В. И. Иванов
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Английский язык в экономике, бухучете и банковско-финансовой деятельности

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«Издательские решения»

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Сборник текстов на английском языке, которые объединяет одна область знаний — экономика. Вошедшие в него материалы взяты в том числе из оригинальных англоязычных открытых интернет-источников. Тексты сгруппированы по разделам: макроэкономика, бухгалтерский учет, инвестиции и банковское дело, коммерческие контракты. Пособие предназначено для студентов экономических и лингвистических ВУЗов, а также для всех лиц, желающих совершенствовать свои знания английского языка в области экономики.

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Содержание

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От авторов

Данная работа представляет собой сборник текстов на английском языке, которые объединяет одна область знаний – экономика. Вошедшие в него материалы взяты в том числе из оригинальных англоязычных открытых интернет-источников, и их тематика связана с различными аспектами экономики США.

Для удобства тексты сгруппированы по следующим разделам: макроэкономика, бухгалтерский учет, инвестиции и банковское дело, коммерческие контракты. Это позволяет пользователям выбирать интересующую их тематику текстов.

Предлагаемый сборник текстов может служить пособием по совершенствованию английского языка. Для этой цели после некоторых текстов следуют авторские упражнения на закрепление предлагаемых материалов, а также перечень полезных слов и выражений, которые можно использовать в своей повседневной деятельности. Включенные в пособие упражнения, иллюстрации и глоссарии предназначены для лучшего понимания прочитанного, закрепления лексического материала и терминологии, а также для расширения словарного запаса учащихся с целью практического применения полученных знаний на практике.

Пособие предназначено для различных категорий лиц, изучающих английский язык, в том числе для студентов экономических ВУЗов всех специальностей, для студентов лингвистических ВУЗов, в частности переводческих факультетов, для специалистов-экономистов, а также для всех лиц, желающих совершенствовать свои знания английского языка в области экономики, особенно, если планируется применение этих знаний в работе за рубежом или в сотрудничестве с иностранными компаниями.

Отдельно хотелось бы выделить раздел B: Accounting, где часть текстов простым и доступным для любого читателя языком объясняют основные цели, понятия и инструменты бухучета, которые на первом этапе чрезвычайно сложны и непонятны людям, не связанным с практикой бухучёта или только начинающим его изучать.

В раздел D: Sales Contracts включены в том числе образцы действующих или исполненных контрактов белорусских предприятий со всеми приложениями. Почти всегда их перевод на английский язык выполняли сами белорусские предприятия. К сожалению, качество этих переводов оставляет желать лучшего. В данный сборник они включены в качестве примерного контракта. Желающие могут попытаться их откорректировать и использовать как шаблон применительно к специфике своих предприятий и организаций.

Составители данного сборника являются авторами только предложенных в разделе A: Macroeconomics упражнений. Авторы/источники текстов указаны в начале/конце текстов, в списке использованной литературы, а также в гиперссылках.

A: Macroeconomics

Text 1. International commerce: From the Civil War to the Present

In 1866 America was a net importer of merchandise, as it had been in most years before the Civil War. During the war, tariffs had risen, and the depreciation of the dollar had offered an added barrier to imports. On the other hand, America's major export, raw cotton, had fallen off dramatically.

The tariffs imposed during the Civil War were retained, and throughout the late nineteenth and into the twentieth century (to 1913), the pattern was one of still higher duties. Behind a tariff wall, American industry flourished. Goods formerly imported were now made in America, and imports changed from manufactured goods to the raw materials needed to make them (such imports typically came in duty-free). Tariffs notwithstanding, total imports rose as the American population grew and demand increased.

In the aftermath of the Civil War, raw cotton resumed its traditional role as America's largest export good (from 1803 to 1937, the Civil War and two other years excluded, unmanufactured cotton was America's largest merchandise export). The country was also an important exporter of grain and mineral products. Yet, what most characterized the growth of American exports in the late nineteenth and early twentieth centuries was the rise of manufactured goods exports: *refined* petroleum, machinery, and other manufactured goods. Some exports were goods that had previously been imported, but usually they were mass-produced products made by methods not yet used abroad (such products included sewing machines, harvesters, and then, automobiles). Exports increased rapidly as American goods became highly competitive in world markets.

Indeed, as imports rose, exports rose even faster with the consequence that (at first sporadically and then consistently after 1889) exports always exceeded imports until 1971. When the balance of trade remained consistently positive, Americans gradually recognized that a high tariff policy was no longer necessary or even desirable. In 1913, with traditionally low-tariff Democrats in control of Congress, the Underwood Tariff lowered duties substantially. International commerce expanded faster in the late nineteenth and early twentieth centuries than did worldwide output, the gold standard aiding in the growth.

American exports soared in the aftermath of World War I, as Europe depended on the United States for aid in recovery. In 1919 U.S. exports reached a level that would not be exceeded until 1943. There was another change of importance. Most U.S. trade had been financed before the war with sterling acceptances (credits denominated in pounds sterling). During World War I, dollar acceptances came into use. This meant Americans were financing their own trade. A third change was that with Republicans in power in the 1920s, the notion of reduced protectionism floundered (in 1922, the Fordney-McCumber Tariff raised duties, especially to protect new «infant» industries such as chemicals). When, after the 1929 crash, Congress was trying to deal with the downturn, it was easy to blame imports, and the 1930 Smoot-Hawley Tariff was exceptionally high.

In the 1920s, country after country that had abandoned the gold standard during World War I had sought to restore it, but the restoration proved temporary. In 1929–1933 world output declined; countries devalued their currencies to encourage exports, yet world trade plummeted. The 1930 Smoot-Hawley Tariff provoked retaliation: it reduced American imports, but owing to new foreign duties on U.S. products, American exports fell faster. In the 1930s, new barriers to U.S. exports proliferated – not only foreign tariffs but exchange controls, quotas, and a whole range of other impediments to trade. Currencies fluctuated against one another, creating unpredictable conditions.

In 1933 the United States devalued the dollar and in 1934 attempted to spur exports with reciprocal trade legislation. But by then the world economy was in such disarray that these efforts did little good. In the second half of 1940 the United States, in response to Japanese militarism, started to restrict U.S. exports to Japan and in August 1941 sharply curtailed the flow of crude oil and gasoline to that country. Many believe that these trade sanctions provoked the Japanese attack on Pearl Harbor.

World War II requirements revived international trade and, specifically, American exports. In the aftermath of that war, America emerged as the world's economic leader, dedicated to developing a world of greater and freer trade. Its exports exceeded imports, because its goods were highly competitive in world markets. America was strong and physically unimpaired by the war; other industrial countries were in ruins. The United States was committed to lead and to shape a postwar world where trade could serve as a generator of economic growth. The United States was active in the formation of the International Monetary Fund, designed to provide a basis for the return to stable currency rates and to facilitate international payments; international trade could not resume if there were not adequate payment mechanisms. Likewise, the United States participated in the General Agreement on Tariffs and Trade (gatt), to assist countries in eliminating the then ubiquitous obstructions to international commerce. The Marshall Plan assisted both European recovery and American exports to Europe.

In 1962 Congress passed a major trade law, and the United States sharply lowered its tariffs. The United States as the world's leader believed that it had little to fear from imports and everything to gain from demonstrating its dedication to freer trade. The nation continued to participate in gatt, and the Kennedy round of trade negotiations (completed in 1967) was particularly successful in encouraging worldwide tariff reductions.

Yet as trade barriers fell in the 1960s, America began to experience balance of payments deficits; goods exports still exceeded goods imports (the trade balance), but the net exports did not offset U.S. foreign aid, military expenditures abroad, and large foreign investments. In 1971, when it appeared that America would have its first twentieth-century trade deficit, President Nixon devalued the dollar. After 1973, worldwide currencies floated. Consistently, American imports began to exceed exports, and the country was now importing a wide range of manufactured products. For the first time in its history, on a mass market basis, Americans were buying foreign cars, foreign hi-fi sets, and foreign steel. And the nation's dependence on high-cost oil imports made the trade deficit even worse. By the 1980s there were few product categories where American exports exceeded imports (these exports included wheat, chemicals, aircraft, and parts).

Most economists thought the fluctuating dollar would in time eliminate the trade deficit (as the American dollar fell, U.S. exports would become cheaper and thus more competitive; more costly imports would be reduced). The trade deficits, however, continued, and the dollar fluctuated wildly. Finally in the 1980s many economists recognized that floating exchange rates were not the answer, but attempts at currency stabilization proved difficult. Foreign markets for American agricultural products had been lost in periods of the strong dollar and were hard to recapture. As U.S. imports of manufactured goods increased, numerous discussions focused on America's competitive position. Demands mounted for protectionism – to save jobs. The 1988 Omnibus Trade and Competitiveness Act allowed the president to impose sanctions on individual nations that engaged in unfair trade practices.

In the 1970s and 1980s, Americans groped for ways to become more competitive in the world economy and, in turn, to deal with the persistent excess of goods imports over exports. The continuing trade imbalance, particularly with Japan, spurred controversy. Was it the fault of Americans: low productivity increases, absence of goods desired abroad, lack of attention to exports? Was it that the dollar had not declined sufficiently to make U.S. goods attractive to foreign buyers? Or, was it that America's trading partners acted in ways that were prejudicial to U.S. exports? Perhaps it was all of these. Clearly, however, American producers and consumers chose to buy imports, often preferring goods made abroad to those manufactured at home. The rise of imports relative to exports was critical to the trade deficit.

Mira Wilkins

EXERCISES

Exercise 1. Say if each of the following statements is true or not.

1. In the 19th century America was a net exporter of merchandise.
2. In the early 20th century America imported grain and mineral products.
3. U.S. exports increased after WWI and WWII.

Exercise 2. Answer the questions.

1. How did high tariffs and duties influence American economy in the late 19th century?
2. When did the U.S. exports reach the highest level?
3. How can you describe world economy in 1920s through 1930s?
4. How did WWII influence international trade?
5. In what way did the U.S. promote international trade?
6. How did the fall of trade barriers influence the U.S. economy?

Exercise 3

1. How do you understand the term «net importer»?
2. Are high tariffs and duties beneficial to a country's economy?
3. Under what circumstances would you recommend to introduce trade barriers in your countries?

