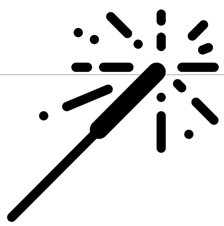
ECONOMIC AND BUSINESS HISTORY 22/23

LECTURE 15: THE "ECONOMIC MIRACLE"

PLAN

1. Econ Miracle

2. Commitments



1. An Economic Miracle?

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

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

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)

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

INTENSIVE GROWTH FORCES (GDPPC)

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

1. WW2 Inventions

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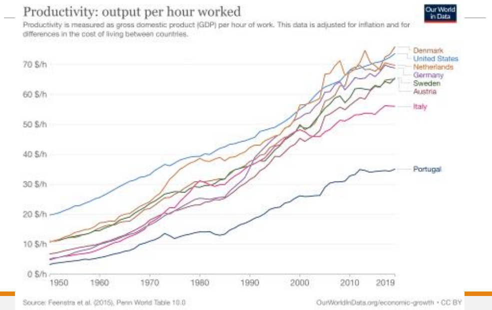
2. Convergence with the leading economy



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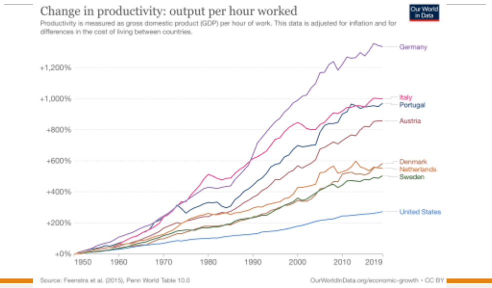
2. Convergence with the leading economy



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3. Incomplete Transition

Table 6. Sectoral shares of employment in the United States, the United Kingdom and Germany, 1870–1990 (%)

	Agriculture	Industry	Services
A. United States			
1870	50.0	24.8	25.2
1910	32.0	31.8	36.2
1920	26.2	33.2	40.6
1930	20.9	30.2	48.9
1940	17.9	31.6	50.5
1950	11.0	32.9	56.1
1973	3.7	28.9	67.4
1990	2.5	21.8	75.7
B. United Kingdom			
1871	22.2	42.4	35.4
1911	11.8	44.1	44.1
1924	8.6	46.5	44.9
1930	7.6	43.7	48.7
1937	6.2	44.5	49.3
1950	5.1	46.5	48.4
1973	2.9	41.8	55.3
1990	2.0	28.5	69.5
C. Germany[a]			
1871	49.5	29.1	21.4
1913	34.5	37.9	27.6
1925	31.5	40.1	28.4
1930	30.5	37.4	32.1
1935	29.9	38.2	31.9
1950	24.3	42.1	33.6
1973	7.2	47.3	45.5
1990	3.4	39.7	56.9

Source: Derived from Broadberry (1997b; 1997c; 1998).
Note: (a) Former West Germany for the period 1950–90.

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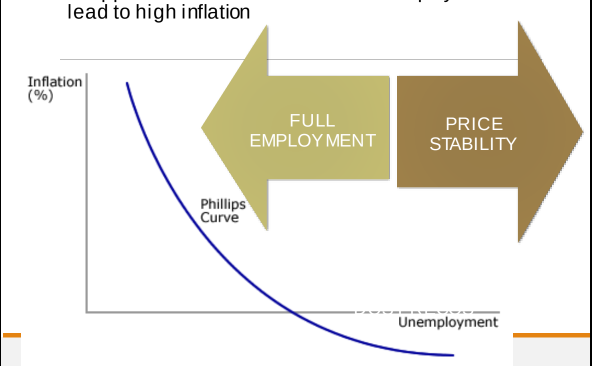
How was this possible?

- The context was favourable for growth
- Yet, Keynesian policies created a risk:
  - Increasing wages could compromise growth

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



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2. Commitments

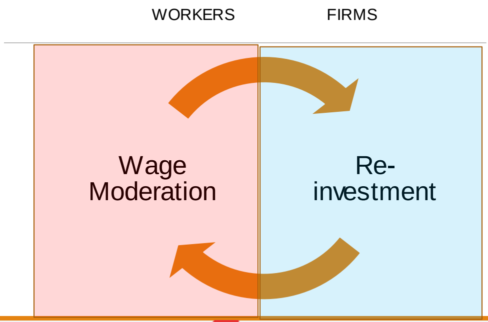
Wage Moderation

- Tripartite negotation (state+workers+owners)
- The danger for the economy was that full-employment emboldened workers to demand higher-than-productivity growth 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.

High Investment levels

- Capitalists restrain dividend payout in order to reinvest.
- Investment stimulates growth, raising the future incomes of both capitalists and workers.
- While workers and capitalists are both best off if they agree to defer current consumption in return for future gains which take the form of additional investment that results in higher productivity and incomes for all concerned, neither is willing to agree to defer without an assurance that the other will do the same.
- This is the problem that worker-owners platforms and tripartite negotiations were designed to solve.

High Levels of Investment



Elasticity of Labour Supply

- In the late 1960s, after two decades of wage moderation, workers increased their demands, but labour costs remained under control (their rise was considerably below the productivity growth)
- The main explanation was the elasticity of labour supply through migration (as country to town migration exhausted in the 1950s: Germany, France, Italy had still 1/5 of manpower in agriculture in 1950)
  - Immigration became polituically managed and used as a tool to check wage demands (in the 1960s).