

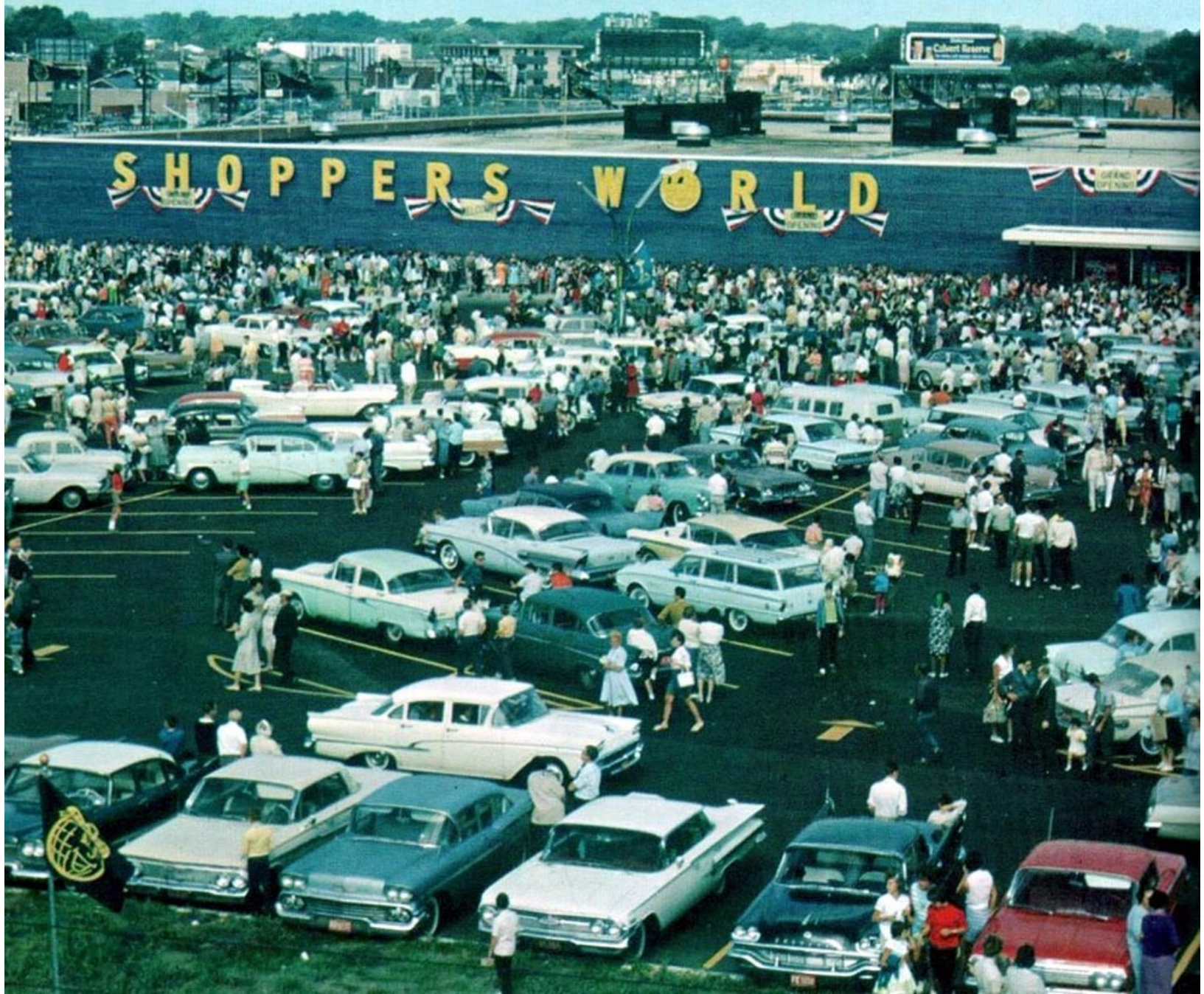
Reconstruction after WWII and Golden Age