Exercise 4. Translate into English.

1. Главной статьей экспорта этой страны является хлопок-сырец. 2. Для защиты внутреннего рынка были введены высокие тарифы и таможенные пошлины. 3. Наиболее характерным для роста американского экспорта был рост экспорта промышленных товаров. 4. Экспорт всегда превышал импорт, и внешнеторговый баланс всегда оставался положительным. 5. Большинство экономистов полагало, что плавающий курс доллара со временем ликвидирует внешнеторговый дефицит. 6. Для экономики страны были характерны низкие темпы роста производительности, отсутствие товаров, пользующихся спросом за границей, и недостаточное внимание к экспорту.

Text 2. Government and the economy

In the relationship between government and the economy, ideas influence policies and policies shape outcomes. This three-way connection is sometimes direct, sometimes tenuous, sometimes perverse. Of the three elements, the easiest to evaluate historically is outcomes. By almost any measure, the American economy is the most successful the world has ever known. Even in colonial times the standard of living was generally better in America, at least for whites, than in Europe or Asia. In the decades following the American Revolution, economic growth remained high and remarkably steady. By the end of the nineteenth century, the United States surpassed all other countries in both agricultural and industrial output.

For most of the twentieth century, gross national product per capita has remained higher in the United States than in any other country, with the occasional exception of small advanced economies such as Switzerland and Denmark or oil-rich nations such as Kuwait. Only in the 1980s was the United States overtaken by countries such as West Germany and Japan, and even then only by the measurement of gnp per capita at exchange rates favorable to the deutsche mark and yen. By any other index of quality of life, the American standard of living was still the highest in the world.

If this outcome of unique affluence is clear, the ideas and policies behind it remain open to interpretation. How much did American economic success derive from laissez-faire ideas and policies, how much from governmental intervention? How much did it stem from neither of these but from the simple fact of a wealthy, isolated, and sparsely inhabited continent ready for exploitation? Assuming, for the sake of argument, that the early policies can be characterized as laissez-faire, then how much of the letting alone originated in the reasoning of Adam Smith and Thomas Jefferson, how much in the practical impossibility of effective public administration over a far-flung country?

In tracing the ideas behind American economic policies, the colonial period is the proper starting place. As the historian Carl Degler once remarked, «Capitalism came in the first ships.» The English settlers of North America brought with them clear convictions about the nature of sovereignty and the rights of property. These ideas, and the resulting policies, then interacted with the circumstances of a rich and underpopulated continent to set the context of economic activity.

During most of the colonial period, the hand of government lay lightly on the economy. This was true even allowing for such exceptions as the harshness of Puritan rule in early New England, the heavy taxation of Chesapeake tobacco by the English Crown, and the odious institution of slavery. When the colonists did revolt in 1775, it was in large measure against Britain's new revenue policies of the 1760s and 1770s, which conveyed to American shores a fresh corps of administrative officials. This new regime brought taxation without representation, together with other violations of the «rights of Englishmen.»

The intellectual contours of the American Revolution suggest that the United States was born in a broad outburst of anti-authoritarianism that transcended any temporary disaffection from George III, the British monarch. This anti-authoritarianism is plainly reflected in the texts of contemporary documents: the scores of revolutionary pamphlets calling upon Americans to throw off the British yoke, the Declaration of Independence, the Constitution, the Federalist Papers, and the Bill of Rights. All of these late-eighteenth-century documents express the deep-seated aversion to absolute authority, the hostility to centralized power in which the Union was born. Even though the Constitution seemed to many revolutionaries to imply an unduly centralized government, it still vested ultimate sovereignty in «the people» and divided governmental power among three branches, each possessing the power to check the other two. In still another balancing act, the federal government as a whole both checked and was checked by state governments. As Charles Evans Hughes once remarked, the Founding Fathers had designed «the most successful contrivance the world has ever known for preventing things from being done.»

Given these institutional limitations on authority, can it be said that the government of the United States historically followed a policy of laissez-faire? Perhaps, but only as measured against Soviet-style command economies or the statist developmental policies of Napoleonic France, Bismarckian Germany, or Meiji Japan. Compared with liberal regimes such as that of Victorian Britain, the American government violated laissez-faire as often as it practiced it.

Broadly speaking, both federal and state governments were active in the economic sphere during the first half of the nineteenth century, passive in the second half, and then active again throughout the twentieth century. In the first half of the nineteenth century, state governments chartered numerous banks and expended public funds liberally for internal improvements such as canals, turnpikes, and railways. Meanwhile, the federal government promoted agricultural exports, protected domestic industry through tariffs, subsidized commerce through a generous postal rate structure, and encouraged the building of railways. Equally important, and often overlooked in analyses of government-business relations, the national government pursued an energetic and relentless policy of land acquisition and development. During the nineteenth century, more individual Americans made their fortunes from the exploitation of newly annexed lands than from any other source. «Manifest destiny» was an operative economic policy as well as a slogan of nationalism and empire, as the geographical extent of the United States was multiplied severalfold by the addition of the Old Northwest, the Louisiana Purchase, the Florida Cession, the Mexican Cession, the Gadsden Purchase, the Oregon Territory, and the acquisition of Texas, Alaska, and Hawaii.

In less visible ways, the legal order of the United States was shaped so as to lubricate the operations of private enterprise. Decade by decade, the states relaxed requirements for the privilege of incorporation, far in advance of parallel developments in Europe. In bankruptcy law, incentives were fashioned so as to favor debtors more than creditors, a reversal of common European practice. Similarly, contract law became highly refined in America, facilitating commerce among the disparate populations of strangers who came to American shores and pushed ever westward. Meanwhile, taxation remained light, a circumstance made possible by ample revenues from the sale of public lands and from customs duties on goods imported from Europe. All of this added up to a situation uncommonly hospitable to what the legal historian Willard Hurst has called «the release of energy.» Policymakers had systematically designed a fertile setting for private entrepreneurship – a greenhouse for business. So long as individual companies stayed small, no real conflict between the welfare of the American people and that of its business units became serious. Unfortunately, that happy situation endured only until the 1880s.

Big business (trusts) appeared in the United States during that decade, a good deal earlier than in most other countries. Once established, it grew faster and to a larger size than it did elsewhere. One reason was the absence of any countervailing force in America. A new country made up entirely of immigrants (except for the Native Americans), the United States had no established church, no standing army, no hereditary aristocracy, no mandarin class, no feudal tradition. Because of the nation's individualistic ideology, almost no government ownership of business enterprise existed, in contrast to substantial public undertakings even in other market economies, let alone socialist ones. The exceptions to this rule became famous largely because they *were* exceptions: the Erie Canal in the nineteenth century, the Panama Canal Company and the Tennessee Valley Authority in the twentieth. Throughout American history, including the present time, the total tax bite of all governmental units has typically been less than in comparable industrial countries such as Britain, France, and Germany. Until the twentieth century, the absolute size of the national government remained minuscule, and even today it is relatively smaller than those of other countries. In 1871, at the dawn of the age of big business, the federal government employed only fifty-one thousand civilians, of whom thirty-seven thousand were postal workers. The remaining fourteen thousand constituted the entire national government of a country with a population of 41 million. This amounted to one federal worker per twenty-nine hundred inhabitants in contrast to about one per hundred in the late twentieth century.

Of all major market economies, the rise of big business preceded that of big government only in the United States. And when big business came, no countervailing force resisted its initial impact. Thus, the manifold problems it raised provoked a powerful public response that immediately moved into the realm of politics. In the closing years of the nineteenth century, the United States became the only major industrial power to enact legislation explicitly designed to curb the power of large corporations. Congress passed the Interstate Commerce Act in 1887, the Sherman Antitrust Act in 1890, and the Federal Trade Commission and Clayton acts in 1914. The United States was the only country to attempt such a thoroughgoing regulation of railroads as that embodied in the Hepburn Act of 1906, which gave new teeth to the Interstate Commerce Act of 1887. In other nations, railroads were either publicly owned or smaller than the gigantic American companies, several of which employed more than 100,000 persons. Although many other countries eventually adopted antimonopoly laws, the Sherman Antitrust Act remains the most stringent in the world.

American regulatory practice during the twentieth century was shaped by three outbursts of legislation: during the Progressive Era (1901–1914), the New Deal (1933–1938), and the later period of focused concern for safety, social justice, and environmental protection (1964–1971). Although several exceptions might be noted, this legislation and the agencies it created generally were designed to restrain the power of business. An appropriate symbol is the giant statuary outside the Federal Trade Commission building in Washington, which depicts powerful, unruly horses being held in check by the hand of a man. American agencies with direct authority over business practices, such as the Securities and Exchange Commission, remain far stronger than their foreign counterparts.

In the United States, then, regulatory behavior in the twentieth century was typically restrictive. In other countries it was more often promotional. In some ways this represents a reversal of nineteenth-century practice, when the United States was the most hospitable of all countries to the conduct of business enterprise. The more precise point is that during the twentieth century, the promotional activities of the American government differed in kind from those elsewhere. In other countries, such measures focused on industrial planning, sectoral growth, and targeted key industries. Seen most clearly in the post-World War II activities of Japan's Ministry of International Trade and Industry, industrial planning had many counterparts elsewhere: in French indicative planning of the 1950s and 1960s, in the corporatist interlocks of German banks, labor unions, and large firms, even in the experiments under Labour governments in Britain. None of these practices, all of which fall under the general rubric of «industrial policy,» took firm root in America, with the sole exception of what pejoratively has been called «Pentagon capitalism.»

In America, nearly all promotional management of the macroeconomy was a post-New Deal phenomenon and was Keynesian in outlook. It looked not to individual firms, industries, or sectors but to aggregates of the major national income accounts: consumption, investment, and government spending. It operated primarily on the demand side through management of fiscal policy. Its general aim was to counteract violent swings of the business cycle such as those that brought severe depressions in the 1890s and 1930s. The ideas that motivated it were complex, involving such Keynesian arcana as equations designed to compute the «autonomous spending multiplier» as a tool for setting tax policy. At the height of its influence in the 1960s, some Keynesians spoke confidently of fine-tuning the entire national economy. Subsequent events, including the Vietnam War, the combined high inflation and high unemployment of the 1970s, and the soaring fiscal and trade deficits of the 1980s, brought an embarrassed silence on the subject of fine-tuning.

