

## FYS 525, Topic 4: World War 2 Economies

**Background:** World War 2 was easily the most extreme global example of government spending over the past century. To conduct it, government had to interfere in unusual ways in their economies. Examples include expanding the labor force, conscription, rationing, and extreme levels of borrowing.

### Core Concepts:

1. Government borrowing. Governments, like households and firms, borrow. Governments, however, have the power to tax and create money which makes government debt different than private debt. We will consider the consequences of excessive government debt and how to measure it.
2. Rationing and Price Controls. In a capitalistic economy, people are usually allowed to buy as much of an available good or service as they please, at the market price. This does not apply to the Soviet Union, which was a centrally planned economy.
3. Education and Economic Growth. Education is the most important component of *human capital*, which determines how productive workers are.
4. Public goods. Public goods are goods that people cannot be excluded from using and where one person's consumption of the good does not prevent anyone else from consuming it. National defense and roads are common examples. The problem with public goods is that absent government intervention, there is a tendency for people to *free ride* where they benefit from the good, but do not help provide it.

### Key Questions:

1. Why did the outbreak of World War II cause major economic disruptions in the United States?
2. Was the Second World War a period of economic prosperity in the United States?

3. How did the U.S. federal government deal with potential shortages of key goods (*e.g.* rubber, tin) during the war.

4. What is a progressive tax scale and why was it utilized in World War 2?

5. How does the current U.S. Federal tax schedule compare with the one that existed around World War II?

**Assignment:**