

# **Golden Age, Structural Crisis**

Europe in International Economy  
2015

# 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 mid**1950s** fears of **depression dispelled** – confidence had grown in the **economic control policies** linked to **Keynes macro policies** – **promoted** by the **US** (*Publ. <-> Priv. Demand + Infl. <-> Growth/Empl.*);

# Germany

- German **refugees** flooded **allied zones** (10 mill. 1945):
  - little work in cities, **lived** on **farms** – labor for **lodging**;
  - enhanced labor force; when **moved** into **factories** proved **hard-working** and easy to train;
- Existing industrial workers equally cooperative - **long hours, low wages**;
  - New industry-wide **unions** reinforced this attitude – encouraging **cooperation** between **employers** and the **workers**;
- **Educational system** flourished **during war** (to avoid military service) + high unemployment after war;
- Industrial structure leaned since 1900 towards **producer goods**:
  - historically exported largely to EE;
  - **supplies** of **coal, iron, steel** – Ruhr basin– fitted to produce **cheap producer** goods – most of Europe in need;
  - big **exports** – railway engines, transport equipment, machine tools;
  - **imported consumer** goods especially from **SE**;
- **High quality** – created **secure markets** in Europe, from **1950 exporting outside Europe** – big **reserves** of sterling and USD;
  - maintained the value of **DM** with **low inflations** – GER increased exports when GB beginning to struggle with uncompetitive export prices;
  - 1950-1973 **export increased** annual **12,4%** – **highest** between AIC;
  - living standards **overtaking GB 1960**;
- GER **unique** product of the war – new housing (**urbanism, infrastructure**).



Bundesarchiv, Bild 183-B0527-0001-753  
Foto: Röhnert | 31. März 1947



# France

- Defense of **strong Franc** between wars on **expense** of **industrial** growth → national perception that France was economically weak and backward;
- **Modernization strategy** (**Germany** still feared);
  - **Modernization pushed** forward by **civil servants** in cooperation with number of **big firms** (**indicative planing**);
- **Monnet plan** since 1946;
  - control of German **coal-producing areas**: to redirect the production away from **GER** industry and into **FRA**;
  - sought to **coordinate** basic **production** and **infrastructural investment** – business+ government + labor representatives in **committees**;
  - **5 years targets** (investment and workforce training - **confidence**);
- **Growth** proceeded **rapidly** → improvements in transport and power networks → extended scope for industrialization to remote areas;
- Big **surplus** of **labor** - **high birth rate**, transferred from **agriculture**;
- Colonial **empire** with big French **population**: market + export of lifestyle;
- In North Africa **oil** reserves developed 1950s to compensate **lack** of **coal** + **nuclear** power **programe**;
- 1960 third industrial power in WE;;

# Great Britain

- **Less damaged** than GER – leading European economy;
- In 1945 still more **military bases** worldwide than US + **nuclear** capacity;
- For **US** major **European foothold**;
- **Problems:**
  - **BoP:** industrial **export** have to be **maximized** to secure **USD** and **domestic production expanded** to **limit imports**;
  - At the same time – **people** were seen to need **reward** for wartime **efforts** (**welfare state**);
- **1960 GB loosing competitiveness**, investment held back, firms struggled with **old equipment**;
- Government still **aiming** at **full employment**, **wages** much **higher** than on **continent**:
  - **Trade unions** able to **prevent** substitution of labor by **technology** and new capital goods (neither lower wages nor shorter hours);
- Very **low growth** – only **2,9%** 1950-55; **2,5%** to 1955-1960;
- First industrializer -> moving on to a **stage** of **maturity**:
  - **hard manual work** no longer optimal;
  - most best **careers** seen in **tertiary sector**, **industry** did **no attract** people of advanced education;
  - **workers not** as **grateful** for job as **GER**;
- With **large home market** producers did **not** need to **secure foreign** markets -> many **products not competitive** abroad (**Commonwealth** – easy and **conservative market**; vs. EEC+GATT);
- Few fully aware – till **1960** living **standards still highest** in E + consumer boom and leisure culture;
- These years of **relative decline** – **reduced role** and **influence of GB**.

# Italy

- **Partial modernization** affecting north;
- US main modernizing force (danger of **Communism**);
- **Inability to develop** mass **markets** and **exports even** in traditional **cotton** textiles;
- **State intervention** in industry retained in the interest of directing effort **into dollar earning export** – **cotton** first (US designed policies);
- **Eventually low** production **costs** and **emphasis** on **consumer goods** – methods and equipment derived from US; **Marshall plan** bigger impact than elsewhere;
- **Promotion of education**, especially in rural areas;
- Election **1948** → **centrist government** → GOV **reduced** price **controls and regulations** form **fascist** age;
- **Transition from Mare Nostra to European integration** – **outstanding** formula for **progress** – **example** for the modernization of **SE**;
- GOV encouraged **home market products** at the same time as **boosted exports** (fridge, scooters – competitive in **SE**);

## Spain, Port, Greece

- **POR** – **colonial** empire, conservative colonial policy;
- **SPA** – still under **facist** – big national companies – most economy held down by small-scale unproductive agriculture;
- **GRE** **paralyzed** by **civil war** 1947-1949.



*Table 5.2 Annual percentage compound growth rate in GDP 1950–64*

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	1950–55	1955–60	1960–64
UK	2.9	2.5	3.1
France	4.4	4.8	6.0
Germany	9.1	6.4	5.1
Italy	6.3	5.4	5.5

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*Source:* Alford (1988, 14).

*Table 5.4 Annual average compound growth rate in export volume 1950–73  
(per cent per annum)*

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Germany	12.4
Italy	11.7
Austria	10.8
Netherlands	10.3
Belgium	9.4
France	8.2
Switzerland	8.1
Norway	7.3
Sweden	7.0
Denmark	6.9
UK	3.9

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*Source:* Maddison (1989, 67).