Yet the fact remained that in the decades after World War II, the American state explicitly accepted the principle of a mixed economy and with it governmental responsibility for national economic well-being. This became evident starting with the Employment Act of 1946, an avowedly Keynesian measure, and it continued through all postwar presidencies – even that of Ronald Reagan, who, though no Keynesian, oversaw the most drastic (and hazardous) changes in fiscal policy since World War II. This overt acceptance of responsibility for economic performance epitomized the revolution in thinking about the connections among ideas, policies, and outcomes in the relationship between government and the economy.

Thomas K. McCraw

EXERCISES

Exercise 1. Answer the following questions:

1. Why there was no serious conflict between the welfare of the American people and that of its business units until 1880s? 2. Was the percentage of federal workers in the U.S. in the 19th century different from that in the late 20th century?

Exercise 2. Translate into English.

1. Даже в 19 веке уровень жизни в США, в целом, был выше, чем в Европе или Азии, по крайней мере для белых. 2. В 20 веке такой показатель, как валовый национальный продукт на душу населения, почти всегда сохранялся выше, чем в любой другой стране; редкое исключение составляли лишь малые высокоразвитые государства такие, как Швейцария и Дания, а также богатые нефтью государства такие, как Кувейт. 3. По всем другим показателям уровня жизни США превосходили и Германию, и Швейцарию. 4. В заключительные годы 19 века США стали единственной крупнейшей промышленно развитой державой, принявшей законодательство, явно расчитанное на свертывание могущества крупных корпораций. 5. Ни одна из этих стратегий не укоренилась в США.

Exercise 3. Subjects for discussion:

1. Can the Government influence in any way a nation's economy?
2. Is Government's interference in the country's economy good or bad for the economy?

Text 3. Economic growth

By «economic growth» economists mean, in the first place, annual increases in the nation's total output of goods and services – its national product. Gross national product (gnp) does not take into account the wastage of the machinery and other capital goods used in production. Net national product (nnp) makes allowances for capital replacements. Although nnp includes final consumer goods and services, it counts only net additions to capital goods. It is therefore a better measure of real growth than gnp. The reason only final consumer goods are included is that care must be taken to avoid double counting; the output of bread is included, but the output of wheat used to produce the bread is not.

The monetary equivalent of national product – national income – can be measured in various ways. One is to measure it as the «value added» by economic activity in agriculture, manufacturing, mining, and so on. (Value added is calculated by summing output at producers' prices and deducting the cost of the fuel and raw materials used to produce the output.) Another way is to measure it as the aggregate value of the final products of the economy. Still another is to total the incomes accruing to persons supplying different productive factors (such as wages and salaries, profits, rents). Each of these approaches yields the same total, provided a consistent scheme of valuation is used. The component detail of each, however, illuminates different facets of the process of production, distribution, and consumption of the nation's output, and each serves a different use.

Changes in national income may be measured either in current prices – the prices that prevailed during the year in which the economic activity took place – or in constant prices – the prices of a given year, for example, those of 1929, which then serve as a base. In a study of financial developments or market trends the former is often preferable. But if the purpose is to analyze change in consumer levels of living or national productivity, the latter is more appropriate. For purposes of studying economic growth, therefore, it is constant price measurement that is desirable.

There are two additional requirements for the measurement of economic growth if the purpose is to calculate change in material welfare. A nation's rate of growth must be divided by the size of its population in order to find the rate per capita; if an increased number of people is required to produce an increase in the amount of goods and services produced, no one is better off than before. On the other hand, high levels of both population and output growth, even without corresponding growth in per capita output, bespeak an economy's ability to sustain large increases in population, and this is of interest to students of the sources of national influence and power. A final point: the increase in output should not be a temporary one, such as might follow a year of unusually good harvests. Nor should it merely represent an upward movement in the business cycle. Economic growth is *sustained* growth, secular in duration rather than cyclical.

In the output data of various countries scholars have found growth cycles (often called «long swings») of varying lengths, some of them 10 years long, others 60 years, and still others even 100 years. In the data of American history the most common long swing, named the «Kuznets cycle» after its discoverer, the Nobel Prize-winning economist Simon Kuznets, ranges between 10 and 20 years. A swing is a change in the *rate* of growth. During a long swing there occurs an expansion phase, followed by a period of continued growth at a retarded rate, culminating in depression. In the 124-year period between 1814 and 1938, nine long swings have been found, averaging 14 years in duration. In the expansion phase of these swings gnp grew at an average rate of about 6 percent, followed by retardation averaging 2 percent. During the depression phase, the rate of growth was extremely low or, ceasing altogether, negative.

Except for agriculture, the pace of growth of nearly every kind of economic activity registered advances during the expansion phase. Long swings occurred in the growth of population, labor force, immigration, transport development, internal migration, geographical settlement, urbanization, residential construction, the prices of common stocks, railroad bond yields, the money supply, commodity prices, and still other economic variables. Long swings, it should be emphasized, took place not in the *total volume* of output (which has risen without significant interruption, except for the 1930s, since the 1870s) but rather in the *rate of increase* of that total. Almost always, total output has risen, but at rates that accelerate and then decline. It is these alternations between acceleration and retardation that characterize the long swings of economic growth. America's growth has proceeded in a series of great surges, followed by periods of much slower growth, and so has the growth of a number of other industrial countries.

Whether or not long swings characterized growth in the earlier years of the nation's history seems impossible to know. Decennial census returns of output in the various sectors of the economy provide the most reliable source of information on which estimates of growth rates can be based and even these returns are incomplete before 1870. Not until 1840 did census takers include agriculture, which was then and for a number of decades afterward the main provider of incomes in the United States. Investigators of the quantitative records for the years before 1840 are compelled to work in the half-light of what has been called a «statistical dark age.» For the long colonial period (1607–1783) the light is even dimmer.

It is certain, however, that economic growth in the sense of increased population and output took place during the colonial years. From 105 colonists aboard the three small ships carrying English settlers to Virginia in 1607, the population grew to an estimated total of over 2 million by 1770, and by the time of the first federal census in 1790, it was nearly twice as large. Even if each person provided only enough food and clothing for his or her own subsistence, its imputed value would imply a huge expansion in total output. And available data on exports of tobacco and other commodities for a number of years in the eighteenth century enlarge that output even more. What historians do not know is whether or not growth per capita took place, and if so, by how much. Data on the size of houses and their furnishings in the later years, along with other supportive evidence, argue that the standard of living also rose. If so, and however slowly, growth in output per capita must also have occurred.

The quantitative remains of the early decades of independence are somewhat more satisfactory but still so fragmentary that conclusions about economic growth are little more than «guesstimates.» Making the most of the available evidence, Paul A. David posits the existence of three long swings between the 1790s and the Civil War. He finds in each a period of surge. In the first, the surge covers the years from the early 1790s to about 1806 and is associated with a large increase in the volume of foreign trade after the outbreak of the French Revolution and the Napoleonic Wars. In the second long swing the surge lasts from the early 1820s to about 1834 and is linked with early manufacturing development. In the third, identified with continuing industrialization, the surge commences in the latter half of the 1840s and runs its course before the firing on Fort Sumter. Although David believes that none of the surges involved a break in the secular growth rate, Robert E. Gallman is of the opinion that a «gradual acceleration took place over a very extended period of time.» Both scholars reject the hypothesis of W. W. Rostow that a dramatically abrupt transition from low to high rates of change, or «take off into self-sustained economic growth,» took place in the latter 1840s.

Viewing a longer segment of American history, from 1840 to 1960, Simon Kuznets has illuminated the phenomena of growth from a perspective that permits comparison with the records of a number of other countries. During that 120-year span the American population grew at an average annual rate of about 2.2 percent, gnp at 3.6 percent, output per capita at 1.6 percent, and product per worker at 1.4 percent. As a result of these growth rates, the population in 1960 was about 10.5 times as large as in 1840, the labor force almost 13 times, per capita product over 6 times, and product per worker over 5 times as large.

Surviving statistical data from the United Kingdom, France, Germany, Russia, and Japan range from 79 years for Japan to 117 years for the United Kingdom. The first result of a comparison between these countries and the United States is that the annual rate of growth of population in the latter was much higher than in any of the others. Compared with 2.2 percent in the United States, the rates of others ranged from 1.2 percent for Japan to 0.2 percent for France. Except for Japan alone, population growth rates in all the others were no more than half that of the United States.

Second, the annual rates of growth of product per capita for the United States and for the European countries were not greatly different. (The rates range from 1.9 percent for Russia, for a period reaching back to 1760, to 1.2 percent for the United Kingdom, back to 1841.) The American rate was 1.6 percent. The Japanese rate, for the period 1880–1960, was distinctly higher, 2.8 percent. Were data available to permit comparisons between the United States and these countries over the same length of time – all the way back to 1840—the averages for the other countries would be lower, including that of Japan. Finally, the rate of growth of gnp in the United States was higher than for the European countries, by amounts ranging from one-fifth to twice as high. This result naturally follows from the fact that the United States' roughly equivalent rate of growth of per capita product was combined with a much higher rate of growth of population.

The American performance was exceptional. In his *Essay on the Principle of Population* (1798) Thomas Malthus offered a grim assessment of the consequences that would follow an increase in output. Population would respond by growing and would consume the additional output, reducing the level of living to what it had been before. The pressure of population on resources seemed relentless to Malthus, and he expected that war, pestilence, and starvation would provide the means of reducing it. American history offered testimony of a different kind: it was possible to have it both ways – more people and more resources, too. Technological advances would enable developed countries throughout the world to respond similarly to Malthus's predictions.

In the closing decades of the twentieth century the American economy, as before, alternated between periods of expansion (for example, 1963–1968, 1976–1980, 1983-) and contraction (for example, 1969–1970, 1974–1975, and 1980–1982), without, however, sinking into a deep and prolonged depression like those of the 1870s and 1930s (although some of the contractions – now called recessions – were severe, for example, those of 1974–1975 and 1980–1982). Built-in stabilizers put in place by President Franklin D. Roosevelt's New Deal in the 1930s – for example, old age and survivors' and unemployment insurance – provided cushions during periods of falling demand. The uses of monetary and fiscal policies, too, were far better understood than before.

