


ECONOMIC AND BUSINESS HISTORY 24/25

LECTURE 13: REGLOBALIZATION AND THE GOLDEN AGE




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1




1. Rebuilding



2. New Policies



3. Reglobalization



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2



1. Rebuilding and Recovery



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3

The World, post-1945

- Capitalist economies (mostly European) were nearly destroyed by the war
- By 1945, all countries' GDP (except the UK) were lower GDP than in 1939
- Germany was at its 1908 level!
- Physical destruction, loss of human capital and institutional collapse (in Germany, Poland and Austria)






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4

Distance to the US

- In contrast, US was more prosperous than ever
- War had unleashed the US productive factors under-used by the GD
- Higher US productivity and living standards

| | 1950 | 1973 |
|--------------------------------|-------|-------|
| GDP per capita | 45.3 | 76.8 |
| Hours worked per capita | 115.2 | 101.9 |
| GDP per hour worked | 39.5 | 75.4 |
| Capital input per hour worked* | | 82.5 |





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The Benefits of a Divided World

- The Cold War rivalry favoured the World (especially European countries)
- As the communist threat materialized in the shape of parties that were competitive in elections (see next slide), labour unions, the Red Army stationed in Eastern Europe and a favourable public opinion, the US reacted
- US government realized that Bretton Woods and GATT could not be enough:
 - World (especially European) economies had little capacity to exploit its comparative advantages:
 - Capital scarcity
 - High prices of commodities






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6

Communist Parties. in 1945

| Country | Parliamentary Elections | Share of vote | Position |
|----------|-------------------------|---------------|--|
| France | 1946 | 26,2% | 1st (in the gov in a coalition) |
| Finland | 1945 | 23,5% | 1st (in the gov in a coalition) |
| Italy | 1946 | 18,1% | 3rd |
| Denmark | 1945 | 12,5% | 4th |
| Bélgium | 1945 | 12,7% | 4th (in the gov in a coalition) |
| Norway | 1945 | 11,9% | 4th |
| Netherl. | 1946 | 10,6% | 4th |
| Germany | 1946 | 5,7% | 5th |
| Sweden | 1948 | 5,6% | 5th (11.2% in the local elections '45) |
| Austria | 1946 | 5,2% | 3th |
| Switz. | 1947 | 5,1% | 5th (cripto-comunist party) |
| GB | 1945 | 0,5% | 9th |

7



7

2. New Policies



8



8

Social Market Economy and the Welfare State

Born out of interventionism and mixed with socialist-influenced elements, this model combines a democratic (not liberal) state and with a new type of policies (see previous slide)

- Development of social security schemes and free supply of public goods such as education and health, creating the so-called *welfare state*
- Redistribution of income by means of steeply progressive taxation
- Nationalisation of large companies in sectors of public utilities (e.g. electricity, telecommunications, transportations) in order to provide public goods at low prices.
- Some elements of economic planning (incentives for the private sector)

9



9

Pro-Employment policies

- The New Deal and the ascent of non-capitalist economic programs changed the aims of economic policy
- Full-employment (not growth) became the priority of economic policy
- The post-war situation and the strength of the communist threat made pro-labour policies politically necessary
- This meant that the liberal state had to be definitively thrown aside
- The new policies were called the 'Social Market Economy'

10




10

Social Market Economy Policies

Deglobalization, post-WWI and GD unemployment, WWII taught governments to think in 'macroeconomic' terms:

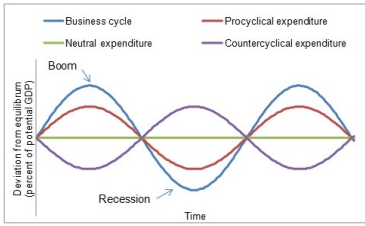
- With budgets, money and interest rates, governments and central banks had the capacity to influence private business decisions
- Governments could increase or decrease the propensity to hire and to invest
- Money, interest rates and taxes became tools for governments to attain their goals

11




11

Countercyclical Expenditure







12




12

Monetary and Fiscal Policies

| | |
|---|---|
|  Expansionist (lower interest rates; increase Quantity of Money) (to be used in case of recession or risk of recession) |  Expansionist (decrease taxes to stimulate risk- taking and consumption) |
|  Contractionist (increase interest rates; reduce Q of M) (to be used in case of "overheating" or excess investment or consumption) |  Contractionist (raise taxes to moderate risk- taking and consumptions) |

13



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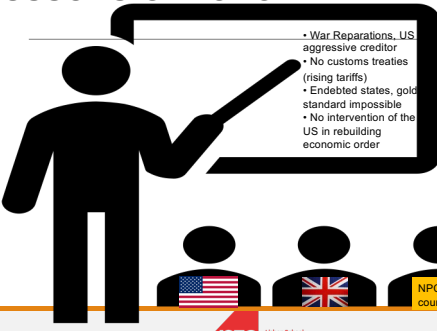
3. Reglobalization

