

Interwar period, situation after WWII

Europe in International Economy
2015

Impact of WWI on European position in IE

- **US** (CAN, AUS, ARG) **production** and sales **grew** during war:
 - **commodity** and **food** prices were high; **markets** were **secured** (no competition from Europe);
- **Farmers** invested into **new technologies** → borrowing; **after war return of E competition**;
- **Non-European countries** (LATAM, Asia):
 - **lost** source of **imports** of manufactured goods from Europe → **industrialized** (or imported from US);
- **European** producers faced **new competitors**... at the same time was **export revenues** badly **needed**;

	Austria-Hungary (bill.)		France (mill.)		Germany (bill.)		Russia (mill.)		UK (mill.)	
	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export
1913	3,51	2,99	8,421	6,880	10,751	10,097	1,374	1,520	659,1	525,2
1914	2,98	2,24	6,402	4,869	8,500	7,400	1,098	956	601,1	430,7
1915	3,85	1,43	11,036	3,937	7,100	3,100	1,139	402	752,8	384,9
1916	6,09	1,63	20,640	6,214	8,400	3,800	2,451	577	850,9	506,3
1917	5,08	1,81	27,554	6,013	7,100	3,500	2,317	464	994,5	527,1
1918	3,79	1,64	22,306	4,723	7,100	4,700			1,285,3	501,4
1919			35,799	11,880					1,461,5	798,6

	Argentina		Australia		Canada		South Africa		US	
	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export
1913	1,128	1,180	72,5	76,8	619	455	40	28	1,854	2,538
1914	733	916			456	461	34	18	1,924	2,420
1915	694	1,323	58,2	57,9	508	779	30	15	1,703	2,820
1916	832	1,302	70,0	64,1	846	1,179	38	24	2,424	5,554
1917	864	1,250	69,1	86,3	964	1,586	34	29	3,005	6,318
1918	1,138	1,822	55,3	75,1	920	1,269	47	51	3,993	8,159
1919	1,490	2,343	86,3	107,0	941	1,290	47	51	3,993	8,159

	India		Japan		China		Indochina		Indonesia	
	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export
1913	2,022	2,574	795	716	888	628	306	645	464	671
1914	1,550	1,907	671	671	887	555	266	332	412	674
1915	1,487	2,082	636	793	708	653	224	345	390	770
1916	1,710	2,570	879	1,234	805	751	335	391	419	895
1917	1,774	2,572	1,201	1,752	856	721	374	430	385	778
1918	2,018	2,690	1,902	2,159	865	757	363	455	556	676
1919	2,371	3,503	2,501	2,379	1,008	983	751	1,051	740	2,146

The Politics of Peace

- **New geographical configuration** – attempt to **ring-fence Germany** + **W. Wilson**: support for **national self-determination**;
- Collapse of empires: **Austro-Hungarian**, Russian, Ottoman;
 - **Third** of the inhabitants of Eastern Europe **stateless**;
 - **Few regarded** the **settlement** as **final**;
 - **States in East weak** in every sense;
- **Peace settlement** – for **Germany** **cause** for resentment and **revenge**;
- War **guilt clause** – Article 231 of the Treaty of Versailles;
- Disastrous outcome of Paris **peace Conference (Versailles treaty)** for **Germany**:
 - **Loss** of 13% land, 10% citizens, 75% ore, 25% coal reserves;
 - colonies were occupied, foreign investments confiscated - how to import raw materials (to produce to pay reparations) without hard currency?
 - Drastic **reparations** (33 bil. USD=200% GDP);
 - Occupation of the **Ruhr** 1923-25 by France;
 - Rampart **inflation** 1:4,2 in 1914 – 1:4,2 quintillion in 1923;
 - **1923 real GDP on 50%** of 1913...**US** starts to **lend** to GER
 - (Dawes plan 1924, Young plan 1929 -> 1933);
- **Locarno** 1925 GER refused to guarantee her eastern borders;