Nevertheless, the prospects of long-term economic growth are beset by problems far more grievous than those of earlier years. Although these problems are too numerous and complex for exploration here – they include a massive federal debt, large annual budget and trade deficits, and relatively low rates of domestic saving and investment in research and development – we can single out one because of the substantial effect it exerts on economic growth.

In recent years the rate of increase in manufacturing productivity – measured as output per unit of labor and capital combined – has been slowing down. From an annual average of 3.4 percent between 1948 and 1960 the rate fell to 2.3 percent from 1966 to 1973, to 1 percent from 1973 to 1977, and to 0.4 percent between 1977 and 1978. In 1979 and 1980 growth stopped altogether and productivity actually declined. Since then small recoveries have not overcome the long-term downward trend. The late nineteenth – and twentieth-century successor to Great Britain as the «workshop of the world,» the United States now finds its competitive edge dulled in the international marketplace while at the same time faced with intensified foreign competition at home. Indeed, by 1980 foreign-made goods were competing with more than 70 percent of those manufactured in the United States. Addressing this condition, and the budget and trade problems with which it is intimately connected, will be one of the great challenges of the 1990s and beyond.

Stuart Bruchey, *The Roots of American Economic Growth: An Essay in Social Causation* (1965); Simon Kuznets, *Modern Economic Growth: Rate, Structure and Spread* (1966); Simon Kuznets, *Postwar Economic Growth: Four Lectures* (1964).

Stuart Bruchey

EXERCISES

Exercise 1. Words and expressions. Provide Russian equivalents.

output of goods and services
per capita
Gross national product (gnp)
growth at a retarded rate
Net national product (nnp)
output per capita
double counting
product per capita
current prices
manufacturing productivity
constant prices
downward trend
material welfare
foreign-made goods
rate of growth
intimately connected

Exercise 2. Answer the following questions.

1. What do economists mean when speaking of «economic growth»? 2. What is national product? 3. What is the difference between GNP and NNP? 4. Is national income related to national product? 5. How do economists measure national income? 6. How can you describe growth cycles in a country's output? 7. How are surges in economic growth explained? 8. What were Thomas Maltus' views on the relationship between increase in output and population growth? 9. What problems influence prospects of economic growth in a country now? 10. What can be said about the rate of increase in manufacturing productivity in the U.S. in the late 1940s till 1980s?

Exercise 3. Translate into English.

1. Национальный доход – денежный эквивалент национального продукта – можно измерять несколькими способами. 2. Каждый из этих способов отражает различные стороны процесса производства, распределения и потребления продукции в государстве, и все они применяются для различных целей. 3. Изменения в национальном доходе можно измерять в постоянных либо в текущих ценах. 4. В целях исследования экономического роста желательно применять постоянные цены. 5. В расчетах экономического роста для определения изменений материального благосостояния необходимо учитывать два дополнительных требования. 6. Самые высокие темпы экономического роста на душу населения в странах Юго-Восточной Азии. 7. Рост производства не должен быть временным. 8. В данных о производстве продукции в различных странах ученые обнаружили циклы роста (часто называемые «долговременными колебаниями») меняющейся продолжительности, некоторые 10 лет, другие 60 лет, а некоторые даже 100 лет. 9. Колебание – это изменение темпов роста. 10. В фазе спада темпы роста чрезвычайно низкие или отрицательные. 11. В каждом из долговременных колебаний ученые обнаружили период подъема. 12. Следует подчеркнуть, что долговременные колебания имели место не в общем объеме производства (который рос без существенных перерывов), а скорее в темпах роста этого общего объема производства.

Text 4. National debt

The national debt of the United States is the total of all the obligations of the Treasury to pay money to the federal government's creditors. It consists of bonds, notes, and bills issued to the creditors when they lend money to the government. When the national debt was created in its current form in 1791, it stood at $75 million, or about $18 per capita in dollars of 1791 purchasing power and $197 per capita in dollars of 1982–1984 purchasing power (see accompanying table). Nearly two centuries later in 1988, the debt stood at $2,600.8 billion, or $10,572 per capita in 1988 dollars and $8,937 in 1982–1984 dollars.

Such data, however, are not very informative. When a borrower applies for a loan, a lender usually appraises the borrower's income because that typically is the source of interest payments and repayments of principal. By analogy, in judging whether a national debt is large or small, one ought to compare it to the income (or product) of the national economy because that income, through taxation or further borrowing, is the ultimate source of interest and principal payments on the national debt. The accompanying figure presents the ratio of the national debt to the gross national product (gnp) of the United States from 1791 to 1988. It is apparent that the national debt has varied widely in comparison to the gnp over two centuries. Since we know that the gnp, the annual dollar value of all the goods and services produced by the American economy, has grown at relatively steady rates over long periods of time, most of the major fluctuations in the debt/gnp ratio have been caused by fluctuations in the national debt. Indeed, the history of the debt – its origins and its expansions and contractions over two centuries – reflects many of the key episodes of the American experience.

The national debt was born in the War of Independence. Within a week of the Battle of Bunker Hill in 1775, the Continental Congress, following colonial precedents, authorized an issue of $2 million of bills of credit called Continentals to finance the war. By the end of 1779, $241.6 million of Continentals had been authorized. U.S. loan certificates, foreign loans, state-issued bills of credit, and other evidences of public debt completed the stock of borrowing for the Revolution. The worst inflation in U.S. history resulted from the overissue of Continentals, and the bills became nearly valueless by 1780. The other evidences of revolutionary debt also depreciated greatly in value. After the war, starting in 1782, Congress authorized commissioners to travel around the country to examine claims against Congress and the Continental army and revalue them in terms of hard money. The revalued debt amounted to some $27 million.

Under the Articles of Confederation, Congress had no independent power to raise revenue. At the same time, the states, with debts of their own, were reluctant to respond to Congress's requisitions for revenue. As a result, interest payments in the 1780s were met by issuing certificates of interest indebtedness. The Constitution of 1787 solved the revenue problem by giving the new federal government the power to tax, but by the beginning of 1790 the indebtedness of the United States, including arrears of interest, had increased to $13.2 million of foreign debt and $40.7 million of domestic debt, while state governments had outstanding debts of $18.3 million. In 1789, as the new government under the Constitution was being organized, the market priced the existing evidences of debt at only fifteen to thirty cents on the dollar because of uncertainties about if, how, and when they would be repaid. The new nation had a poor credit rating.

In January 1790, Alexander Hamilton, installed as the first secretary of the treasury, submitted his *Report on the Public Credit* to Congress. He called for funding nearly all the government's obligations, including the state debts, into long-term federal securities payable in specie – that is, hard money. After considerable debate Hamilton's proposals were adopted in August 1790. The foreign debt was fully funded, as was most of the domestic debt, although interest payments were deferred on part of the latter and another portion carried interest rates below the market rate. Only the depreciated Continental bills, nearly valueless, were funded at less than face value; one hundred dollars of

Continentals were accepted as payment for one dollar of the new bonds. The most controversial part of Hamilton's plan, because some states had paid off the bulk of their debts while others had not, was the assumption of remaining state debts by the federal government. (To gain the support of Thomas Jefferson and his followers for the plan, Hamilton and the Federalists agreed to a compromise that located the future capital of the nation on the banks of the Potomac.)

Hamilton's refunding plan was generous to the government's creditors, who replaced securities selling for as little as fifteen cents on the dollar in 1789 with new federal bonds that soon rose toward par. How was such generosity justified? Hamilton argued in his report that his plan would restore faith in the government and public credit, attract foreign capital to the United States, and increase the effective stock of money, thereby stimulating the economy. Subsequent experience proved him correct. The U.S. government was nearly bankrupt in the 1780s; in 1803 it had no trouble borrowing $11.25 million on short notice, mostly from foreign subscribers, to finance the Louisiana Purchase, which doubled the size of the nation. By that time nearly 60 percent of the national debt had been purchased by foreigners, who in effect lent money to Americans in return for the government's promises to repay them in the future. Within the United States, debt owners could sell their federal securities for money or use them as collateral for bank loans. In retrospect, Hamilton's plan was a political and economic masterstroke for the new Republic. As Daniel Webster would later say, Hamilton «touched the dead corpse of the public credit, and it sprung upon its feet.»

The subsequent history of the debt can be traced through the accompanying table and the figures' portrayal of the expansion and contraction of the debt/gnp ratio. A national debt of $75 million in 1791, when Hamilton's funding plan was implemented, may seem small to the modern observer. But it represented about 40 percent of the gnp then, and a debt/gnp ratio that high was not seen again in U.S. history until the 1930s when the Great Depression led to large federal deficits and increases in the debt at the same time the gnp was collapsing.

The national debt reached a high in 1804, when the Louisiana Purchase added $11.25 million to it in one transaction. But aside from this extravagance, the administrations of Jefferson and James Madison were noted for fiscal frugality. Although some of the old Federalist taxes were cut in those years, Treasury Secretary Albert Gallatin was nonetheless able to cut the debt nearly in half between 1804 and 1811. Another notable event in the history of the debt was its elimination in 1835 and 1836, an occurrence unprecedented in the history of modern nations. This was during the administration of Andrew Jackson who, like his Jeffersonian predecessors, was fiscally frugal. But the main reason was the rapid economic growth that swelled federal tariff and land-sale revenues.

Much of the rest of the history of the national debt before 1930 can be generalized as following a pattern of rapid expansion in times of war and gradual reduction in times of peace. Reliance on debt financing during wars can be justified in economic theory by treating war expenditures as investments (in national survival or territorial expansion, for example) benefiting later generations who ought to help pay for the benefits by servicing the debt. A more likely explanation is one of expedience: wars call for rapid increases in expenditures, but equally rapid increases in compulsory taxation would be less popular than borrowing.

