replace regimes considered hostile to US interests.

The fall of the Berlin Wall in 1989 suggested that a more peaceful era was at hand, but once again complications emerged. In the Persian Gulf War (1991), the US led a broad coalition of countries in a major military action to turn back Iraq's invasion of Kuwait. Later the US found itself militarily involved in the Balkans, principally in the Kosovo campaign (1999). American foreign policy struggled in the 1990s to find a new focus. During this period, America pushed for the further eastward expansion of NATO and forged closer security ties with Japan.

US foreign policy under former President Bush moved toward a unilateralist (one-sided) approach to security issues. This was reflected in his administration's plans to proceed with missile defense and the scrapping of the ABM Treaty with Russia. Also, the administration has refused to seek ratification of international treaties on the banning of land mines and biological and chemical weapons.

The US relationship with Russia has become strained over American plans to base missile defense shields in Eastern Europe and the expansion of NATO into countries Russia thinks of as in its sphere of influence. The country has threatened to aim missiles at Ukraine and Georgia if they join NATO. To prove its point, the Russian government invaded Georgia in 2008. After three weeks of international outcry, most of the Russian troops withdrew. But the US and its allies remain wary of Russian intentions in the former Soviet neighboring states.

The events of 9/11 have had a dramatic and far-ranging effect on American security policy. In the weeks and months immediately following the World Trade Center

attacks, anti-terrorism became the central foreign policy focus of the former Bush administration. That policy led the US to mobilize allies, and in October 2001, to militarily attack Afghanistan and the Taliban regime. For several years the Taliban had harbored Osama Bin Laden and the al Qaeda leadership and terrorist training camps. The most intense part of the war concluded in a few weeks, but US forces in Afghanistan still continue in 2009 to search for and eliminate al Qaeda leadership that escaped the initial attack. The US and its allies helped to establish a democratic government in Afghanistan. But the Taliban are making a comeback. NATO is now in charge of military support in Afghanistan, while special forces from the US and a few allies continue the hunt for al Qaeda and Osama Bin Laden. President Obama plans to double the number of American troops in Afghanistan. Currently there are about 30,000 US troops in the country.

The former Bush administration adopted a new policy of pre-emption when dealing with terrorism. This doctrine allows the US to act unilaterally, if need be, to anticipate or prevent dangerous situations from spiraling out of control. It provides justification for the US to strike militarily any place in the world before actual conflict occurs, when certain key conditions exist. Thus in August 2002, the US applied this policy of pre-emption to Iraq. After the 1991 Gulf War, UN weapons inspectors had searched for and destroyed Iraq's weapons of mass destruction. Then Iraq successfully evicted the UN team in 1998. The US government said that Iraq had refused to comply with the UN terms of its Gulf War surrender. Iraq did not disarm unilaterally nor did it stop development of its weapons of mass destruction. Thus the US submitted a proposal to the UN seeking Security Council approval for a resolution that would require Iraq to disarm, once and for all. The resolution included the provision that "serious consequences" (understood to mean military intervention) would occur if Iraq failed to disarm voluntarily. Following extended debates in the world community, unanimous Security Council approval was obtained in November 2002 for Resolution 1441. It reinstated a weapons inspection team to verify Iraq's compliance with all previous resolutions to disarm.

From the moment 1441 was signed, there was disagreement over the length of time Saddam Hussein would be allowed to disarm. The US and its allies claimed that Hussein had 12 years to demonstrate his cooperation. They preferred a regime change to save the Iraqi

## United States

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people from further suffering under punishing economic sanctions imposed to pressure Hussein into complying with UN mandates. Instead of dealing with the shortages, Hussein let his people starve as he built marble palaces.

The US and the UK positioned weaponry and large numbers of troops in the region. Frustrated but what they perceived as stalling on the part of Saddam and a lack of agreement in the Security Council, the US coalition invaded Iraq in March 2003. The war was over quickly, and a democratic Iraqi administration was elected. But democracy did not quickly become the grand idea that all Iraqis could embrace. Iraq is a country made up of ethnic and religious communities. Under Saddam, the minority Sunnis were in control. But democracy is rule of the majority. With the majority Shiites holding most of the elected power, the disenfranchised Sunnis and the most radical Shiites began a spiraling war of insurgency against each other and the foreign invaders.

Al Qaeda began importing members to Iraq from all over the Middle East to wage war against everyone. In an attempt to prevent the problems in Iraq from spiraling into a civil war, in January 2007, a “surge” of US troops (about 22,000 strong) were brought into the “hot spots” such as Baghdad. They were reassigned to create small units in neighborhoods like police stations instead of barricaded in large military bases outside of town. Two other important changes were made: 1) radical Shiite cleric Muqtada al-Sadr agreed to a cease fire and 2) while unplanned, Sunni tribesman, tired of al Qaeda indiscriminately killing everyone, asked to work with the US (The Awakening Councils).