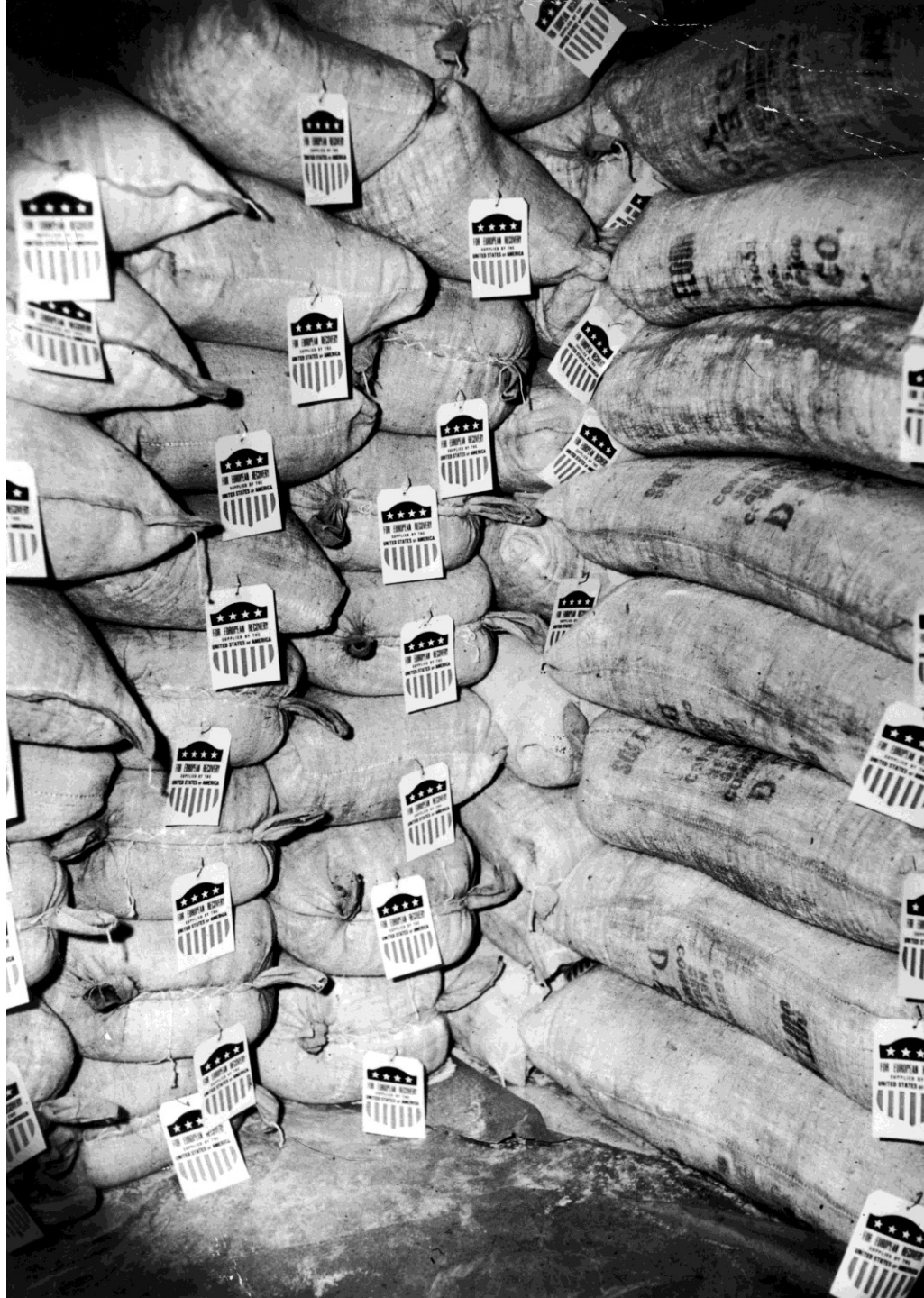
Europe in International Economy
2017

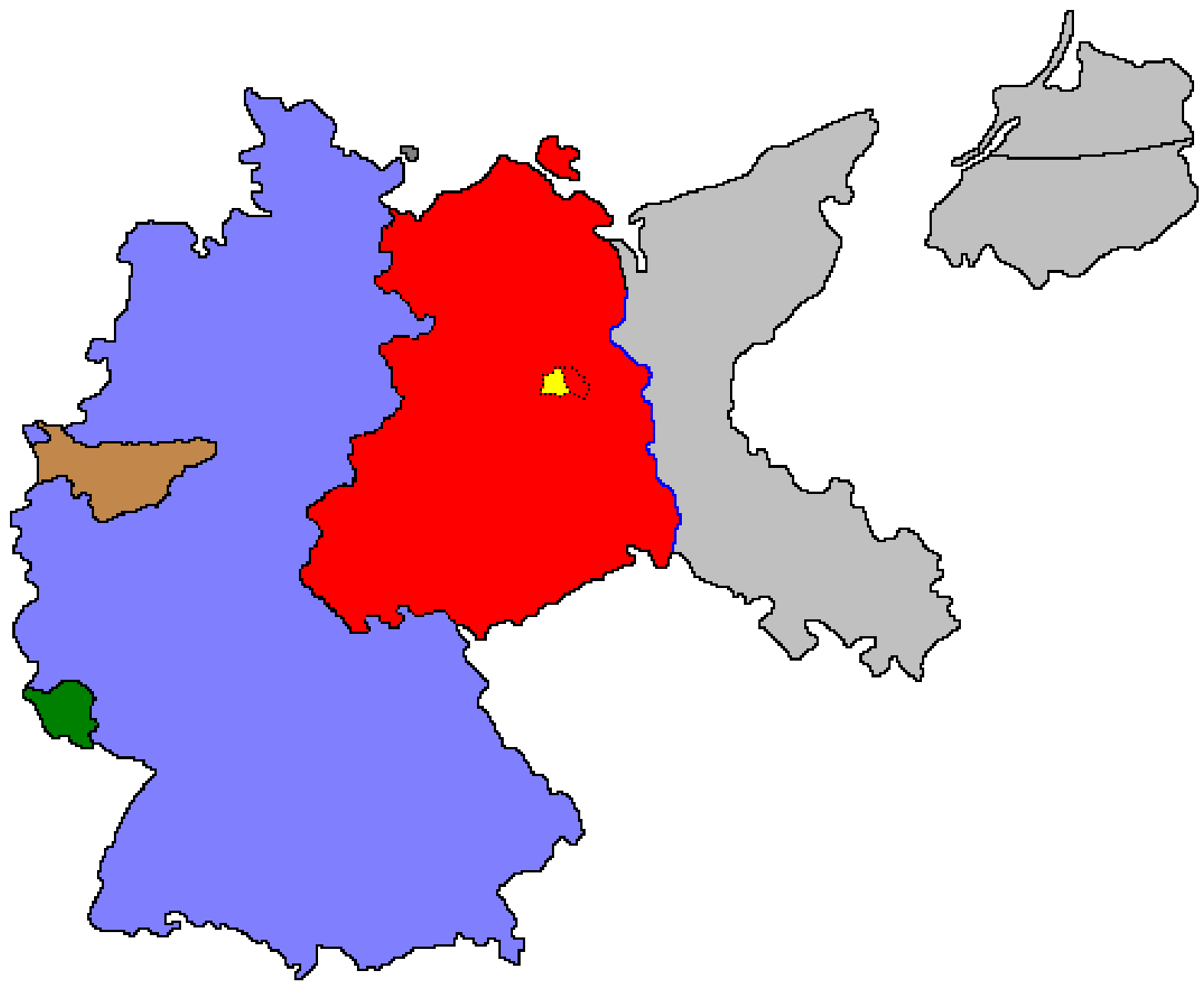


Reconstruction after WWII

- **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 (and *Morgenthau plan*);
 - **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's** 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 is more productive);
 - **industrialization** in all EE;
 - **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;
 - E->W **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; **TV**; 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 produced and traded within **stable world system** set up by the US...
 - WE **benefited** more than any other region;

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;

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):
 - not much jobs 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**;
- 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;
 - large **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** – growing **reserves** of sterling and USD;
 - maintained the value of **DM** with **low inflation** – GER increased exports when GB beginning to struggle with uncompetitive export prices;
 - 1950-1973 **export increased** annually **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:
 - to control German **coal-producing areas** (Saarland, Ruhr): 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 programme**;
- 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 in 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

	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

Source: Alford (1988, 14).