# Interpretation of European succes (*Eichengreen*)

- **Catch-up** was facilitated by **solidaristic trade unions**, cohesive **employers associations**, **growth-minded governments** working together to mobilize **savings**, finance **investment**, and stabilize **wages** at levels consistent with **full employment**;
- **Coordination problem** in industrial sector was **solved** by **extra market mechanisms** – **government planning agencies**, **state holding companies**, industrial conglomerates, **nationalization**;
- **Financed** by patient **banks** in long-standing relationships with their **industrial clients**;
- This codified **set of norms** + **understandings** (institutions) – inherited from the past (**corporativism**);
  - **Challenges** of this period **resembled those** that had E **confronted earlier** – **modern industry** had **developed later** on the **continent** than in **GB** and US;
- Prominent **role of the state**: **late-industrializing economies** → initial **growth spurt depended** as much **on assimilating** and **adapting existing technologies** as on **pioneering** new ones;
- Naturally developed **systems** of **human capital formation** emphasizing apprenticeship **training** and **vocational skills** as much as university education;

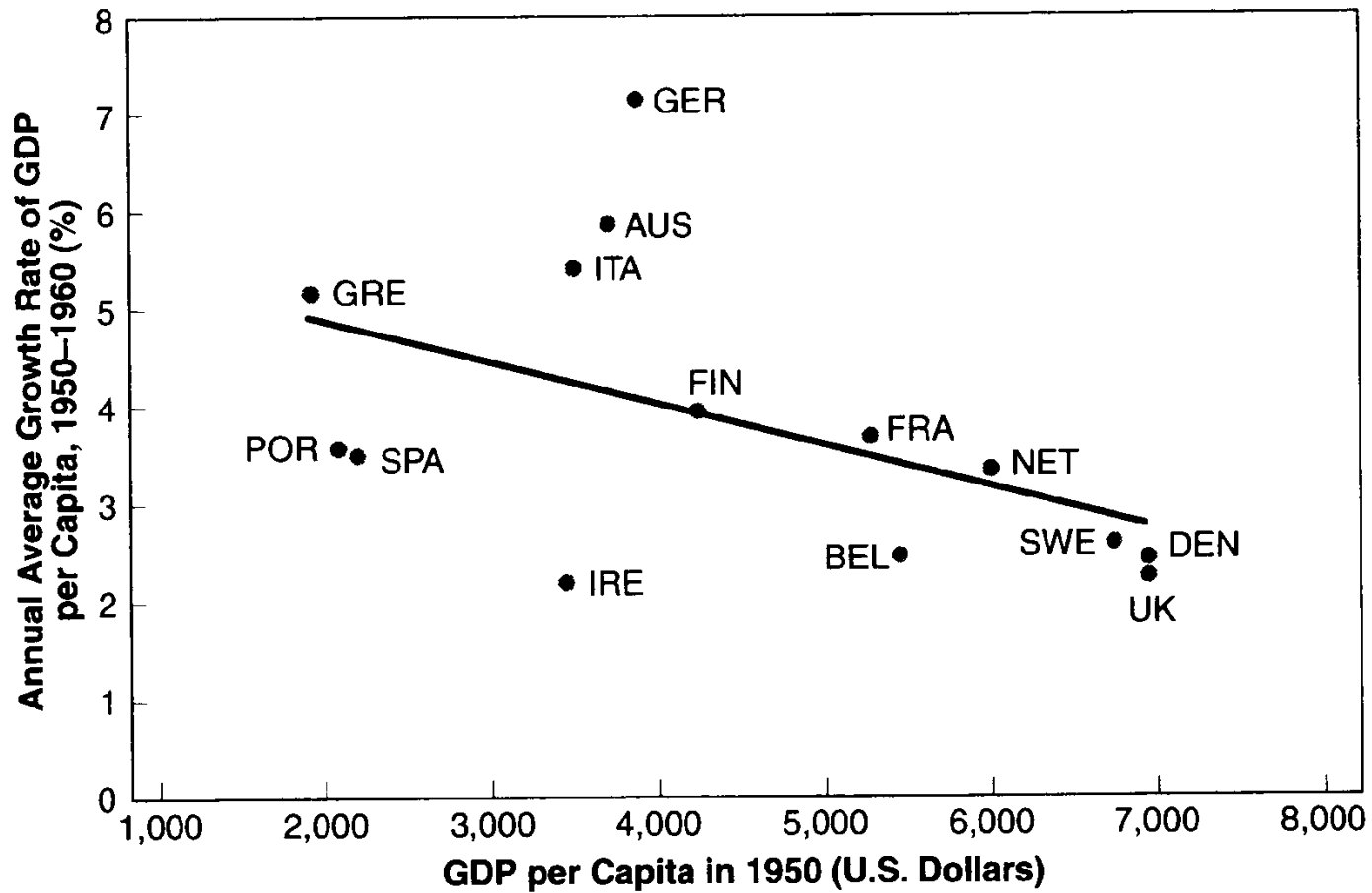


Figure 4.1. The starting point and growth in the 1950s. *Source:* Maddison (2001).  
*Note:* Gross domestic product per capita is expressed in 1990 U.S. dollars.