The surge, the redeployments, and the work of the Awakening Councils are credited with significant reductions in violence in Iraq. In January 2009 Iraq held peaceful elections for the first time. While US soldiers deaths are down significantly, in total, more soldiers have been killed in Iraq than the number of civilians killed in the World Trade Center terrorist attack.

President Obama ran on the pledge to bring American troops home from Iraq. Not wanting to be trumped by an American President, the Iraqis passed their own declaration to have the American troops out of Iraq by 2010. While the Iraqi security forces are stronger and Iraqi citizens are exhausted by war, bringing the US troops home too quickly could reverse some of the gains made.

This could result in a disruption of oil exports and destabilize the region.

While the US has been tied up with the war in Iraq, there are two countries North Korea and Iran, which have been busy pursuing nuclear programs with suspicious intentions. North Korea engaged in nuclear blackmail with the US and its neighbors in exchange for security guarantees and development aid for its impoverished country. After six years of discussion, in February 2007, North Korea agreed to freeze production of plutonium and to allow the International Atomic Energy Agency inspectors back into the country. In return, the US, China, South Korea, and Russia agreed to provide about \$400 million in food and fuel aid, plus security guarantees.

Late in 2008, North Korea's leader Kim Jong II refused to allow inspectors to take nuclear samples out of the country. This froze the agreement and started a domino effect. China reduced its food aid to the country and South Korea refused to provide it free fertilizer. North Korea is struggling with food shortages, so these moves will make its crop shortages worse. But the unpredictable Mr. Kim has extended an olive branch to President Obama. In a New Year's message, he said he was willing to work with countries that are friendly towards North Korea and asked if a country representative could attend Mr. Obama's inauguration.

As for Iran, in February 2003, the IAEA concluded that Iran is accelerating a program to develop nuclear fuel that can be used to develop nuclear weapons. The Iranian government has stated it needs the program for energy needs. Many find this reasoning puzzling since Iran is one of the world's largest oil producing countries. The Security Council is on its third round of economic sanctions on Iran.

The US war on terror has complicated relationships with America's Muslim allies, including Egypt, Saudi Arabia, and Indonesia. These countries face serious terrorist threats of their own from radical Islamic elements in their societies. They need only look at the situation in Pakistan to see what problems an overt partnership with the US can cause. Former President Mushaarf's willingness to work with the Americans to fight insurgents in his country was a contributing cause to his loss of the Pakistani presidency.

President Obama has already extended an olive branch

to Muslims around the world. He has signed an executive order to reverse some of the abusive interrogation tactics allowed by the Bush administration. Many feel such tactics helped fuel terrorist recruitment against the US. Mr. Obama has also announced that the prison at Guantanamo Bay, Cuba will be closed within the next 12 months.

While the international situation is receiving lots of attention, the US war on terror also has implications on the domestic front. Air travel security has been greatly tightened. The Department of Homeland Security was established. The mission of DHS is to prevent terrorist attacks within the United States, reduce America's vulnerability to terrorism, and minimize the damage from potential attacks and natural disasters. Twenty-two previously separate domestic agencies have been merged under DHS.

In order to increase the government's enforcement mechanisms to identify, detain, and prosecute suspected terrorists, Congress passed a bill (dubbed the Patriots Act) only a month after the September 11 terrorist attacks. It has allowed the FBI to monitor hundreds of young, mostly Muslim men in the US in the belief that

al Qaeda-trained terrorists remain in the country, awaiting instructions for a possible terrorist attack. The investigations have led to the arrest of individuals in New York, Portland, Seattle, Chicago, and Detroit. This would not have been possible without the enhanced authority the Patriot Act allows. But a bill that would have expanded the powers given to law-enforcement officials, nicknamed Patriot Act II, was defeated. Many already feel that the original Patriot Act can potentially curtail individual freedoms and its lack of oversight invites abuse. In this post-9/11 world, the question remains how to protect the rights of all individuals while attempting to prove or prevent terrorist activity.

The government believes it may have prevented several terrorist attacks since 2001. But a case of domestic terrorism with a possible connection to 9/11 remains unsolved. In Fall 2001, letters containing deadly anthrax spores were mailed to members of the media and the government. The contaminated letters were traced to a mailbox in New Jersey, but no arrests have been made. In response, Congress has increased security measures for its member's incoming mail. It has moved its mail screening to an offsite location where the mail undergoes additional testing.