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

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

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;

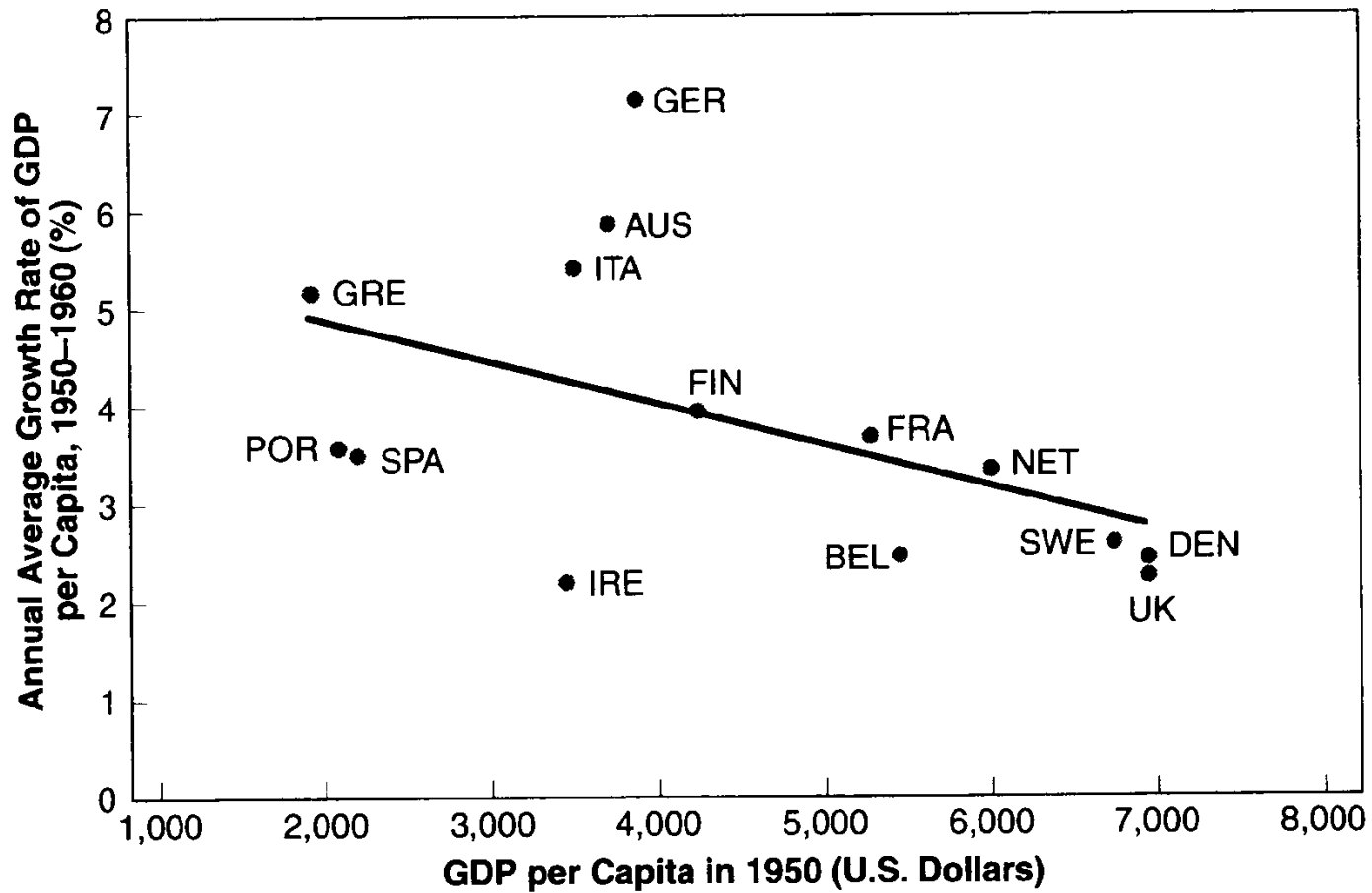


Figure 4.1. The starting point and growth in the 1950s. *Source:* Maddison (2001).
Note: Gross domestic product per capita is expressed in 1990 U.S. dollars.