Reparations problem

- During war **US lend** to GB, FRA, BEL and others app **12bil. USD** – insisted on **repayment** (part of **US isolationism**);
- GB and especially FRA planned to raise money through **reparations** extracted from GER – unrealistic (FRA occupying the Ruhr area) – paid at most 25%;
- **Peace settlement** failed to make adequate **provision** for the economic **reconstruction** of Europe;

CEE (DCs) Debt Problems

- CEE relied on **world markets** for the **sale** of their **primary products** + **depended** on **imported capital** for development;
 - Late **1920s: western markets** were **less open** and the **terms of trade** were turning **against primary** producers (1925-1929 prices of agri.prod. 30% down, stockpiles rose by 75%);

Indebtedness

- **Europe** relied heavily on **capital imports** to balance external accounts;
 - HUN, POL, BUL, YUG – half of inflows to **cover trade deficit**, most of rest to cover foreign debt;
 - By **1929 inflows** **barely sufficient** to cover **interests** and dividends;
 - **Germany: heavy debtor** – complicated by **reparation** payments;
- War debts + reparations + weakening commodity prices + trade deficits + ...**suction** of **funds back to NY** as a result of the US **stock market boom** → **USD shortage**;
 - **US cutback** of **lending 1928** (**tightening** of monetary **policy** to **control** the stock market boom), capital **inflows** to **East Europe stopped**, to **GER halved**;
 - **Germany – inflationary experience** – Reichsbank following a **tight monetary policy** – when the depression set **political system fell apart**;

Great depression

- **World slowing down** - only **US stock exchange grow** (black Thursday/Friday and Tuesday 10/24/1929);
- US contributed to the **spread of panic** – (1922 Fordney-McCumber tariff) **1930 Smoot-Hawley tariff** (attempt to protect US farmers);
 - At first, the tariff seemed to be a success - but when the **Creditanstalt** of Austria fell in **1931**, the global deficiencies of the Smoot-Hawley Tariff became apparent:
 - U.S. **imports decreased 66%** from US\$4.4 billion (1929) to US\$1.5 billion (1933), and **exports decreased 61%** from US\$5.4 billion to US\$2.1 billion;
 - U.S. **imports from Europe** decreased from a 1929 high of **\$1,334 million** to just **\$390 million** during 1932, while U.S. **exports** to Europe decreased from **\$2,341 million** in 1929 to **\$784 million** in 1932;
- Overall, **world trade decreased** by some **66%** between 1929 and 1934 (33% in real terms);