14




14

Learning from the Past: Lessons of 1919



- War Reparations, US aggressive creditor
- No customs treaties (rising tariffs)
- Endebted states, gold standard impossible
- No intervention of the US in rebuilding economic order

15



15

Planning for Peace in 1945 (2)

- Carefully agreements designed in order to avoid “the economic consequences of the [1919] Peace”:
 - Incapacity for creating a functioning system of payments
 - Protectionism
 - The vanquished pay for the reconstruction and for the war debts



16

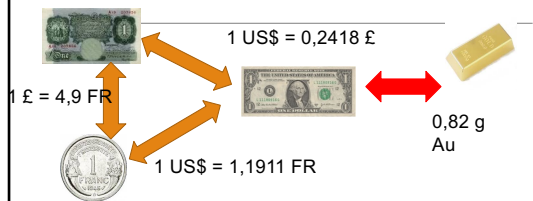
Planning for Peace 1945 (1)

- US – GB negotiations:
 - *Mutual Aid Agreement* (1941)
 - on US war loans and post-war cooperation
 - Keynes is a powerful influence (*Keynes Plan* vs *White Plan*)
 - Bretton Woods (1944)
 - New Dollar-Gold Standard
 - Creation of the IMF
 - Creation of the BIRD (later W Bank)
- Geneva Trade Round (1947)
 - GATT formally signed

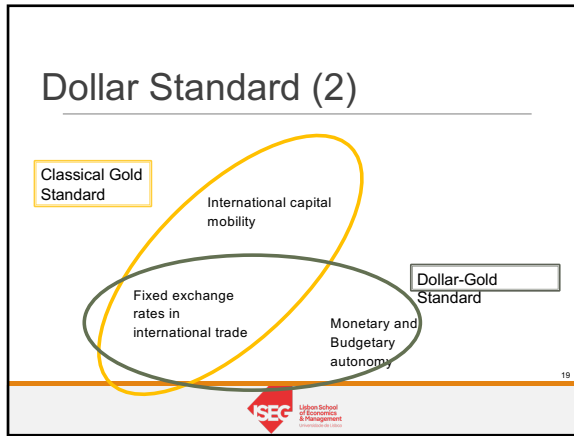


17

Dollar Standard



18



19

International Monetary Fund

"Fund" concentrating a pool of reserves from the member countries (gold + dollars + national currency)

Bank" lending reserve currencies to nations that had incurred balance of payment debts.

Multilateral org that allowed countries to change their currencies' parity with the US dollar (which often happened)

20

20

GATT

General Agreement of Tariffs and Trade (1947)

Agreement for the reduction of tariffs worldwide

- multilateral definition of tariffs for c. 50.000 items, mostly industrial
- Agreements between countries initially forbidden

later rounds (1949, 1950, ...) included more products and more countries in the GATT

later Evolution

- Regional tariffs unions are allowed
- Creation of the WTO in 1986 (Uruguay Round)

21

21

World Bank



Designed as BIRD to help with reconstruction

- Open to both governments and corporations
- Policy advice


However, due to the fast recovery of Europe, it became focused on Third World Countries

22


22

Marshall Plan

- The Marshall Plan was not part of the initial, peacetime plans, quite the opposite:
 - in 1945, the default plan was the Morgenthau Plan – de-industrialise Germany (which would, in the words of the plan, become a “pastoral economy” and “return to the 14th century”)
- However, the realization of Soviet ambitions over Europe led to the emergence of the *ERP European Recovery Plan* or ‘Marshall Plan’ (1948-52).


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Marshall Plan (2)



- Offered also to Germany, to neutral countries (Port., Turkey) and even to USSR, Poland or Czechoslovakia
- The logo (see this slide) is clear about its overall aims
- Economic plan with a geostrategic motivation
 - Ensure that European allies could resist Soviet power
 - Show that capitalism would not mean domination by the US (as alleged by USSR or Nazis)


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Marshall Plan (3)

- Designed as a stimulus for recreating a market economy (unlike rationing, price and wage controls, absence of currencies)
- Between 1948 and 1952, supply of
 - Essential consumption goods
 - Capital goods
 - Dollars
- By supplying dollars the Marshall Plan equipped capitalist economies for a competitive world trade (firms could import raw materials, so they could produce their exports)

The diagram consists of three circles arranged in a triangle. The top circle is orange and labeled 'FOREIGN CURRENCIES'. The bottom-left circle is olive green and labeled 'IMPORT'. The bottom-right circle is brown and labeled 'EXPORT'. Arrows indicate a clockwise cycle: an arrow points from 'FOREIGN CURRENCIES' to 'EXPORT', another from 'EXPORT' to 'IMPORT', and a third from 'IMPORT' back to 'FOREIGN CURRENCIES'.

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What followed was the *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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26