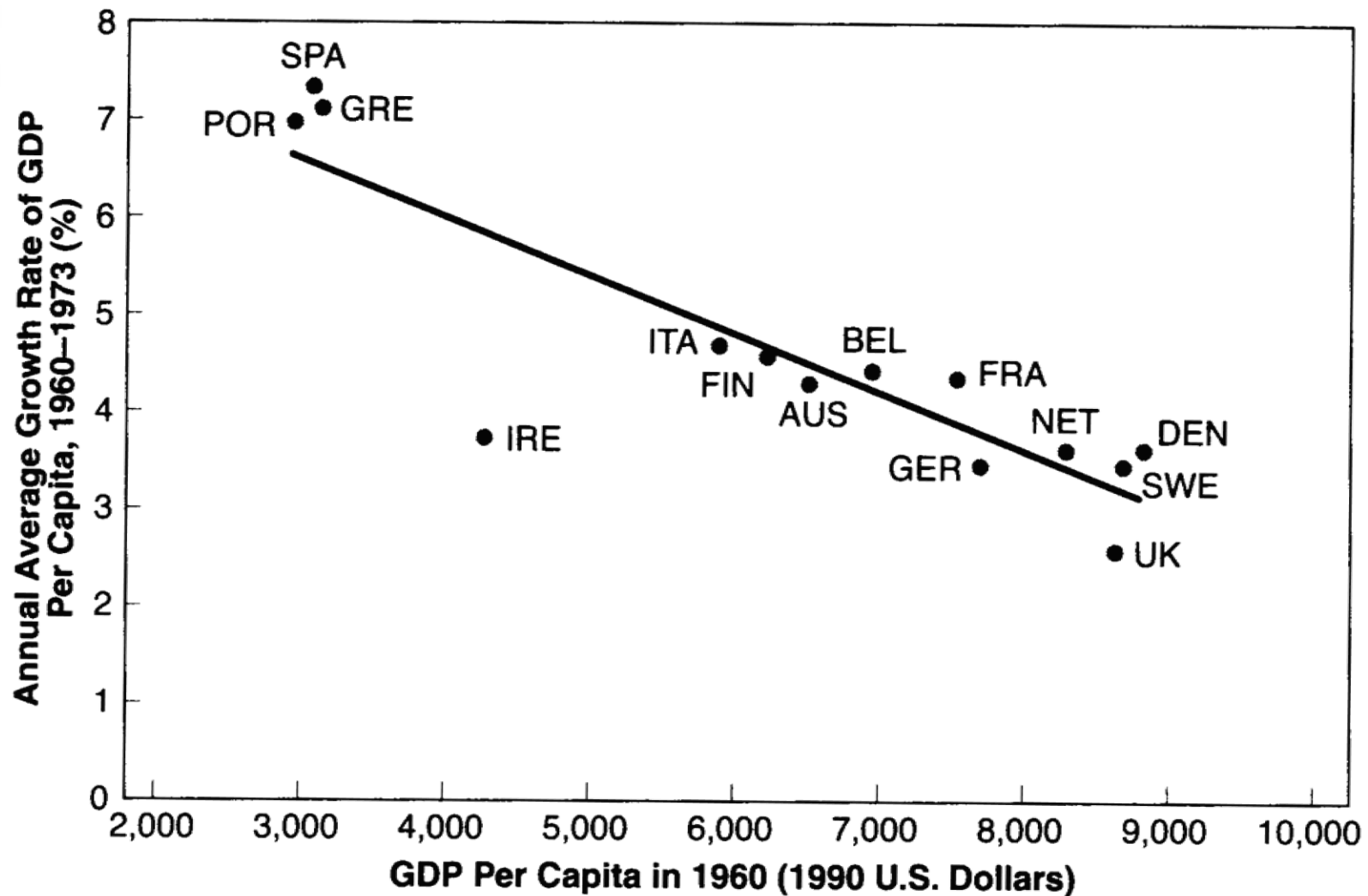


Figure 7.1. The starting point and growth in the 1960s. *Source:* Maddison (2001). *Note:* Gross domestic product per capita is expressed in 1990 U.S. dollars.

# Decolonization and immigration

- **US advised to liberate colonies**; apart of FRA (POR) progress quick;
- Found that can **maintain economic links** - reluctance weakened;
- **FRA** - colonies as cultural **extension** of **homeland** – defeat by Germany made case for overseas territories - young residents from colonies **encouraged to study** in France;
- French **empire decolonized 1958** (war in **Indochina lost 1954**; war in **Algeria** which gained independence **1962**);
- Influx of **arab immigrants**– hostility among indigenous French;
- Decolonization – ex-col. **people allowed to live** in their **home country** in Europe;
- **Few Europeans crossing iron curtain** – **composition of industrial population towards non-white/non-Europeans by the 60s.**
- **GER** – **sources of labor in EE blocked off** - began **import labor**;
  - First drew on **SE** – workers (returning home) – few problems of cultural assimilation;
  - **1960s** started to draw heavily on **Turkey** and **Iran**;
- **Moslem workers difficult to absorb** – third world transplant;
- Most **uneducated, unskilled** – **low pay** limited them to **degraded housing**;
- Europe - **new racial structure** – low paid industrial workers helped sustain E growth, but remained isolated social force.

*Table 5.3 Total foreign workers in West Germany, and percentage of the total workforce 1954–71*

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Year	Total	Percentage
1954	72 906	0.4
1960	279 390	1.3
1965	1 164 364	5.5
1970	1 838 859	8.5
1971	2 163 766	10.0

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*Source:* Sutcliffe (1966, 188).