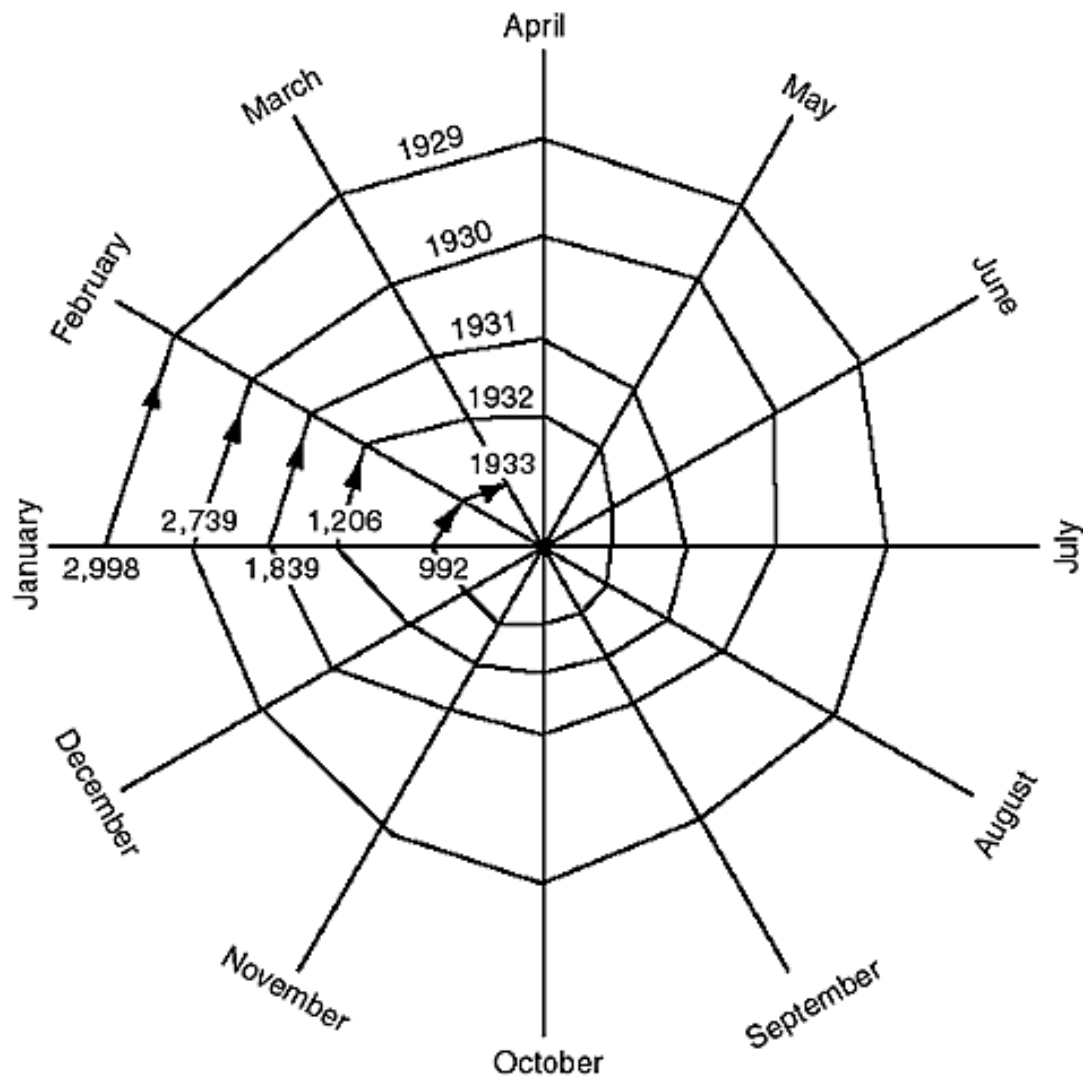
Disintegration of world trade

- **Indebted** countries **didn't have** sufficient **access to markets** and therefore to USD earnings;
 - **raised tariffs** to **earn USD** + to **limit imports** to **stop spending USD**;
 - had to **export** (to earn USD) -> currency **devaluation**;
 - excessive **NTBs** are introduced (import licenses, TBTs, sanitary regulations, capital controls, monopolies for foreign trade);
 - In turn **DCs don't have market access** for their export commodities and without export earnings **cannot buy** AICs' exports (colonial goods exporters were hard hit);
- **Deflation** – economic crisis – role of **labor unions**;
- Fundamental **limitation of immigration** into **US**;

Results

- **1932**: world **industrial output** decreased to **64%** of **1929**;
- **1938** is **trade between AIC** was still **lower** than **1913**;
- isolationism, mercantilism, unilateralism...
- **unemployment** peaks **1932**: **GB 17,2%**, **GER 15,3%**;
- **US 1929-1933**: **-30% GDP**, **-90% investment**, **-50% industrial output**, **unemployment 25,2%**;

THE KINDLEBERGER SPIRAL



Charles Kindleberger, "The World in Depression."

Norman Davies (1996):

“The effects of the Depression were psychological and political as well as purely economic. Everyone from banker to bellboy was perplexed. The **Great War** had brought death and destruction; but it had also brought a purpose to life and full employment. **Peace** appeared to bring neither. There were men who said life amidst the danger and comradeship of the trenches was preferable to life on the dole.”