The pattern of wartime debt expansion can be seen in the War of 1812 when the national debt nearly tripled between 1811 and 1816, in the Mexican War era when the debt more than quadrupled between 1845 and 1851, in the Civil War when the debt increased forty-two-fold between 1860 and 1866, in the Spanish-American War era when the debt rose 50 percent between 1893 and 1899 (although the larger part of this increase occurred before the war), and in World War I when the debt increased twenty-one-fold between 1914 and 1919. World War II also fit the pattern: the debt increased nearly sixfold between 1939 and 1946.

The longest sustained period of debt reduction occurred after the Civil War, from 1866 to 1893, when the federal government ran a budget surplus every year and cut the debt to about a third of its initial value. On the whole, this was a positive development for the U.S. economy, as the government freed up funds for private investment and high levels of investment at some of the lowest interest rates in U.S. history fueled rapid economic growth. But debt reduction was controversial because it resulted from administrations, mostly Republican, that combined fiscal frugality with high tariff rates, producing revenue surpluses while protecting American manufacturers from foreign competition. The administration of Grover Cleveland was embarrassed in the late 1880s when, having retired all the callable federal bonds, it had to enter the market and buy up government debt at prices well in excess of par. Some modest debt reduction occurred between 1899 and 1914. The last sustained reduction came in the 1920s when the debt was reduced to less than two-thirds of its 1919 level. This was a favorite policy of Treasury Secretary Andrew Mellon, a conservative banker.

The year 1930 represented a watershed in the history of the national debt. Since that date the debt has never been reduced for more than a year or two in peacetime or, of course, in wartime. In the depressed 1930s the collapse of the gnp led to federal fiscal deficits and debt growth. World War II, as can be seen in the figure, saw the debt rise to by far its highest level in relation to gnp in previous or subsequent experience. The national debt peaked at 128 percent of gnp in 1946. After the war, although the debt continued to rise, the gnp until the 1980s rose much faster, so that by 1979–1981 the debt/gnp ratio was only 33 percent. From 1981 to 1988, the policies of the Reagan administration – tax cuts and increased defense spending – coupled with Congress's and the administration's reluctance to cut spending on inflation-swollen entitlement programs, produced large deficits that raised the debt/gnp ratio to 53 percent, its highest level in U.S. history apart from the World War II era, with no end to the rise in sight as of 1991. This trend disturbed many Americans, and federal deficits and rises in the national debt once again became major national issues. Even in 1988, however, the debt/gnp ratio was no larger than it was during the period 1943–1961.

Various strategies for marketing the debt have been followed through the years. The funded national debt of 1791 was created by exchanges of various Revolution era obligations for long-term bonds payable, principal and interest, in hard money. Before the Civil War, when new funds had to be raised, the Treasury usually relied on loan contractors to buy large amounts of new securities at negotiated prices and resell them to state and local governments, institutions, and wealthy individuals. Secondary trading markets emerged, allowing holders of the debt continuously to buy and sell their holdings of federal securities. Since much of the debt was held in Europe, arrangements were made to make it payable in European centers. Thus, $6.25 million of the Louisiana Purchase loan was made payable in London and $5 million in Amsterdam.

The Civil War brought sudden financial requirements and uncertainties that were too great for the old system of debt marketing. Jay Cooke, a private banker, contracted with the Treasury to place large war-debt issues with small investors throughout the Union. Cooke relied on heavy advertising expenditures and patriotic appeals to sell bonds. The newly created National Banks also bought large amounts of wartime issues, against which they could issue national currency. Jay Cooke's techniques of mass marketing Treasury debt within the United States introduced many Americans to ownership of paper wealth – a major development in the history of U.S. financial markets.

Cooke's techniques were employed again when the debt soared in World Wars I and II. Then, however, a central bank, the Federal Reserve System, was present to aid Treasury financing by creating new money to be exchanged for federal debt. Nonmarketable savings bonds were introduced, but they never became a major part of the total debt.

Today, the marketing of the national debt is almost continuous, with new issues of Treasury bills, for example, being sold every week. New notes and bonds are issued quarterly. Many new issues simply replace old ones, but in the 1980s a great deal of new money had to be raised to finance the large Reagan era federal deficits. In 1988, U.S. government agencies, trust funds, and Federal Reserve banks owned about 30 percent of the debt, private financial institutions held nearly 40 percent, and the remainder was owned by state and local governments (11 percent), U.S. individuals (7 percent), and foreign/international holders (13 percent).

Robert Heilbroner and Peter Bernstein, *The Debt and the Deficit* (1989).
Richard Sylla
EXERCISES

Exercise 1. Words and expressions. Provide Russian equivalents.
obligations
outstanding debts
bonds
fund the government's obligations
notes
securities
bills
defer payments
lend money to the government
interest rates are below the market rate
per capita
the depreciated Continental bills
purchasing power
were funded at less than face value
the debt stands at $2 bln
par (value)
borrower
use them as collateral for bank loans
lender
federal deficit
apply for a loan
transaction
interest payments
fiscal policy
principal repayments
tariff and land-sale revenues
debt/gnp ratio
to increase forty-two-fold
the issue of $2 million of bills of credit
budget surplus
indebtedness
revenue surpluses
arrears of smth
to retire all the callable federal bonds
foreign debt
at negotiated prices
domestic debt

Exercise 2. Answer the following questions.

1. What is the national debt and what can it include? 2. Why does a lender usually appraise a borrower's income? 3. What is the ultimate source of interest and principal payments on the national debt? 4. What was the reason for inflation in the U.S. in 1780? 5. How can you describe indebtiness of the U.S. in 1789? 6. What did Alexander Hamilton called for as regards government debts? 7. Was Alexander Hamilton's plan a success? Substantiate your answer. 8. How did wars and peace times

influence U.S. debt before 1930? 9. What happened to the debt in 1930 when GNP collapsed. 10. What strategies of marketing the debt were used in the U.S? 11. What were Jay Cook's techniques in settling debt issues? 12. How is marketing of national debt carried out nowadays?

Exercise 3. Translate into English.

1. В 1791 г. создавшийся в США национальный долг в сегодняшнем его понимании составил 75 млн долларов, или 18 долларов на душу населения при покупательной способности доллара в 1791 г. и 197 долларов на душу населения при покупательной способности доллара в 1982–1984 г.г. 2. Почти два века спустя национальный долг США составил 2600 млрд долларов. 3. Когда ссудополучатель обращается за кредитом, заемщик как правило производит оценку его доходов, которые обычно являются источником выплаты кредита и процентов по нему. 4. Большинство самых значительных колебаний в соотношении между национальным долгом и ВВП были вызваны колебаниями величины национального долга. 5. Государственный долг подтверждали государственные долговые обязательства, иностранные займы и облигации. 6. Чрезмерная эмиссия Континентальных долговых обязательств привела к крупнейшей в истории США инфляции, и к 1780 г. государственные долговые обязательства почти обесценились. 7. Задолженность США, включая задолженность по выплате процентов по кредитам, возросла, при этом внешний долг составил 13 млн долларов, внутренний долг – 40 млн долларов, а непогашенная задолженность правительств штатов – 18 млн долларов. 8. Он призывал консолидировать почти все правительственные обязательства, включая долги государства, в долгосрочные федеральные ценные бумаги, выплаты по которым производятся в твердой валюте. 9. Выплаты процентов по части внутренней задолженности были отсрочены. 10. В следующем году долг был погашен. 11. Резко возросли поступления в бюджет от продажи земельных участков. 12. Последующие поколения обслуживали национальный долг. 13. Правительство погасило федеральные облигации и начало выкупать правительственные долговые обязательства по ценам выше номинала.

Text 5. International investment

From the colonial era to 1914, the United States was a debtor nation in international accounts; that is, Americans owed more to foreigners than foreigners owed to Americans. From roughly 1917–1918 to the mid-1980s, this relationship was reversed: the United States became a creditor country. In the mid-1980s, another major transformation occurred as the nation moved from net creditor back to net debtor, at least as officially measured.

The American government had borrowed in Europe to help finance the Revolution, to assist Alexander Hamilton in his funding of national and state debts, and to purchase the Louisiana Territory. By year-end 1803, more than half of the U.S. public debt was held abroad, and 62 percent of the stock of America's largest business, the Bank of the United States, was in the hands of nonresident foreigners.

Thereafter, foreign interests in America grew, following an uneven path; although the importance varied over the years, until 1875 the bulk of foreign holdings was in government securities (federal, state, city, county). In the 1830s and in the post-Civil War years, state government bonds were highly popular in Europe. In the early 1840s and the mid-1870s, major defaults on these securities soured European investors.

When Americans started to build railroads, it became necessary to raise added moneys abroad because U.S. savings were inadequate. New mines and cattle ranches also attracted European (especially British) moneys, as did mineral processing, meat packing, and flour making. In the early twentieth century, British, German, Dutch, French, and other foreign investors produced a variety of goods and services in America (including rayon, the first synthetic fabric, Mercedes cars, oil by Royal-Dutch Shell, and Michelin tires). With the large inflow of capital, America became the world's greatest debtor nation.

Meanwhile, American businesses began to move abroad. In the colonial era, merchants had set up overseas units. During the nineteenth century, the number of enterprises abroad mounted slowly. Then, from the 1870s onward, as American companies grew at home, they also expanded over national borders. By the late nineteenth and early twentieth centuries, modern American multinational enterprises had emerged. Standard Oil of New Jersey, Singer, International Harvester, Western Electric, and by 1914, Ford Motor Company had major producing facilities outside the United States. Although foreign investment *in the United States* was of both a portfolio nature (investment in bonds and shares and bank lending that did not carry control) and of a direct investment nature (investment that carried management and control), the former was predominant; U.S. stakes abroad also consisted of both types, but foreign direct investment was supreme. The reason was that surplus capital in America was used at home. Thus, even while America was the great recipient of capital from abroad, its businesses were entering and growing in foreign lands, seeking new markets and sources of supply.

World War I was the watershed. The British sold American assets to finance the war, and German investments in America ended when the United States entered the war. The demand for capital abroad rose, and now Americans supplied it. American banks, once intermediaries in bringing capital *to* the United States, had developed the skills and contacts to play the opposite role – to dispatch U.S. moneys worldwide. Europe looked to America for loans to buy weapons. In 1917–1918 U.S. government lending became very important. Latin America attracted new U.S. business investments. Overnight, as it were, America was transformed into a creditor nation.