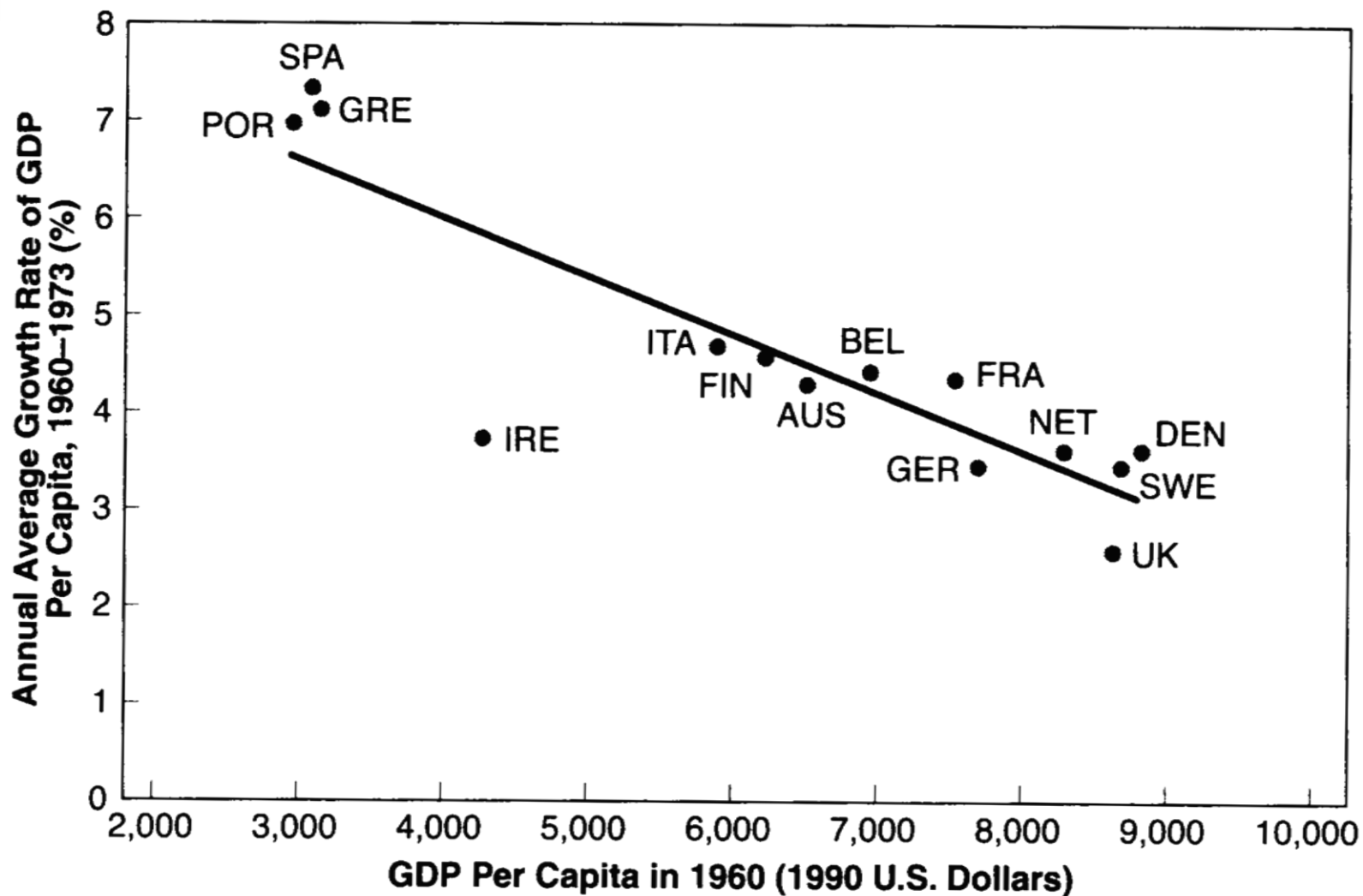


Figure 7.1. The starting point and growth in the 1960s. *Source:* Maddison (2001).
Note: Gross domestic product per capita is expressed in 1990 U.S. dollars.

Decolonization and immigration

- **US advised to liberate colonies**; apart of FRA (and POR) progress quick;
- Powers found that can **maintain** economic **links** - reluctance weakened;
- **FRA** - **colonies** as a 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

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

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 **form 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 form 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 of 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).