Table 4.3 Great power trade blocs (as % of the core country trade)

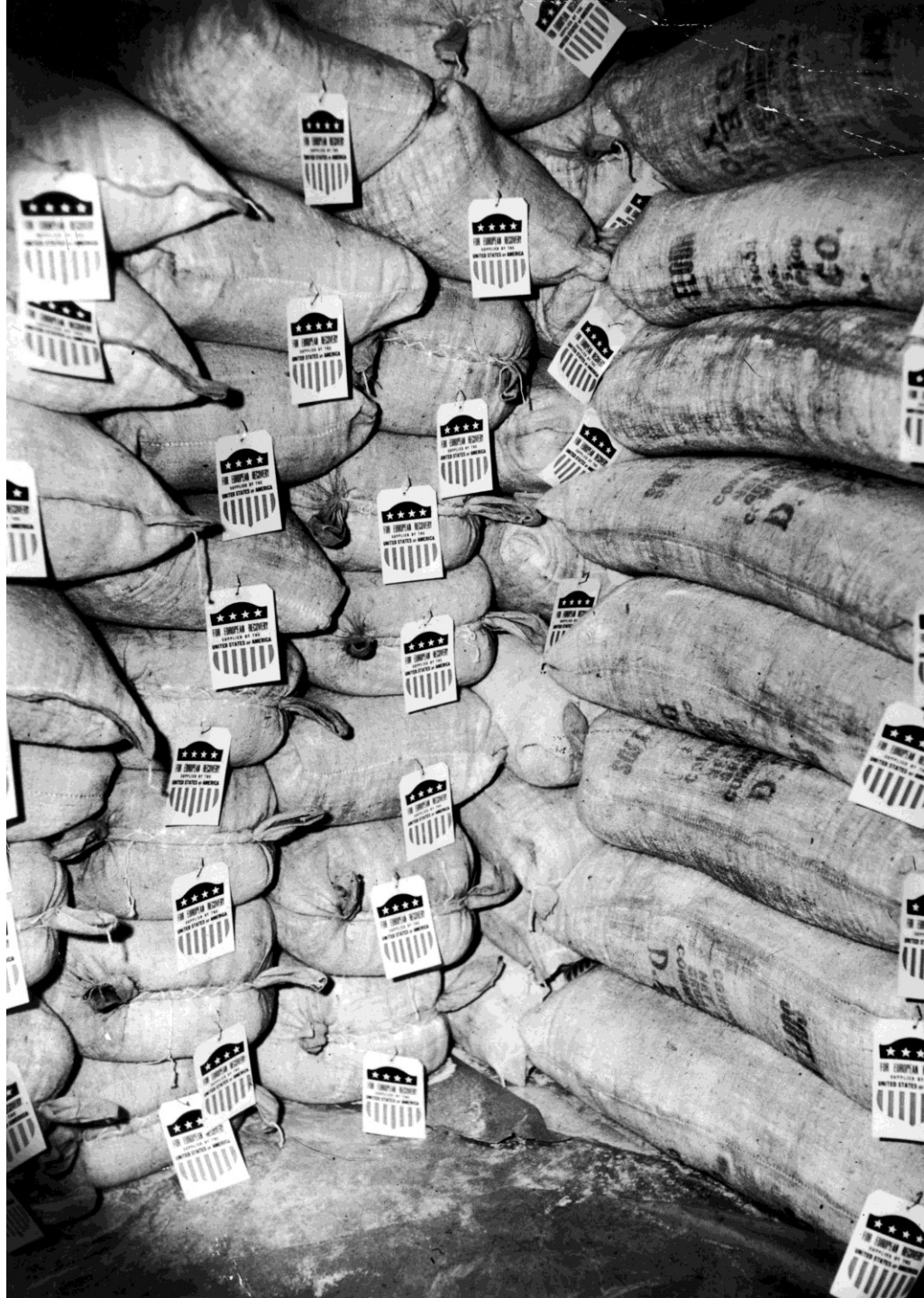
	Imports from bloc		Exports to bloc	
	1929	1938	1929	1938
UK: Empire	30	42	44	50
UK: Other sterling bloc	12	13	7	12
France: Empire	12	27	19	27
Italy: Colonies and Ethiopia	0.5	2	2	23
Japan: Korea, Formosa, Kwantung, Manchuria	20	41	24	55
Germany: Balkans	4.5	12	5	13
Germany: Latin America	12	16	8	11.5

