


ECONOMIC AND BUSINESS HISTORY 24/25

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LECTURE 14: AN ECONOMIC MIRACLE?



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-  1. Growth Forces
-  2. Economic Miracle

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1. Growth Forces



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### Golden Age

Averages of 16 major Capitalist Economies				
	1870-1913	1913-1950	1950-73	1973-2001
GDP growth rate	2,56	1,99	4,83	2,38
GDPpc growth rate	1,42	1,23	3,80	1,87

Source: Maddison 2007, pp. 162-3

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**How was such a favourable performance possible?  
"[European] Economic Miracle"?**

THERE WERE STRONG, WAR-RELATED EXTENSIVE GROWTH FORCES (GDP)

1. Post-WW reconstruction (until 1950s)
2. Recovery of the Internal Market (until 1950s)
3. Opening of Foreign Markets (practically closed since 1914)
4. Youthful age distribution
5. High investment level (state and private)

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**How was such a favourable performance possible?  
"[European] Economic Miracle"?**

MOST IMPORTANTLY THERE WERE ALSO INTENSIVE GROWTH FORCES (PER CAPITA GDP)

1. "BACKLOG" OF POTENTIAL INNOVATIONS, ALMOST UNEXPLORED BY MOST ECONOMIES SINCE THE 1920s IN INDUSTRIAL SECTORS (auto, aeronautics, home appliances)
2. WIDE MARGIN FOR CATCHING UP WITH THE US
3. TRANSITION FROM AGRICULTURE TO INDUSTRY STILL INCOMPLETE IN THE 1950s

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## 1. WW2 Inventions

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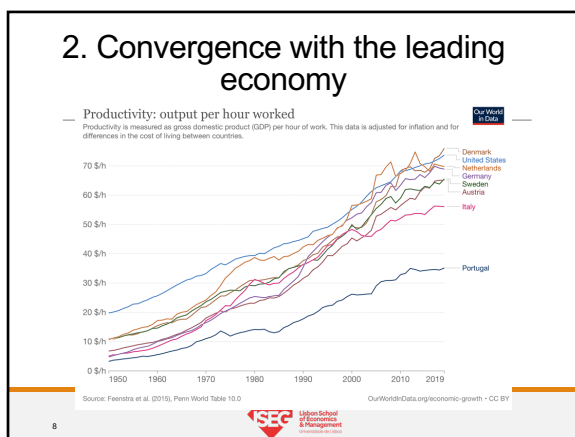
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## 3. Incomplete Agr-Ind Transition

- The Deglobalization context of 1914-45 meant self-sufficiency and lack of international trade
- This slowed the speed of the transition from Agr. to Ind. in Europe
- WW2 affected more cities, so population went to the countryside
- This meant that there were still margin for increasing productivity within the economy

	Agriculture	Industry	Services
<b>A. United States</b>			
1870	50.0	24.8	25.2
1910	32.0	31.8	36.2
1950	28.2	33.2	48.6
1990	20.9	30.2	48.9
1995	17.9	31.6	50.5
1999	11.0	32.9	56.1
1999	3.7	28.9	67.4
1999	3.5	21.8	74.7
<b>B. United Kingdom</b>			
1871	22.2	42.4	35.4
1911	11.8	44.1	44.1
1924	8.6	46.3	45.0
1937	6.2	44.5	49.3
1950	5.1	46.2	48.4
1973	2.9	41.8	55.3
1990	2.0	28.5	69.5
<b>C. Germany</b>			
1871	49.3	29.1	21.4
1911	34.5	37.9	27.6
1925	31.5	40.1	28.4
1930	30.5	37.4	32.1
1935	29.8	38.2	31.9
1950	24.3	42.1	33.6
1973	7.2	47.2	45.6
1990	5.4	29.7	64.9

Source: Derived from Bratsberry (1997b), 1997c, 1998.  
 Note: (a) Former West Germany for the period 1950-90.

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## 2. The Real 'Economic Miracle'

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### How was this possible?

- The context was favourable for growth
- However, there was a risk created by the pro-labour policies of the Social Market Economy:
  - Full-employment would lead to high wages would increase prices and production costs and discourage investment and innovation
  - This was well understood at the time (Phillips Curve)

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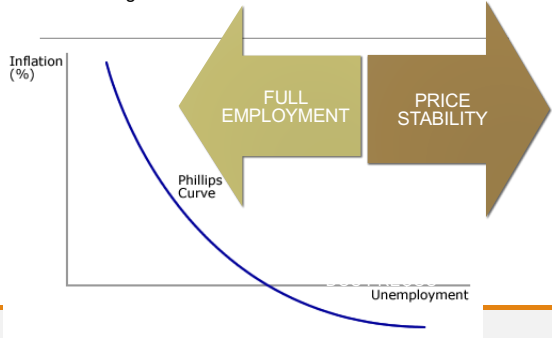
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What appears "Miraculous" is that Full-Employment did not lead to high inflation



**ISEG** & Management

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### Committments

- Government did not abdicate of their (politically decisive) social market system and large welfare
- Also, full-employment reached in many countries improved the bargaining power of workers and unions
- However, together with firms, government strove to contain as much as possible wage increases
- This containment would prevent inflation and hence encourage re-investment of profits
- Thus, while governments were ostensibly pro-labour, they tried to contain wage growth



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### Wage Moderation

- The solution for keeping wage increases was the tripartite negotiation (state+workers+owners)
- The danger for the economy was that full-employment emboldened workers to demand higher-than-productivitygrowth wage increases
- This did not happen in the 1950s because
  - Social Consensus on growth
    - Unions accepts lower than productivity wage increases
    - Bosses also accept to postpone dividends and keep investing



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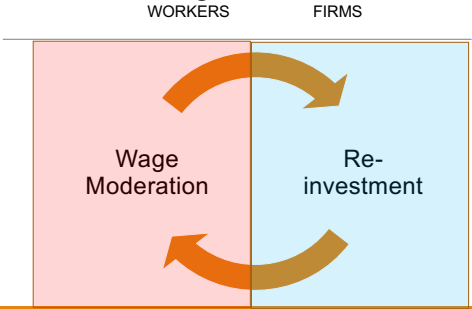
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### High Levels of Investment and Moderate Wages

WORKERS	FIRMS
Wage Moderation	Re-investment



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## Elasticity of Labour Supply



**Für 60 Mark einen Italiener**  
Die Arbeitgeber-Schweizer mit dem  
ersten Lohn-Gehalt für die Italiener.

Wage moderation in a context of full employment was also helped the elasticity of labour supply-

Two mechanisms ensured this:

- Country to town migration (post-WW) in Germany, France, Italy (which had c. 20% of manpower in agriculture in 1950)
- Political management of Emigration (from 1960s).



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<https://www.deutschlandfunk.de/millionster-gastarbeiter-vor-50-jahren-ein-moped-fuer-100.html>



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