# Deceleration

- **Late 60s inflation increased** – partially function of investment cycle – but **long term factors** were at work;
- As **US** and **GB** experienced **slow growth** after war owing to the **completion** of their **industrialization** process – **WE** industrialization approaching **completion** by **1970**;
  - **Land developed, infrastructure completed** - workers moving from **low** to industrial wages;
  - **Agriculture** – formerly subsidized, now **overproduction** + **further** productivity gains **hard** to achieve;
- **WE labor shortage** cannot be solved by inexperienced non-Europeans;
- Growing **demands by organized labor** – **discouraging investment**;
- **Political pressure from left** – FRA, ITA, GER ;
- **Students: aspirations boosted** by post-war boom - turned **against capitalism** and liberal democracy late 1960s;
- Opposition to US intervention in **Vietnam** – **threatened** European **confidence** in **US**;
- Student riots in Paris 1968; **post war WE consensus under serious threat**;
- (*OPEC dragged WE towards international cooperation in the energy field...*)
- Irony – **US** now **too weak** to revive **WE**;





# Oil shocks

- **Resource shock 1973-74** exacerbated already **inflationary** environment;
- **Cheapness** of crude **oil** major **factor** of the **boom** – 1966 oil supplanted **coal** as most significant energy resource (**except** in **GB**);
- **Increasingly** from **Middle East**:
  - Insignificant producer 1939; lions share after WWII – Kuwait, SA, Iran, Iraq;
  - **Risks** of **overdependence** from region driven by antagonisms Arabs vs Jews;
  - Prolonged enclosure of **Suez** 1967-1975, rise of **OPEC since 1960**;
- **Dependence** grew: 1972 **2/3 WE energy** consumption (**France 72,5%** primary resources energy petroleum based, **Italy 78,6%**):
  - Bargain **prices** and **abundant supplies** - development of **energy intensive sectors** – cars, consumer **durables** and **chemical** products, **fuel** and **heating** in industry;
  - **6.10 1973 war** Israel and Arabs – **OPEC doubled** crude oil prices and imposed an oil **embargo** (Oil Decade **1973-82**);
  - **Foreign companies** – **exclusive** rights through **concessions** dating from **1920s** replaced by **national** companies;
  - **Vienna** summit 6.11.1973: **EEC backed Arab** demand on Israel to **withdraw** to its pre 1967 borders;
  - **OPEC ministers**: **further increase 11,65 USD/barel** (**400%** increase compared pre crisis 2,59USD);
- **1970s oil prices** increased **10x**, **EEC inflation 17,5%** and remained 13,5% between 1975-78, further up with second oil shock 1979;
- **Energy conservation** and **efficiency** became **key themes** (**North Sea, Alaska, North Africa, USSR**);

*Table 6.2 Primary sources of energy in western Europe, 1955 and 1972 (%)*

Use	1955	1972
Coal	75	23
Petroleum	22	60
Natural gas	1	9
Other	2	8
Produced in Europe	78	35
Imported from non-Europe, net	22	65

*Source:* Prodi and Clo (1976, 92).



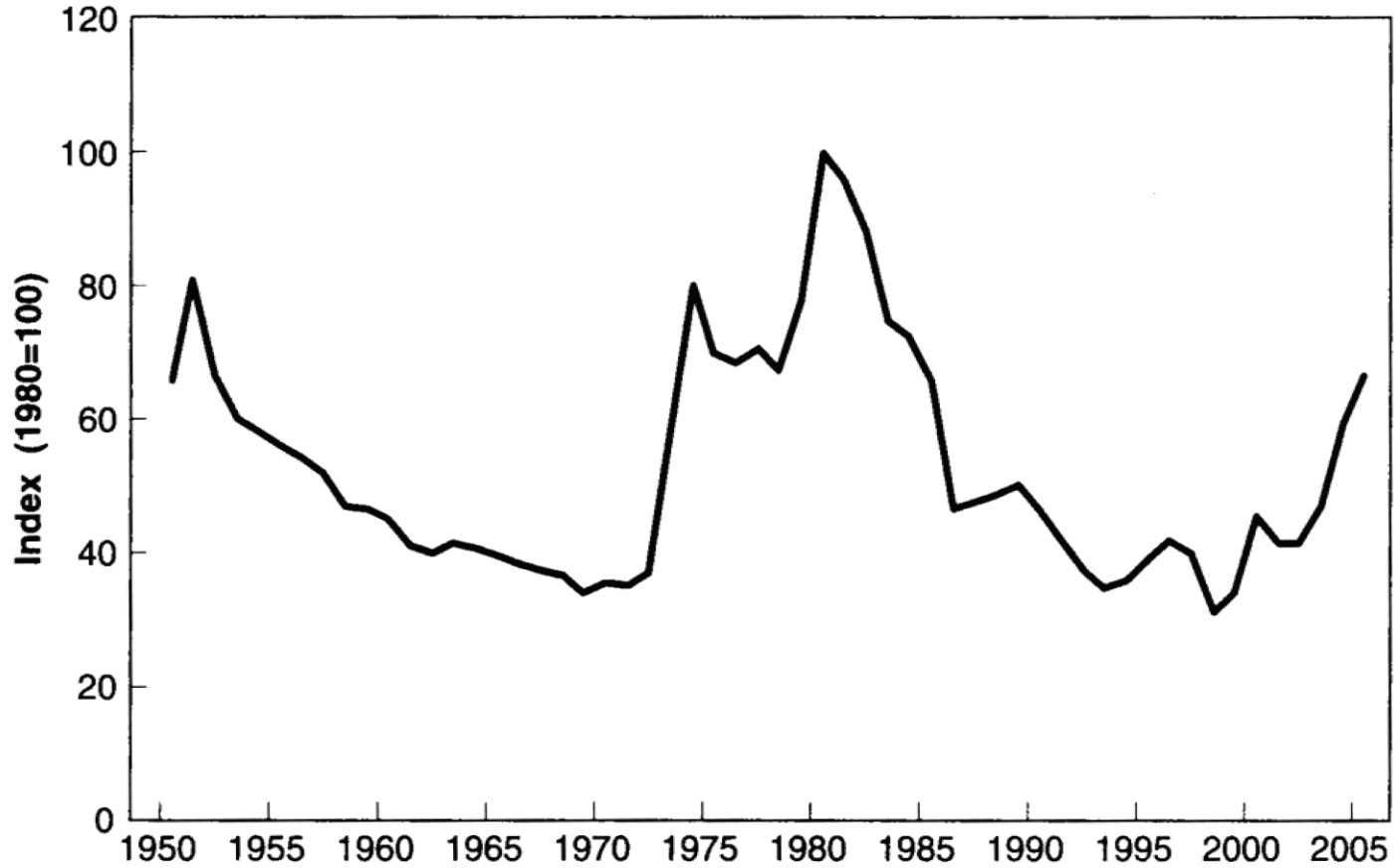


Figure 9.1. Real commodity prices (including oil), 1950–2005. Sources: Layard, Nickell, and Jackman (1991); International Monetary Fund, *Primary Commodity Prices* (various years).