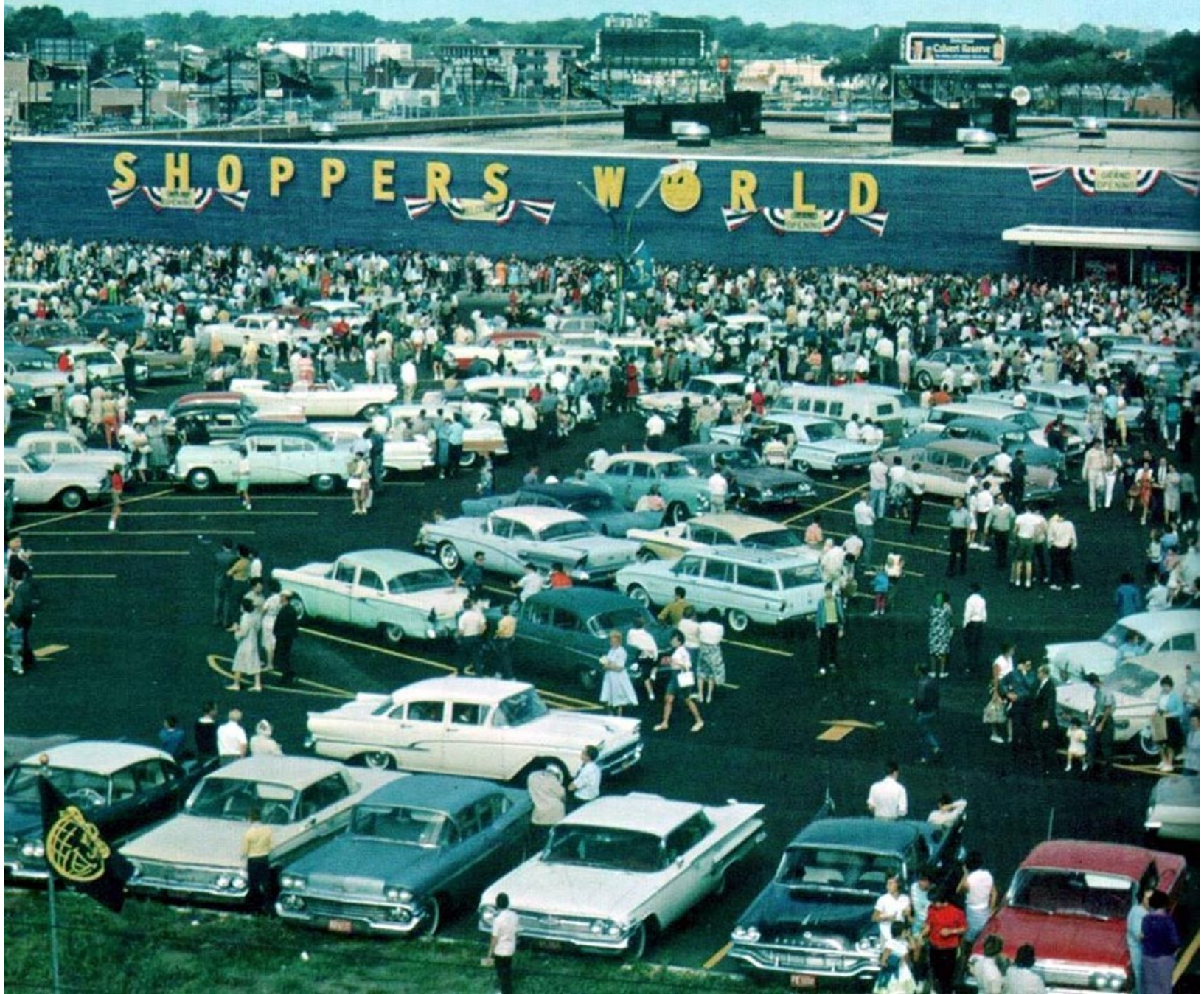
Source: Derived from Hillman (1952, 486).