Businesses continued to expand in the 1920s and so did American lending. Excluding the U.S. intergovernmental credits, and with 1929 possibly an exception, American direct investment abroad always exceeded portfolio investment until the 1970s. During the 1930s, American lenders abroad faced major defaults and multinationals encountered difficulties. In 1934 the Johnson Act made it unlawful for U.S. bankers to lend to countries in default on U.S. government loans. World War II posed added hazards for international investors. In its aftermath, America emerged as economically strong and as the great creditor nation, the only economic giant in the world. Marshall Plan aid was vital to European recovery. Soon, American multinationals were spreading worldwide on a scale that dwarfed their past history. During the 1960s the American challenge – American investment accompanied by American technology – seemed unmatched.

While America was a creditor nation, foreign stakes in the United States were overshadowed. Yet they never entirely disappeared. Some foreign companies that had investments in the United States before 1914 remained and grew in size, and there were new entries. Certain portfolio holdings persisted and others were newly made. Indeed by the time of World War II, foreign investment had attained its 1914 level, even though the amounts were exceeded by U.S. investment abroad. After the Second World War, foreign investment in the United States was very much in the background.

In the 1970s, as the Organization of Petroleum Exporting Countries (opec) pushed oil prices up, its government members had capital surpluses that could not be absorbed into their domestic economies; these moneys were placed with U.S. banks and recycled into third world debt. With the new sources of funds, the character of American investment abroad changed. From being overwhelmingly investment by multinationals, it became increasingly made up of bank loans.

Americans, for balance of payments reasons, had sought to encourage foreign investment in the United States in the 1960s; by the 1970s and early 1980s, an awareness emerged of rising inward investment. America was both politically stable and provided a formidable market. While much of the new investment came from European (especially British, Dutch, and German) sources – often stimulated by the decline in the dollar after 1971–1973, which made American assets cheaper to foreign buyers – what attracted special concern was the newly conspicuous holdings of Arab investors and later of the Japanese.

Suddenly, in the mid-1980s, seemingly overnight, the United States had switched from net creditor to net debtor status in international accounts. And once again, by the end of the decade, America had become the world's greatest debtor nation. The transitions of 1914–1918 and the mid-1980s had been rapid, yet in each case the foundations had been laid in prior years. Despite much unhappy talk about «foreign multinationals in America» – especially the Japanese «invasion» – foreign investors still had their holdings mainly in liquid assets, portfolio investments. And, as during most of American history, it was still the British who had the largest investments. Moreover, as foreign investment in America grew, U.S. investment abroad persisted and direct investments expanded.

Historically, Americans were always ambivalent about foreign investment. This was true before 1914 when, on the one hand, there was the wish for foreign capital to finance the railroads and, on the other, a deep resentment against British investors. So, too, in many parts of the world, American investment over the years provoked a «can't live with it and can't live without it» state of mind – hated for its symbolic «alien» implications and yet desired for its positive contributions. As sizable foreign investment in the United States took place in the 1970s and 1980s, it was both courted by state governments that wanted more employment within their jurisdictions and lambasted by critics who saw «America for Sale.» Despite economic integration worldwide, nations, the United States included, retained – as in times past – a mixed response toward outsiders' investments.

Mira Wilkins, *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914* (1970); Mira Wilkins, *The History of Foreign Investment in the United States to 1914* (1989); Mira Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (1974).

Mira Wilkins

EXERCISES

Exercise 1. Words and expressions. Provide Russian equivalents.

borrow *v.*

direct investments
debtor nation
assets
creditor country
intermediary
to fund national and state debts
moneys
company's stock
intergovernmental credits
securities
in default on loans
holdings
OPEC
default on securities
funds
added moneys
capital surplus
raise money
encourage foreign investment
inflow of capital
liquid assets
portfolio investments

Exercise 2. Answer the following questions.

1. In the 19^{th} and 20^{th} century was the United States a debtor or a creditor country? 2. What American securities were most popular in Europe in the 19^{th} century? 3. Why has the US become the world's greatest debtor nation in the 20^{th} century? 4. How can you describe portfolio investments and direct investments? 5. What was the aim of the Johnson Act in 1934? 6. Did WW II help to restore American economy? 7. How can you describe foreign investment before and after WW II? 8. How did high oil prices and OPEC countries in 1970s influence the caracter of American investment abroad? 9. Why did Americans encourage foreign investment in 1960s? 10. What is the feeling of Americans toward foreign investments? What was the attitude of state governments to foreign investments?

Exercise 3. Translate into English.

1. США брали кредиты в Европе для финансирования революции и консолидирования национального и государственного долга. 2. Большая часть акций крупнейшей американской компании принадлежала иностранцам-нерезидентам. 3. В середине 19 в. Крупнейшие дефолты в отношении этих ценных бумаг больно ударили по европейским инвесторам. 4. Когда США начали строительство железных дорог, возникла необходимость в получении дополнительных кредитов за границей. 5. До 1970 г. прямые инвестиции США за рубежом всегда превышали портфельные инвестиции. 6. В 1930-х г.г. американские кредиторы столкнулись с крупными дефолтами. 7. Закон Джонсона 1934 г. запрещал американским банкам кредитовать страны, невыполняющие обязательства по выплате займов, предоставленным правительством США. 8. Пока Америка оставалась страной-кредитором, доля иностранного капитала оставалась в тени. 9. Из преимущественно инвестиций многонациональных корпораций американские инвестиции за рубежом все больше принимали форму банковских кредитов.

Text 6. Dollar diplomacy

Dollar diplomacy is the term used to describe America's efforts – particularly under President William Howard Taft – to further its foreign policy aims in Latin America and the Far East through the use of economic power. President Theodore Roosevelt laid the groundwork for this approach in 1905 with his Roosevelt Corollary to the Monroe Doctrine, maintaining that if any nation in the Western Hemisphere appeared politically or fiscally so unstable as to be vulnerable to European control, the United States had the right and obligation to intervene.

Taft continued and expanded this policy, starting in Central America, where he justified it as a means of protecting the Panama Canal. In 1909 he attempted unsuccessfully to establish control over Honduras by buying up its debt to British bankers. In Nicaragua, American intervention included funding the country's debts to European bankers. In addition, the State Department persuaded four American banks to refinance Haiti's national debt, setting the stage for further intervention in the future.

Dollar diplomacy was also pursued in China, where Taft's secretary of state, Philander C. Knox, became convinced in 1910 that America's free access to trade there was threatened by European financing of the new Hukuang Railroad. With some difficulty, the Taft administration arranged for American bankers to be included in the project and then prevailed on J. Pierpont Morgan to create an American syndicate for the purpose. Taft was also concerned about Russian and Japanese railroad activities in Manchuria and managed to persuade American bankers to join a six-power consortium that would give China the money instead.

This approach to foreign policy was repudiated by President Woodrow Wilson within a few weeks of his inauguration in 1913. Although he did not abstain from Caribbean intervention, dollar diplomacy was no longer an explicit national policy.

EXERCISES

Exercise 1. Answer the following questions.

1. What does the term «dollar diplomacy' mean?
2. How did U.S. Administrations pursue «dollar policy' in the 20th century?
3. Does the U.S. adhere to «dollar diplomacy' now?

Text 7. Banking

Not banks but merchants were the sources of money and credit in the colonial period of American history (1607–1783). It was only after independence that the first commercial bank received a charter of incorporation – the Bank of North America, in 1781. British merchant banking houses stood at one end of a long chain of credit that stretched to the American frontier. They gave short-term (less than a year) credits to American merchants who then extended them to wholesalers of their imports, and the wholesalers passed them on to both urban and rural retailers – country stores and wandering peddlers.

When the Constitution went into effect in 1789 the nation boasted three commercial banks, the Bank of North America, chartered by Congress at the behest of Robert Morris, the superintendent of finance, and two state banks, those of Massachusetts and New York. The primary function of these and later commercial banks was the making of short-term loans, which they did either by issuing their own bank notes or by creating a deposit in the name of the borrower (opening an account to the person's credit) and dispersing checks to draw against it. Since the bank notes were promises to pay specie to the bearer on demand, banks had to maintain adequate reserves in order to do so. Defining adequacy, however, was no easy task, and numerous banks were forced into bankruptcy because they had overexpanded their loans and discounts.

Conservatism was the hallmark of the earliest commercial banks. The thinking of the time favored the establishment of a single quasi-governmental bank in each state that would operate in the public interest under private management. The overriding fear of political leaders was that excessive numbers of banks or loans too much in excess of specie reserves would hobble the taxing and spending functions of government by swamping the economy in depreciated paper. Political leaders also recalled very well the wild inflation resulting from unrestrained governmental issues of continental and state bills of credit (paper money) during the Revolution, and in the Constitution they barred the states from issuing them.

The management of the first Bank of the United States (bus), chartered by Congress in 1791, reflected these concerns. Although the bus was a large commercial bank providing loans to the private sector as well as to government, its board of directors managed the institution in a highly conservative manner. Balance sheets for the years 1792–1800 reveal a generally high degree of success in maintaining the Bank's specie reserves. The ratio between bank notes in circulation and specie holdings was quite small.

Growing population and trade, however, created a need for comparable growth in the volume of money and credit – for a policy of accommodation rather than restraint. Sharp increases in the number of state banks and in their authorized capital stock represented a response to this need. During the life of the first bus (1791–1811) banks chartered by the states increased in number from 5 to 117, and their combined capital stock went from $4.6 million to almost $66.3 million.

The British raid on Washington in 1814 induced banks throughout the country (except in New England) to suspend specie payments. The bank note currency circulated at a variety of discounts from place to place, and since the government was compelled to accept it for taxes and imposts, the public finances became so disordered as to threaten the operations of the federal government. It was in this context of nationwide inflation and governmental derangement that Congress decided to charter a second bus (1816–1836). The expectation was that the institution would be able to force the state banks to resume specie payments and restore soundness to the currency.