- Although first **oil shock** seen as a principal factor in **terminating** the long **boom** – preceded by number of **worrying developments**:
  - **collapse of B-W** and return to **free floating** currencies;
  - **labor market** constraints;
  - **exhaustion of catch up effect**;
  - **competitive newly industrialized** countries (JAP, Korea, Taiwan, LATAM);
- *Eichengreen*: Oil shocks cannot explain why **growth failed to recover** subsequently:
  - no evidence of **larger falls** in **energy intensive** industries;
  - real **price of energy not** significantly **higher after** 1985 than before 1973;
- **Wages explosion** - major **destabilizing** factor:
  - **rising income** as a norm and **expectation** – labor **markets tightened** as **AGRI reserves depleted**, shorter **hours**, more **holidays**, higher **pay** – requests of **unions** – labor no longer willing to bear the consequences of downturn;
  - **Narrowing technological gap** Europe – US: limited scope for substituting capital for labor – rise in **real wages** ran **ahead of productivity increases** – **falling profit** levels – employers responded by **rising prices**;

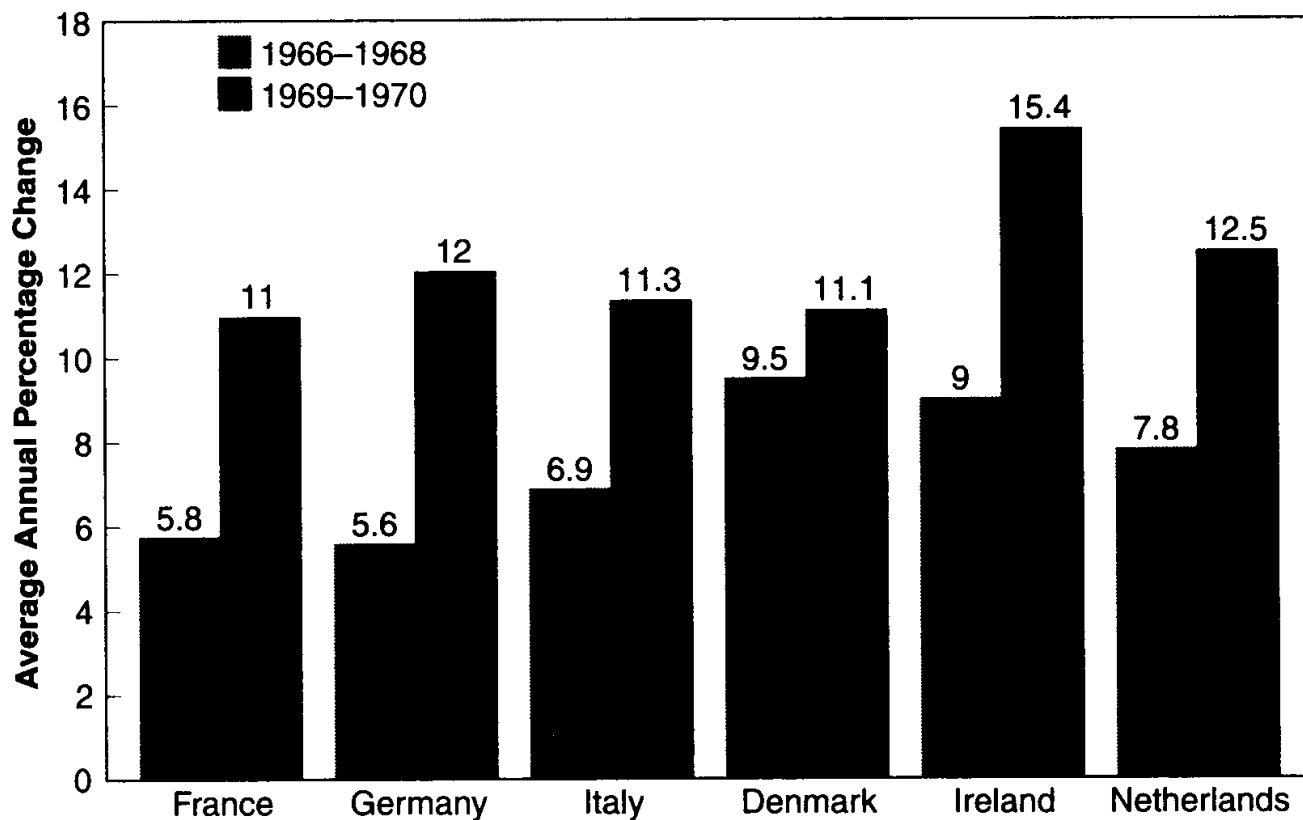


Figure 7.2. Nominal wage changes, 1966-1970. *Source:* Boltho (1982). *Note:* Figure shows average annual percentage changes of wages and salaries per employee. For France, figures are based on statistics for 1965-1967 and 1968-1969.