Reconstruction after WWII

- US to avoid mistakes after WWI – new goal:
 - **high output** and **full employment** on **world scale**; trade **specialization** and reliable world **currency system**;
 - **Europe as crucial participant**;
- US organizations brought **aid directly** to Europe early on (UNRRA, GARIOA, MP);
 - WE states readily joined **IMF 1945, IBRD 1945, UN 1946**;
- **US** and **Canada** even more **ahead** than in 1939 – active role;
 - **US** further developed **consumer goods** (sophisticated, mass consumption);
 - until 1948 **danger of communist takeover** in Europe;
 - growing **problem 1947** – **not enough USD to pay for US goods** and services – total trade **deficit** of WE 7,4 bil. USD;
 - **Solution: secretary of state George C. Marshall – massive aid**; goal: economies without USD deficits;
- **OEEC 1947** – incorporation of **West Germany** as **full member** – contrast with reparation atmosphere after WWI;
 - **US looking** for the day **West Germany** would become the **leader** of WE;
 - GB and FRA less so – **FRA** even looking forward to absorb its occupation zone into FRA;
- **USD world economy** spreading further to **Japan** and **Australia**, Taiwan;
 - Growth of **large business organizations** (EoS) - boosted efficiency;





East-West split

- 1946 **W.Churchill** speech at Fulton, Missouri – coming division of Europe by **Iron Curtain**;
 - 1948 division confirmed by **Berlin airlift**;
 - Soviet refusal of **Marshall plan**;
 - creation of **fortified barrier** to the **movement** of people and goods;
- **Stalin: industrialization** and **collectivization** policy (since 1928 in USSR) applied were appropriate;
 - EE **spared full collectivization** (recognition that agriculture there more productive);
 - **industrialization in all Eastern**;
 - **heavy industry stressed** - unbalanced economies partly dependent on USSR;
- **1949** Stalin founded **COMECON** – little or **no planning** or coordination;
 - **east did little trade** with **West** and **until late 1960s no investments** from west;
 - **migration** virtually **eliminated** since 1948;
- Rates of **growth** were **high** in soviet system: **5%GDP** during 1950-73;
 - however - begun from very **low level**;
 - **massive** use of natural **resources**;
 - labor could be **directed easily**;

Table 5.1 Manufacturing production in the leading western European countries 1947–50 (100 = 1938)

	1947	1948	1949	1950
UK	115	129	137	151
France	95	108	118	121
Germany	33	50	75	95
Italy	93	96	101	115
Belgium	105	121	122	125
Netherlands	104	113	126	139

Source: Sutcliffe (1996, 24).

Cooperation, integration and planning in WE

- With **no markets in the east**:
 - **GER turning on SE** – together with **GB (Commonwealth)** - drew WE into world **exporting**;
- **1970 many products competitive** on both **price** and **quality**;
- **Post-war technology gap** – „advantage“ for WE – **US encouragement** – WE could adopt perfected US processes, marketing, information;
 - **consumer goods**: refrigerators, vacuum cleaners, washing machines (virtually unknown in E); **TV spread**; canned goods, frozen foods;
- **Growth** of WE economy from **early 1950s** -> E **overcame USD shortage** - aims of MP achieved;
- **End of MP 1952** – WE on the way to **full employment**;
 - **GB and Nordic** even able to **combine full employ** with generous **welfare policies**;
 - **GER on the way becoming E leading exporter**;
- Until oil shocks WE produce and trade within **stable world system** set up by the US...
 - **WE benefited more** than **any other** region;