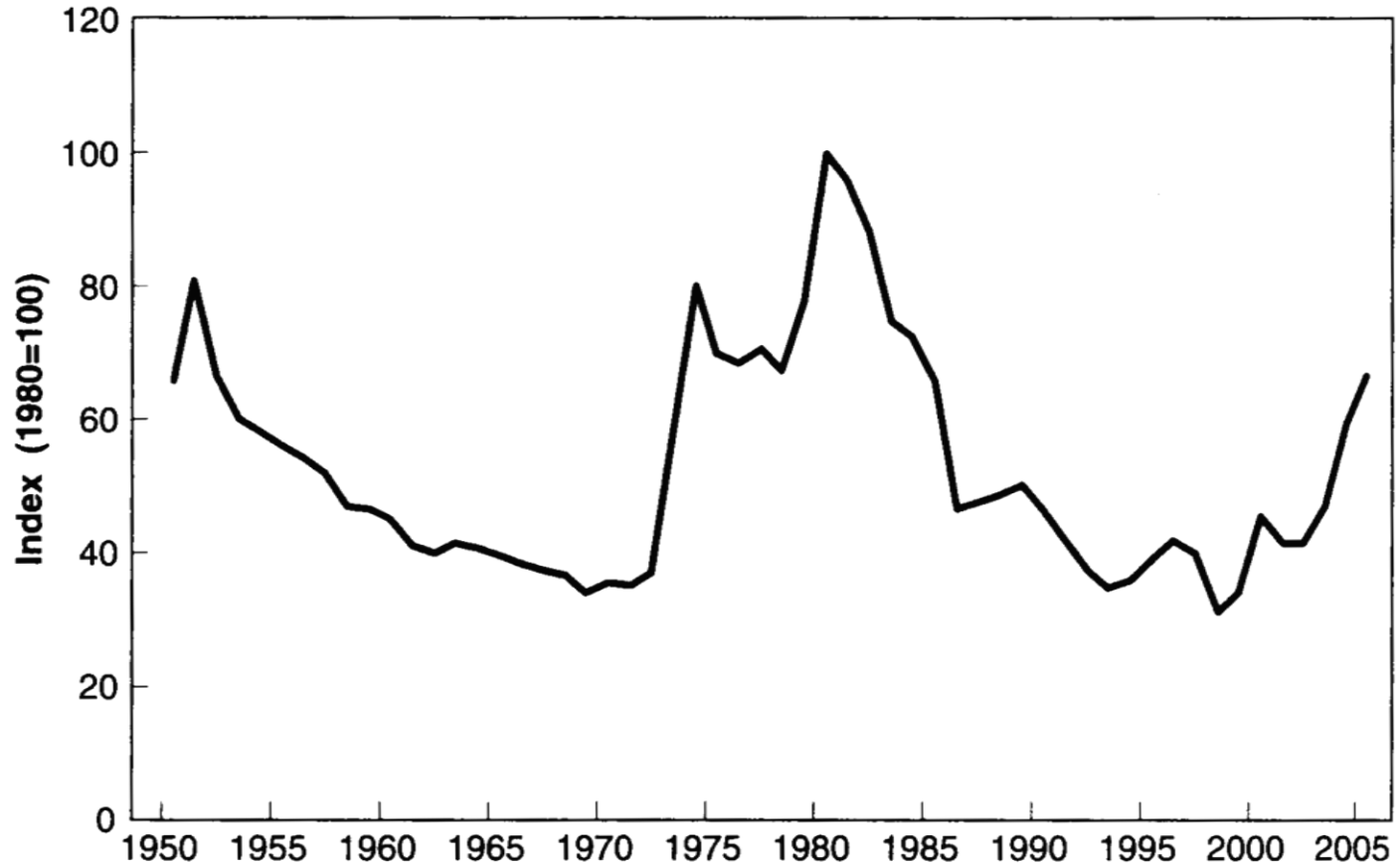


Figure 9.1. Real commodity prices (including oil), 1950–2005. Sources: Layard, Nickell, and Jackman (1991); International Monetary Fund, *Primary Commodity Prices* (various years).

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

(annual average compound growth rates)

	1000–1500	1500–1820	1820–70	1870–1913	1913–50	1950–73	1973–98
Per capita GDP							
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
Population							
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
GDP							
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