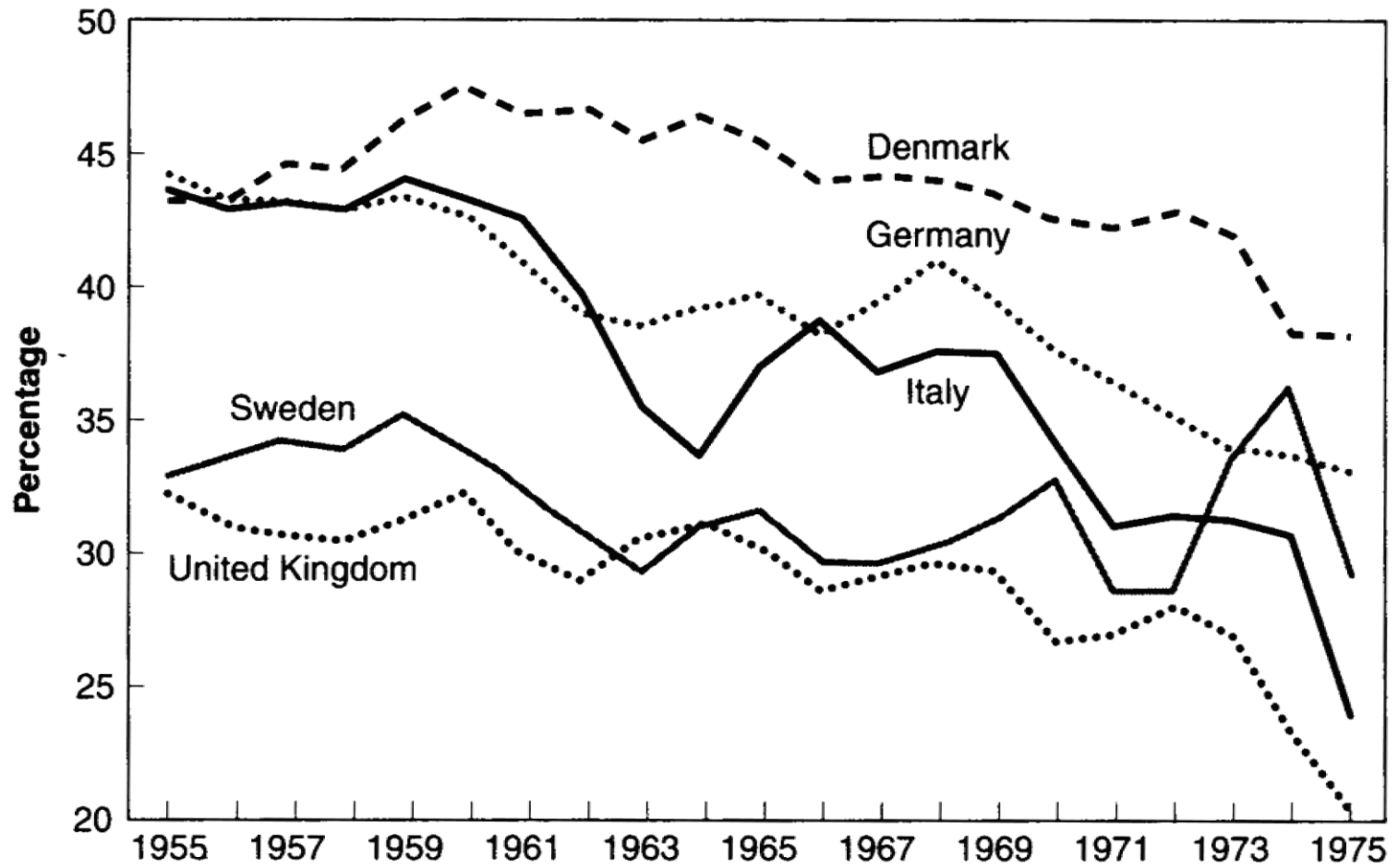


Figure 7.4. Profit shares in selected Western European countries, 1955–1975 (Percentage of national income). *Source:* Hill (1979).



Average annual rate of growth of output per worker and its determinants, 1960–2000,  
various subperiods (Percent per year)

Country	1960–1975				1975–2000			
	y	k	h	tfp	y	k	h	tfp
Austria	4.65	7.03	0.50	1.99	2.00	2.58	0.98	0.49
Belgium	3.88	4.55	0.79	1.85	1.79	1.97	0.72	0.66
Denmark	2.07	3.21	0.36	0.77	1.74	1.39	0.33	1.06
Finland	3.70	5.68	1.11	1.08	2.14	2.21	0.98	0.75
France	3.87	6.09	0.96	1.22	1.67	2.27	0.80	0.39
Germany	3.45	6.19	1.06	0.69	1.21	0.83	0.72	0.45
Greece	6.47	9.33	0.71	2.92	1.06	1.03	1.02	0.03
Ireland	3.68	3.30	0.54	2.23	4.23	3.96	0.86	2.35
Italy	4.40	5.15	0.78	2.18	2.05	2.01	1.02	0.70
Netherlands	2.78	4.54	0.83	0.73	1.11	0.99	0.90	0.19
Norway	2.62	3.00	0.41	1.36	2.21	2.12	0.52	1.16
Portugal	4.64	5.46	0.61	2.43	2.69	3.63	0.79	0.96
Spain	6.47	6.30	0.37	4.14	1.28	1.99	1.17	−0.16
Sweden	2.56	4.43	0.69	0.63	1.15	1.31	0.88	0.13
United Kingdom	1.96	5.14	0.58	−0.13	1.86	2.05	0.73	0.69
Memo item: United States	1.81	1.61	0.80	0.74	1.94	2.62	0.53	0.72

Source: See appendix.

Notes: y = output per worker; k = physical capital per worker; h = human capital per worker; tfp = total factor productivity per worker.