The Bank's success in achieving those objectives is mainly attributable to its president Nicholas Biddle (1823–1836). The mechanism was simple. The nation's currency was largely made up of bank notes, most of it placed in circulation by state banks, so payments made to the federal government were likely to be in that form. And far more payments were made to that government than to any other transactor of business in the nation. In consequence, the government deposited large quantities of state bank notes in the bus and its branches, which therefore were creditors of the state banks and as such could insist on payment in specie. This threat, or its implementation, induced the state banks to keep their loans and discounts within bounds, which in turn enabled them to redeem their notes in specie at par.

But the bus could not succeed equally well in both its fiscal and its monetary functions. If, as a great commercial bank, larger than any other and receiver of the government's deposits as well, it could succeed in maintaining sound money, it could not at the same time make available to the expanding population and economy the credit that was needed. The nation's money was good, but there was not enough of it. Wholesale price indexes for all commodities from 1790 to 1860 reveal a long-term downward drift that commenced in 1820 and lasted till the eve of the Civil War, a drift that was interrupted only by speculative surges in the mid-1830s and mid-1850s. The policy of restraining credit expansion in the interests of monetary stability was the wrong policy for the times.

Not surprisingly, that policy was vigorously opposed by political forces determined not to renew the Bank's charter. Although the «bank war» (1829–1832) between the administration of President Andrew Jackson and the supporters of the Bank had other elements – most notably, Jackson's deep conviction that hard money rather than paper was the only sound money and that the economic power of the Bank threatened democratic government – it was Secretary of the Treasury Roger B. Taney's belief in free competition that led him to stop the deposit of government funds in the Bank in 1833. Moreover, he objected to the Bank's power to restrain the country's economic development. The enactment of the Free Banking Act by New York in 1838 and later by other states reflected the same views. Previously, the states had granted charters to banks only by special legislative acts that were semimonopolistic in nature.

Meanwhile, since the government had stopped depositing its funds (mainly state bank notes) in the bus, that institution lost its power to influence the volume of business done by the state banks. Freed of restraint, the latter increased in number from 506 in 1834 to 901 in 1840 and 1,601 by the time of the Civil War. Some of these «pet» banks were for a while selected depositories of federal funds, but in the main those funds were deposited at sub-treasury offices in major cities. These offices represented an effort in the 1840s and 1850s to establish an independent system that would separate the operations of the U.S. Treasury from any connection with the banks. The effort was unsuccessful, however. The system fell far short of the purposeful influence over money and credit that a central bank would have been able to exercise. The vacuum created by the federal government's withdrawal was later filled by the large Wall Street banks.

The effort to divorce government from the banking system came to an end in 1862 because of the chaotic condition of the currency caused by the government's need to finance the costs of the Civil War. The National Bank Act of 1863 invited state banks to take out federal charters, thereby becoming known as national banks. Each was required to buy government bonds in an amount equal to one-third of its paid-in capital stock. The bonds had to be deposited with the U.S. Treasurer, who then turned over to the bank bank notes equal to 90 percent of the current market value of the bonds. To discourage undue credit expansion the act required national banks to keep reserves not only against their bank notes but also against their deposit liabilities. The amount of reserves depended on the size and location of the national banks. Small «country banks» had to maintain reserves of at least 15 percent of their notes and deposits. Reserves for large banks in «reserve cities» and for the «central reserve city» of New York were 25 percent (in 1887 Chicago and St. Louis were added to the category of central reserve cities).

The growth of the national banking system was slow until Congress imposed a prohibitive 10 percent tax on state bank notes in 1865. By the late 1860s the new system covered about three-fourths of the nation's banking resources. The triumph was a brief one, for state banks possessed advantages over national banks – the latter being prohibited by law from making loans on real estate, for example. By the early 1870s the deposits of nonnational commercial banks roughly equaled those of national banks and from then until through the 1980s the deposits of the two classes of banks remained about equal in size.

Other disadvantages, indeed defects, of the new system proved more important. Arbitrary limits placed by the law on the quantity of national bank notes that could be issued were soon removed by the Resumption Act of 1875, but the scheme by which the notes were apportioned by Comptroller of the Currency Hugh McCulloch resulted in a maldistribution injurious to the less populous states of the South and Midwest (the less advanced states needed more rather than less currency because of the ability of more developed ones to use checks and other credit instruments for business transactions). A more serious defect resulted from the pyramiding of reserves in the national banks of New York City, but even more important was the system's inability to do anything about periodic shortages of cash and credit. The entire system was based on cash reserves and the total amount of cash could not be quickly altered. What was lacking was a central institution that could hold the reserves of the commercial banks and, above all, could increase those reserves. It was in response to these needs that Congress passed the Federal Reserve Act in December 1913.

Instead of setting up a single powerful central bank, however, the act divided the nation into twelve districts and established a regional central bank in each. The nine-member boards of directors of the district Federal Reserve banks are subject to the direction of a seven-member Board of Governors appointed (since 1935) by the president and sitting in Washington. The system's prime instrument of governance is its Open Market Committee, which meets about every three weeks to determine the monetary policy mix it believes best calculated to promote economic growth while dampening inflationary pressures.

Although far from infallible, these determinations are highly influential because most of the country's banking resources are subject to the board's regulations. (National banks were required by law to become members of the system.) Member banks – now classified as «reserve city» and «other» banks – are required to keep their reserves in the Federal Reserve Bank of the district in which they are located. The amount of reserves may range, for reserve city banks, between 10 and 22 percent of their demand deposits, and for «other» banks, between 7 and 14 percent. By raising or lowering percentages within these ranges the Board of Governors can either discourage or encourage member bank credit expansion.

But this is a blunt instrument that is seldom used. More sensitive are two other techniques available to the Fed. One is known as «open market operations,» which consist of purchases or sales of government securities by the manager of the system's Open Market Committee, a vice president of the Federal Reserve Bank of New York. Purchases automatically increase and sales decrease the reserves of the member banks, thus permitting loan expansion or compelling contraction, respectively. The other involves altering the interest rate charged on loans and advances by Federal Reserve banks to member banks. These techniques affect the quantity of money and its cost – factors of great importance to the investment decisions of business managers, and hence to the tone of the national economy.

The present-day powers of the Federal Reserve System owe much to legislation enacted in response to the system's inability to prevent widespread bank failures in the early years of the Great Depression. (President Franklin D. Roosevelt's initial reaction to the failures was to issue an executive order in March 1933 temporarily suspending banking activities throughout the country and forbidding dealings in gold. No bank could reopen for business until its condition had been examined by the secretary of the treasury – in the case of member banks of the Federal Reserve – or by state authorities – in the case of state-chartered nonmember banks. Congress then followed with a law designed to get at the roots of the failures.)

The Glass-Steagall Banking Act of 1933 established the Federal Deposit Insurance Corporation and required all members of the Federal Reserve System to insure their deposits. The act also increased the authority of the twelve Federal Reserve district banks to control the amount of credit extended to their members and prohibited the payment of interest on demand deposits to discourage outlying banks from sending large sums to New York – where they might feed speculation in securities by being re-lent on the call loan market. In addition, the act required that banks belonging to the Federal Reserve divorce themselves from their security affiliates – necessitating that they choose between deposit and investment banking – and empowered the Federal Reserve Board to regulate bank loans secured by the collateral of stocks or bonds. Finally, partners or executives of security firms were barred from serving as directors or officers of commercial banks. For more than half a century this legislation secured bank depositors from loss. Regretfully, massive failures in the nation's savings and loan institutions in the late 1980s – many of them tinctured by fraud and mismanagement – revealed deficiencies in federal deposit insurance, requiring both a huge federal bailout of more than $150 billion and structural changes in the insurance program. At the beginning of the 1990s the latter had not yet been provided.

Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867–1960* (1963); Bray Hammond, *Banks and Politics in America from the Revolution to the Civil War* (1957).

Stuart Bruchey

EXERCISES

Exercise 1. Words and expressions.

charter of incorporation – свидетельство о регистрации

Loan on real estate – ссуда под недвижимость

merchant banking houses – торговые банкирские дома

Pyramiding – финансовые пирамиды (многоступенчатое, многоярусное участие капитала одних компаний в финансовой системе других компаний)

wandering peddler

Cash reserves – резервы денежной наличности

wholesaler

Open Market Committee – Комитет открытого рынка, комитет по операциям на открытом рынке (в Федеральной резервной системе США)

retailer

Board of Governors – совет управляющих

create a deposit in the name of the borrower – оформлять вклад на имя ссудополучателя

Amount of reserves – сумма резервов

depreciated paper money – обесцененные деньги

Open market operations – операции на открытом рынке

bills of credit

Government securities – государственные ценные бумаги

Accommodation – *зд.* взаимные расчеты

Demand deposits – бессрочные вклады

Balance sheet

Interest rate – процентная ставка

Capital stock – основной капитал

Enact legislation – принимать законодательство

Authorized capital stock – уставный капитал

Federal Deposit Insurance Corporation – Федеральная корпорация по страхованию депозитов

Imposts – сборы

Call loan – ссуда до востребования

Redeem – осуществлять оплату

Demand deposit – бессрочный вклад
At par – по номиналу
Affiliate – филиал, отделение
Fiscal
Deposit banking – операции с депозитами
Monetary
Investment banking – операции с инвестициями
Downward drift – тенденция к снижению
Secure a loan – предоставлять обеспечение по ссуде
Commodities
Federal Reserve Board – Федеральное резервное управление
Surge – подъем
Divorce from – отделиться от
To divorce government from the banking system
Security firm – фирма, ведущая операции с ценными бумагами
To take out federal charter – получать федеральную регистрацию
Securities – ценные бумаги
Paid-in capital stock – оплаченная часть акционерного капитала
Partner – компаньон
Deposit liabilities – обязательства по вкладам
Stocks and bonds – акции и облигации
Prohibitive tax – запретительный (высокий) налог
Savings and loan institutions – ссудо-сберегательные учреждения
Apportion – пропорционально распределять
Fraud – подделка, мошенничество
Issue bank notes – пускать в обращение банкноты
Mismanagement – плохое управление
Credit instruments – кредитные документы
Deposit insurance – страхование вкладов

Exercise 2. Answer the questions.