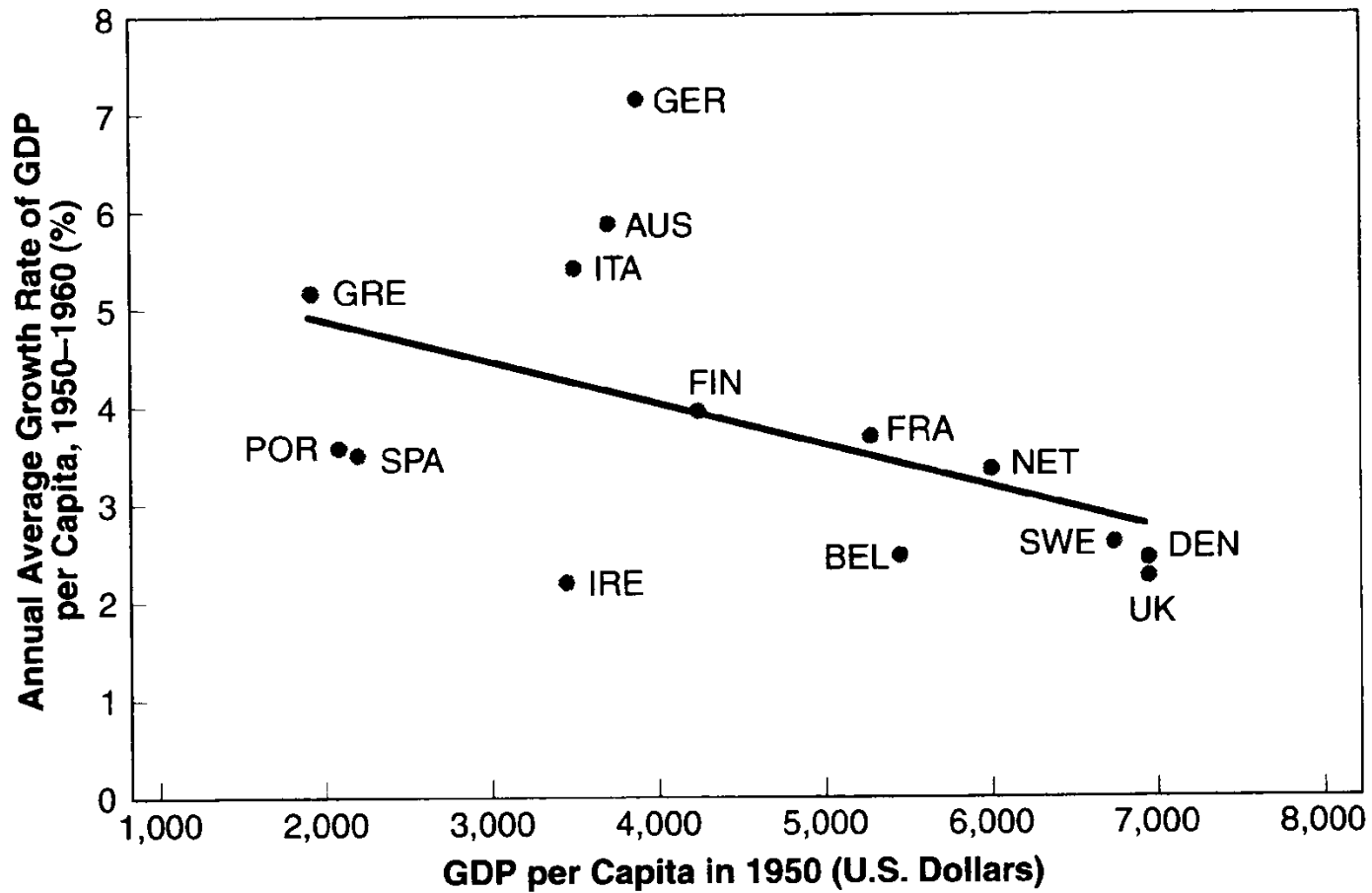


Figure 4.1. The starting point and growth in the 1950s. *Source:* Maddison (2001).
Note: Gross domestic product per capita is expressed in 1990 U.S. dollars.

Growing productivity and employment

- **GB, GER, FRA** – fully industrialized with similar living standard and strong export sector – **convergence**;
- Fluctuations of the **business cycle** still **detectable** but no absolute **contractions** – growth at rates **unknown**;
- Biggest shock **Korean war 1950** - less disturbing than feared – WE exported military goods to US;
- **Participation** in the **Cold War** helped secure full **employment** and encouraged **technology** (electronics, jet engines...);
 - **WE NATO members** spent between $\frac{1}{2}$ and $\frac{2}{3}$ of **US military expenditures** (**peace dividend**);
- **France 1960: nuclear** weapons; **withdrew** from **NATO 1966** – different path, expanding its **exports of arms** on basis **independent on US technology**; valued by third world countries – international respect;
 - **Anti US character** something **new** – suggesting E might develop as an independent political force (Gaulle resigned 1973);

By **mid1950s** fears of **depression dispelled** – confidence had grown in the **economic control policies** linked to **Keynes** – promoted by the **US**;