



EconoMag

The show that demystifies economics

The US Economy:

The World's Economic Superpower©

by Pierre Vercueil

Hi there and welcome back to a brand new episode of Economag here on EnglishWaves. Today we travel west to the world's leading economy, that of the United States. Even though the industrial revolution first took place in Europe, it soon spread to America where successive waves of European immigrants, together with local indigenous peoples from Mexico, Canada and the greater United States forged the greatest economy the world has ever known. US economic dominance became especially pronounced post-World War II in the wake of an economically devastated Europe. It comes as no surprise that for long it's been said when the US sneezes, the rest of the world catches a cold!

The United States is the world's largest national economy in nominal terms, representing an enormous 22% of nominal global GDP! Essentially this means that if we took the US dollar value of all the goods and services produced by everyone in the world in a given year, the US accounts for almost a quarter of it. That's impressive and shows us why the US is regarded as the most important market for anyone who's serious about selling a product or service!

Before we delve deeper into the US economy, let's consider why global GDP is almost always measured in US dollars. It's simple really: the US dollar is considered the world's foremost reserve currency – think of it as a benchmark, a standard against which other currencies can be assessed. The U.S. dollar is the currency most used in international transactions, several countries also use it as their official currency, and in many others it is the de facto currency, meaning it's not the official state currency, but people prefer to use dollars above anything else. For a long time, Zimbabwe was a good example of what we call 'Dollarization', as its own national dollar became practically worthless in the face of hyperinflation. Another way of thinking about an international reserve currency is also comparing it to an international language like English – you can go almost anywhere in the world and expect people to speak it as English unifies transactions between people and countries alike.

But what exactly makes the US economy tick? The United States has a mixed economy, meaning it produces an abundance of primary and manufactured goods as well as

services such as banking and culture. Let's start with the primary sector: the US is the world's largest producer of oil and natural gas. In addition, it is one of the premier trading nations globally due to its role as the world's largest manufacturer, representing 20% of global manufacturing output. The US mainly specializes in high value-added manufactured goods such as engines, chemicals, airplanes and cars. The US constitutes the largest consumer market in the world, with the average household consuming five times more than Japan's.

The US naturally has one of the world's most important and influential financial markets making it an important global investor. Foreign investments made in the US amount to almost 2.4 trillion US dollars, whilst American investments in foreign countries total over 3.3 trillion. The New York Stock Exchange is also by far the world's largest stock exchange by market capitalization. (Market capitalization is a measure of any business or exchange's size whereby the number of shares or stocks issued are multiplied by the price for each one) As far back as 2008, the combined value of the New York Stock Exchange exceeded 10 trillion US dollars!

Even though the US economy went through an economic downturn following the financial crisis of 2008, it has largely recovered whilst other economies such as the Eurozone, and more recently China, continue to struggle. In the current global climate, the US should continue to host the world's leading economy for the foreseeable future. Join us again next week for a brand new episode of EconoMag here on EnglishWaves.