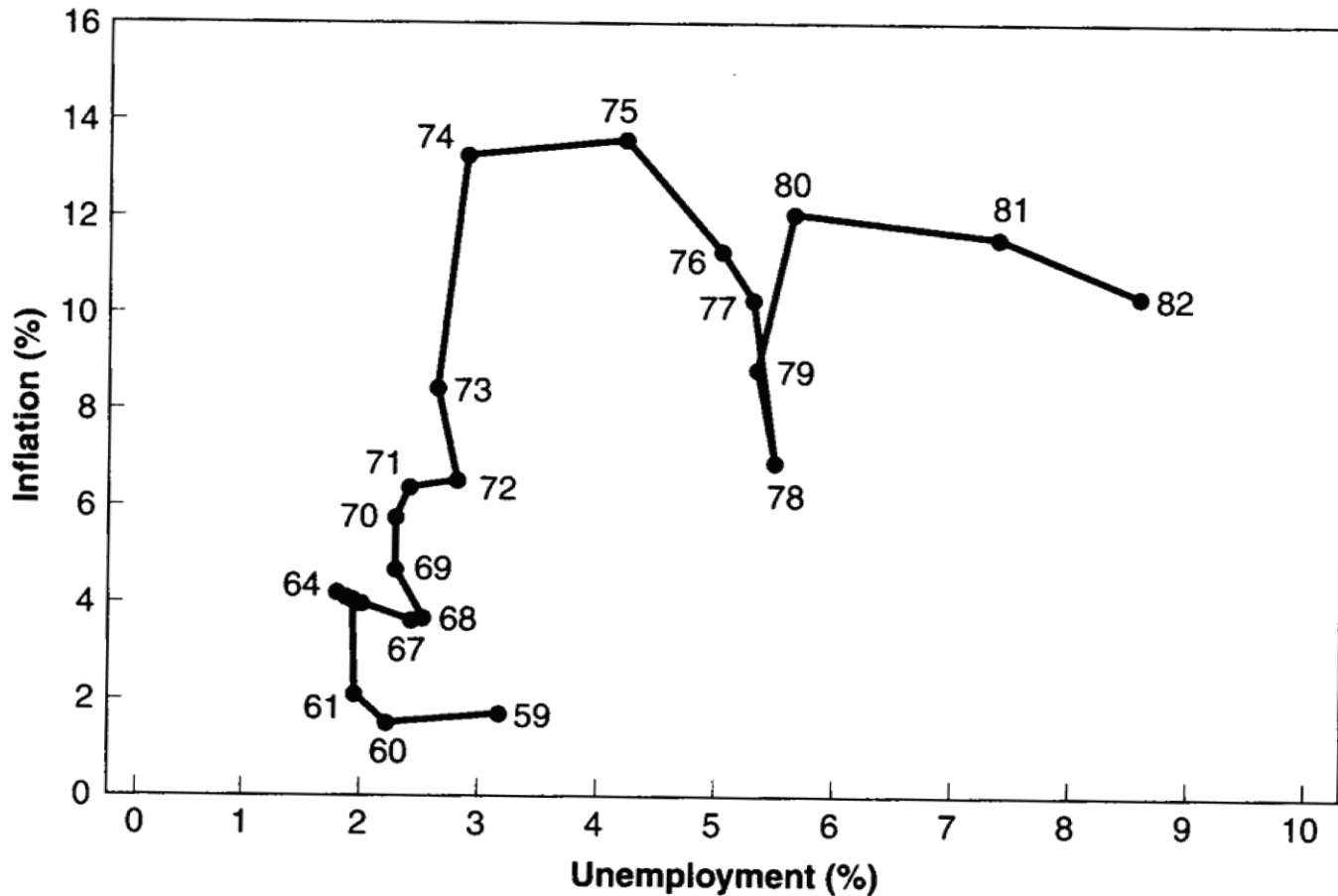


Figure 9.4. Inflation and unemployment in Europe, 1959–1982. *Source:* Eurostat. *Note:* Figure shows aggregate statistics for nine European countries: Belgium, Denmark, West Germany, France, Ireland, Italy, Luxembourg, Netherlands, and the United Kingdom.

**Table 3–8. Experience of Unemployment and Inflation in Advanced Capitalist Countries, 1950–98**

	<i>Level of Unemployment (per cent of labour force)</i>				<i>Changes in consumer price index (annual average compound growth rate)</i>			
	<i>1950–73</i>	<i>1974–83</i>	<i>1984–93</i>	<i>1994–98</i>	<i>1950–73</i>	<i>1973–83</i>	<i>1983–93</i>	<i>1994–98</i>
Belgium	3.0	8.2	8.8	9.7	2.9	8.1	3.1	1.8
Finland	1.7	4.7	6.9	14.2	5.6	10.5	4.6	1.0
France	2.0	5.7	10.0	12.1	5.0	11.2	3.7	1.5
Germany	2.5	4.1	6.2	9.0	2.7	4.9	2.4	1.7
Italy	5.5	7.2	9.3	11.9	3.9	16.7	6.4	3.5
Netherlands	2.2	7.3	7.3	5.9	4.1	6.5	1.8	2.2
Norway	1.9	2.1	4.1	4.6	4.8	9.7	5.1	2.0
Sweden	1.8	2.3	3.4	9.2	4.7	10.2	6.4	1.5
United Kingdom	2.8	7.0	9.7	8.0	4.6	13.5	5.2	3.0
Ireland	n.a.	8.8	15.6	11.2	4.3	15.7	3.8	2.1
Spain	2.9	9.1	19.4	21.8	4.6	16.4	6.9	3.4
Western Europe <b>Average</b>	<b>2.6</b>	<b>6.0</b>	<b>9.2</b>	<b>10.7</b>	<b>4.3</b>	<b>11.2</b>	<b>4.5</b>	<b>2.2</b>
Australia	2.1	5.9	8.5	8.6	4.6	11.3	5.6	2.0
Canada	4.7	8.1	9.7	9.4	2.8	9.4	4.0	1.3
United States	4.6	7.4	6.7	5.3	2.7	8.2	3.8	2.4
<b>Average</b>	<b>3.8</b>	<b>7.1</b>	<b>8.3</b>	<b>7.8</b>	<b>3.4</b>	<b>9.6</b>	<b>4.5</b>	<b>1.9</b>
<b>Japan</b>	<b>1.6</b>	<b>2.1</b>	<b>2.3</b>	<b>3.4</b>	<b>5.2</b>	<b>7.6</b>	<b>1.7</b>	<b>0.6</b>

Source: Unemployment 1950–83 from Maddison (1995a), p. 84, updated from OECD, *Labour Force Statistics*. Consumer Price index 1950–83 from Maddison (1995a), updated from OECD, *Economic Outlook*, December 1999.