1. What were the sources of money in America in the colonial period? 2. Can you describe the chain of credit in the early history of the United States? 3. What was the primary function of U.S. early commercial banks? 4. How did commercial banks give loans? 5. Why in early time political leaders in America were afraid of establishing quasi-governmental commercial banks in each state? 6. Why did Congress decide to charter a second BUS? 7. Did second BUS help to solve problems in banking? 8. What happened when the government stopped depositing funds in the BUS? 9. How did national banks emerge in the 19th century? 10. How were national banks formed in mid-19th century? 11. What requirements to bank reserves were applied to national banks? 12. What was the reason for Congress to pass the Federal Reserve Act in December 1913? 13. What changes has the Federal Reserve Act brought into the banking system? 14. What is the task of the Open Market Committee? 15. What techniques do Federal Reserve banks use to encourage or discourage loan expansion? 16. What was the essence of Glass-Steagall Banking Act of 1933?

Exercise 3. Translate into English.

1. В конце 18 в. первый коммерческий банк Америки получил свидетельство о регистрации. 2. Британские торговые банкирские дома давали краткосрочные кредиты оптовикам, которые в свою очередь кредитовали городских и сельских розничных торговцев – магазины и бродячих торговцев. 3. Конгресс зарегистрировал Банк Северной Америки по распоряже-

нию Роберта Морриса. 4. Так как банкноты представляли собой обязательства о выплате звонкой монетой по требованию предъявителя, то банки должны были иметь соответствующие резервы, чтобы это делать. 5. Балансовые отчеты того времени свидетельствуют в целом о значительном успехе в сохранении необходимого уровня валютных резервов; отношение суммы находящихся в обращении банкнот к золотовалютным запасам было незначительным. 6. К находящимся в обращении банкнотам в разных местах применялся разный дисконт, а так как правительство вынуждено было принимать их для уплаты налогов и сборов, то государственных финансах наступил беспорядок, представляющий угрозу для деятельности правительства. 7. Такая угроза заставила банки штатов удерживать займы и дисконты в определенных пределах, что в свою очередь, позволяло им осуществлять оплату по своим обязательствам в «звонкой монете» по номиналу. 8. Однако банк не смог добиться одинакового успеха в выполнении фискальных и денежно-кредитных функций. 9. Политика сдерживания кредитования ради стабильности денежных средств была неправильной для того времени. 10. Национальные банки должны были покупать правительственные облигации на сумму, составляющую 1/3 оплаченного акционерного капитала. 11. Еще один серьезный недостаток явился следствием финансовых пирамид в национальных банках Нью-Йорк Сити, но еще более важным являлась неспособность предпринять что-либо в отношении периодической нехватки наличности и кредитов. 12. Сумма резервов может колебаться: для федеральных резервных сити-банков – от 10 до 22 % суммы бессрочных вкладов, а для «остальных» банков – от 7 до 14 %. 13. Более деликатными являются два других метода, которые имеются в распоряжении федерального резервного банка. 14. Один из методов, известный как «операции на открытом рынке», включает покупку или продажу государственных ценных бумаг руководителем Комитета по операциям на открытом рынке данной системы. 15. Покупка государственных ценных бумаг автоматически увеличивает, а продажа – уменьшает резервы банков-членов, позволяя таким образом соответственно расширять или сокращать кредитование. 16. Другой метод заключается в изменении процентной ставки на кредиты и ссуды, предоставляемые федеральными резервными банками банкам-членам. 17.Своими нынешними полномочиями Федеральная резервная система во многом обязана законодательству, принятому в ответ на неспособность системы предотвратить повсеместный крах банков в первые годы Великой Депрессии. 18. Закон также расширял полномочия двенадцати окружных федеральных резервных банков по контролю за суммой кредитов, предоставляемых своим членам, и запрещал выплачивать проценты по бессрочным вкладам, чтобы не поощрять периферийные банки направлять значительные суммы в Нью-Йорк, где они могли подпитывать спекуляцию ценными бумагами. 19. Закон наделял Федеральное резервное управление регулировать предоставление кредитов под обеспечение в виде акций и облигаций. 20. Компаньонам и руководителям фирм, ведущих операции с ценными бумагами, запрещалось работать директорами и служащими коммерческих банков. 21. Массовые банкротства ссудо-сберегающих учреждений страны в конце 1980-х выявили недостатки в федеральном страховании вкладов, что требовало как значительной помощи в размере более 150 млрд. долларов, так и осуществления структурных изменений в программе страхования.

Text 8. Bank of the United States

The Bank of the United States was established in 1791 to serve as a repository for federal funds and as the government's fiscal agent. Initially proposed by Alexander Hamilton, the First Bank was granted a twenty-year charter by Congress in spite of the opposition of the Jeffersonians to whom it represented the dominance of mercantile over agrarian interests and an unconstitutional use of federal power. The Bank, based in Philadelphia with branches in eight cities, conducted general commercial business as well as acting for the government. It was both well managed and profitable, but it won the enmity of entrepreneurs and state banks, who argued that its fiscal caution was constraining economic development. Others were troubled by the fact that two-thirds of the bank stock was held by British interests. These critics, working with agrarian opponents of the bank, succeeded in preventing renewal of the charter in 1811, and the First Bank went out of operation.

Soon, however, problems associated with the financing of the War of 1812 led to a revival of interest in a central bank, and in 1816, the Second Bank of the United States was established, with functions very much like the first. The Second Bank's initial years were difficult, and many felt that its mismanagement helped bring on the panic of 1819. Popular resentment led to efforts by several states to restrict the Bank's operations, but in *McCulloch* v. *Maryland* (1819), the Supreme Court held that the Constitution had granted Congress the implied power to create a central bank and that the states could not legitimately constrain that power.

This decision did not settle the controversy, however. State banks and western entrepreneurs continued to criticize the Bank as an instrument of federal control and of eastern commercial interests. In 1832, Senator Henry Clay, a longtime supporter of the Bank, was running for president against Andrew Jackson, who was up for reelection. Clay persuaded the Bank's president, Nicholas Biddle, to apply early for rechartering, thus injecting the issue into the campaign. Congress approved the renewal, but Jackson (who distrusted banks) vetoed it, campaigned on the issue, and took his electoral victory as a mandate for action. Starting in 1833, he removed all federal funds from the Bank. When its charter expired in 1836, the Second Bank ended its operations as a national institution. It was reestablished as a commercial bank under the laws of Pennsylvania, where it continued to operate until its failure in 1841.

EXERCISES

Exercise 1. Answer the questions:

1. What was the purpose of establishing the Bank of the United States and why was it opposed by the Jeffersonians? 2. What was the attitude of entrepreneurs and state banks to the First Bank? 3. What was the fate of the First Bank? 4. Against what political background was the Second Bank established? 5. What happened to the Second Bank and was it a success?

Text 9. Bank lending

Loans are among the highest-yielding assets a bank can add to its portfolio, and they provide the largest portion of operating revenue. That is why granting credits to qualified borrowers is the principal economic function of banks. For most banks in the United States, loans account for half or more of their total assets and about two-thirds of their revenues. Moreover, risk in banking tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble, its problems usually spring from significant amounts of loans that have become uncollectible due to mismanagement, illegal manipulation of loans, misguided lending policy, or from an unexpected economic downturn. No wonder, then, that when examiners appear at a bank they make a thorough review of the bank's loan portfolio. Usually this involves a detailed analysis of the documentation and collateral for the largest loans, a review of a sample of small loans, and an evaluation of the bank's loan policy to ensure that it is sound and prudent in order to protect the public's funds.

One of the most difficult tasks in lending to business firms is deciding how to price the loan. The rate of interest at which a loan is raised may be thought of as the «price» of borrowing money. The lender wants to charge a high enough rate to ensure that each loan will be profitable and compensate the bank for the risk involved. However, the loan rate must also be low enough to accommodate the business customer in such a way that he or she can successfully repay the loan and not be driven away to another lender or into the open market for credit.

The traditional method of providing funds is the granting of overdrafts. With the overdraft facility, a company opens an account with the bank, and an overdraft with a specified limit is granted on the account. The overdraft is by far the cheapest form of borrowing, but it can only be obtained if the bank manager considers the customers to be creditworthy. Before agreeing practically any loan, a bank asks for some security, i.e. a kind of insurance. Thus a perfect advance is not only profitable and liquid, it is safe too. Many business loans are of such large denomination that the bank itself is at risk if the loan goes bad. Banks need to take special care, particularly, with business loans because they often carry large risk exposure. Moreover, it doesn't take many business loans defaults to create bank earnings losses instead of profits. Most loan officers like to build several layers of protection around a business loan agreement to ensure the return of interest earnings to the bank. – Typically, this requires finding two or three sources of funds which the business borrower could draw upon to support the loan which may be the following: the borrower's profits; assets pledged as collateral behind the loan; a strong balance sheet with ample amounts of marketable assets and net worth; guarantees given by the borrower, such as drawing on personal property.

Banks provide credits to a wide variety of customers and for many different purposes.

Banks make loans of reserves to other banks through the federal funds market and to securities dealers through repurchase agreements. Far more important in dollar volume, however, are direct loans to both businesses and individuals. These loans arise from negotiation between the bank and its customer and result in a written agreement designed to meet the specific credit needs of the customer and the requirements of the bank for adequate security and income.

Most bank credit is extended to commercial and industrial customers. Historically, commercial banks have preferred to make short-term loans to businesses, principally to support purchases of inventory. In recent years, however, banks have lengthened the maturity of their business loans to include term loans (which have maturities over one year) to finance the purchase of buildings machinery, and equipment. Because the longer-term loans carry greater risk due to unexpected changes in interest rates, banks have also required a much greater proportion of new loans to carry variable interest rates that can be changed in response to shifting market conditions. I»

Moreover, longer-term loans to business firms have been supplanted to some extent in recent years by equipment leasing plans available from larger banks and the subsidiaries of bank holding companies. These leases are the functional equivalent of a loan: the customer not only makes the required lease payments for using the equipment but is responsible for repairs and maintenance and for any taxes due. Lease financing carries not only significant cost and tax advantages for the customer but also substantial tax advantages for a bank because it can depreciate leased equipment.

Конец ознакомительного фрагмента.