	1951– 1960	1961– 1970	1971– 1980	1981– 1990	1992– 2000
<b>USA</b>					
GDP growth	<b>3,4</b>	<b>4,2</b>	<b>3,3</b>	<b>3,2</b>	<b>3,6</b>
Inflation	<b>2,1</b>	<b>2,8</b>	<b>7,9</b>	<b>4,7</b>	<b>2,6</b>
<b>EU-15</b>					
GDP growth	<b>4,8</b>	<b>4,8</b>	<b>3,0</b>	<b>2,4</b>	<b>2,1</b>
Inflation	<b>3,6</b>	<b>3,9</b>	<b>10,8</b>	<b>6,7</b>	<b>2,4</b>

## Explanation of Problems of European Economy (*Eichengreen*)

- Just as this **inheritance** of economic and **social institutions** contributed to the **extraordinarily successful** performance of European economy after 1950 – it was **equally** part of the **explanation** for European **less satisfactory performance** in the **subsequent 25 years**;
- As the early opportunities for **catch-up** and **convergence** were **exhausted**, the continent had to find **other ways** of sustaining its growth;
- Had to **switch** form growth based on brute force **capital accumulation** and the acquisition of **known technologies** to growth based on **increase** in **efficiency** and **internally generated innovation**;
- Shift from **extensive** to **intensive growth**
  - **Extensive**: based on capital formation and the existing stock of technological knowledge – **raising output** by **putting more people to work** at **familiar tasks** and raising labor productivity by **building more factories along the lines of existing factories**;
  - **Intensive growth** – through **innovation** - more of the increase in output is accounted for by **technical change** and **less by the growth** of **factor** inputs;
- Europe had no choice but to **switch** to intensive growth **from the 70s** on;

- **Bank-based financial systems** had been effective at mobilizing resources for investment by **existing enterprises** using **known technologies** – less conducive to growth in a period of **heightened technological uncertainty**;
  - The role of finance was to take **bets** on **competing technologies** something for which **financial markets** were **better** adapted;
- Generous **employment protections** and **heavy welfare** – given labor the **security** to **accept** the installation of **mass-production technologies** – **now** become an **obstacle** to growth as **new firms** seeking to **explore** the viability of **unfamiliar** technologies...;
- System of **worker co-determination**: **union representative** on **big firms supervisory boards** – ideal for helping labor to verify that **owners** were **investing** the **profits** resulting from **wage restraint** - but **now discouraged** bosses from taking the tough **measures** needed to **reconstruct** in **preparation** for **adoption** of radical **new technologies**;
- **State holding** companies that had been **engines** of **investment** and **technical progress** were **no longer efficient** mechanisms for allocating resources;
  - They were increasingly **captured** by **special interests** and used to **bail out** **loss-making** firms and prop up declining industries;
- This explains how the average **annual** rate of **growth** GDP/C in **WE** could have **fallen** by **more than half** between the 1950-1973 and the 1973-2000 period.

**Table 3–1a. Growth of Per Capita GDP, Population and GDP: World and Major Regions, 1000–1998**

(annual average compound growth rates)

	<i>1000–1500</i>	<i>1500–1820</i>	<i>1820–70</i>	<i>1870–1913</i>	<i>1913–50</i>	<i>1950–73</i>	<i>1973–98</i>
<b>Per capita GDP</b>							
Western Europe	0.13	0.15	0.95	1.32	0.76	4.08	1.78
Western Offshoots	0.00	0.34	1.42	1.81	1.55	2.44	1.94
Japan	0.03	0.09	0.19	1.48	0.89	8.05	2.34
Asia (excluding Japan)	0.05	0.00	–0.11	0.38	–0.02	2.92	3.54
Latin America	0.01	0.15	0.10	1.81	1.42	2.52	0.99
Eastern Europe & former USSR	0.04	0.10	0.64	1.15	1.50	3.49	–1.10
Africa	–0.01	0.01	0.12	0.64	1.02	2.07	0.01
World	0.05	0.05	0.53	1.30	0.91	2.93	1.33
<b>Population</b>							
Western Europe	0.16	0.26	0.69	0.77	0.42	0.70	0.32
Western Offshoots	0.07	0.43	2.87	2.07	1.25	1.55	1.02
Japan	0.14	0.22	0.21	0.95	1.31	1.15	0.61
Asia (excluding Japan)	0.09	0.29	0.15	0.55	0.92	2.19	1.86
Latin America	0.09	0.06	1.27	1.64	1.97	2.73	2.01
Eastern Europe & former USSR	0.16	0.34	0.87	1.21	0.34	1.31	0.54
Africa	0.07	0.15	0.40	0.75	1.65	2.33	2.73
World	0.10	0.27	0.40	0.80	0.93	1.92	1.66
<b>GDP</b>							
Western Europe	0.30	0.41	1.65	2.10	1.19	4.81	2.11
Western Offshoots	0.07	0.78	4.33	3.92	2.81	4.03	2.98
Japan	0.18	0.31	0.41	2.44	2.21	9.29	2.97
Asia (excluding Japan)	0.13	0.29	0.03	0.94	0.90	5.18	5.46
Latin America	0.09	0.21	1.37	3.48	3.43	5.33	3.02
Eastern Europe & former USSR	0.20	0.44	1.52	2.37	1.84	4.84	–0.56
Africa	0.06	0.16	0.52	1.40	2.69	4.45	2.74
World	0.15	0.32	0.93	2.11	1.85	4.91	3.01