

ECONOMIC AND BUSINESS HISTORY 22/23

LECTURE 14: THE "GOLDEN AGE"



PLAN



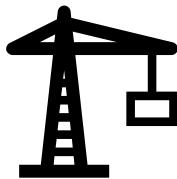
1. Rebuilding



2. Miracle



3. New Policies



1. Rebuilding and Recovery

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)



US – Europe contrast, c. 1945

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



Levels of EU-15 Relative to the United States (in percent)

	1950	1973
GDP per capita	45.5	76.8
Hours worked per capita	113.2	101.9
GDP per hour worked	39.5	75.4
Capital input per hour worked*		82.5

Source: Calculations based on the Groningen Growth and Development Centre Accounting Database (June 2005) as described in Tassier and van Aka (2006) are converted by GDP purchasing power parities for 2002.

* Measured as capital services per hour worked. Entry for 1973 refers to

The Benefits of a Divided World



- The emerging Cold War rivalry between US and USSR favoured third party countries, especially Western Europeans as their survival became important for the US
- As the communist threat materialized in the shape of strong communist parties (see below), labour unions, the Red Army stationed in Eastern Europe and a not unfavourable public opinion, the US reacted
- US government realized that Bretton Woods and GATT could not be enough for most economies:
 - Even if a free trade and exchange-rate stability environment, world (especially industrial and European) economies had little capacity to exploit its comparative advantages:
 - Scarcity of Capital
 - High prices of commodities

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
Belgium	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



Marshall Plan



- Morgenthau Plan – de-industrialise Germany (“pastoral economy”)
- The perception of Soviet plans regarding Europe led to the emergence of the *ERP* *European Recovery Plan* or *Marshall Plan* (1948-52).
- Offered also to Germany, to neutral countries and even to Soviet Union (and Poland and Czechoslovakia)
- Geostrategic motivation:
 - Ensure that European allies could resist Soviet power
 - Show that capitalism could also mean cooperation

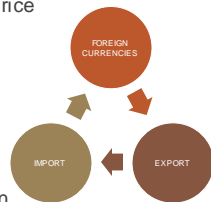


Marshall Plan

- 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





2. International Institutions



Planning for Peace (1941-47)

- In economic terms, the post-war was planned in advance, in order to avoid the Deglobalization of the 1920s
- US – GB negotiations started with the *Mutual Aid Agreement* (1941), promising cheap US war loans and post-war cooperation
- US-led diplomacy brings allied countries to the table and sign:
 - Bretton Woods (1944)
 - New Dollar-Gold Standard
 - Creation of the IMF and BIRD (later W Bank)
 - Geneva Trade Round (1947)
 - GATT formally signed



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Planning for Peace (2)

- Treatises were carefully designed to avoid the effect of the peace negotiations of 1919:
 - Incapacity for creating a functioning system of payments
 - Protectionism
 - The vanquished pay for the reconstruction and for the war debts



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The Dollar Standard

1 US\$ = 0,2418 £

1 £ = 4,9 FR

1 US\$ = 1,1911 FR

0,82 g Au

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Bretton Woods System (II)

Classical Gold Standard

International capital mobility

Dollar-Gold Standard

Fixed exchange rates in international trade

Monetary and Budgetary autonomy

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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)
- The World Bank (then BIRD) was created to finance post-war reconstruction, but Marshall Plan (far more direct) and the fast recovery of Europe turned its focus to Third World Countries

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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)



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3. New Policies

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New Policy Guidelines

- 1. Full Employment**
 - Goves committed to Full-Employment (Keynesian theory provided an economic rationale for this **political** goal)
- 2. Redistribution**
 - Creation of the Welfare State
 - Universal healthcare
 - Universal Education
 - Social Protection systems

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New Policy Tools

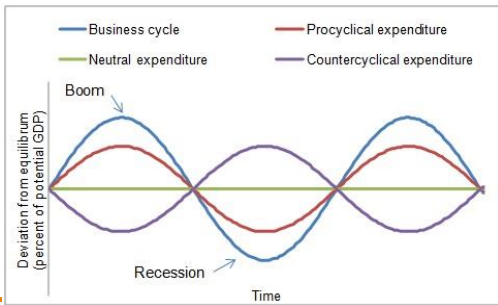
Until GD, the economic impact of the state was in the structural **institutional framework**:

- tariffs; international trade treaties
- gold-standard
- laws, courts, protection of property rights

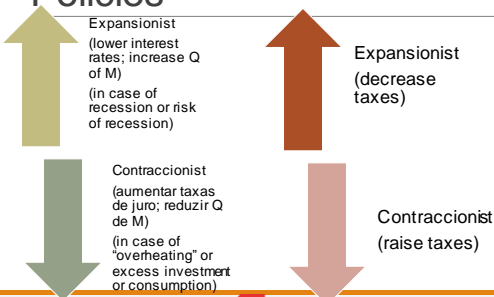
After GD and COLD WAR, states intervened also through **policy**:

- Budgetary
 - countercyclical expenditure
- Fiscal
 - change in the fiscal burden
- Monetary
 - control of interest rates

Countercyclical Expenditure



Monetary and Fiscal Policies



Total State Expenditure (% GDP)

	1913	1929	1938	1950	1973
France	8,9	12,4	23,2	27,6	38,8
Germany	17,7	30,6	42,4	30,4	42,0
Japan	14,2	18,8	30,3	19,8	22,9
GB	13,3	23,8	28,8	34,2	41,5
USA	8,0	10,0	19,8	21,4	31,1
mean	11,7	17,8	27,7	26,7	37,0

Source: Angus Maddison

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Subsidies and social transfer (% GDP)

Países	1870	1937	1960	1970	1980
França	1,1	7,2	11,4	21,0	24,6
Germany	0,5	7,0	13,5	12,7	16,8
Japan	1,1	1,4	12,1	24,4	12,0
GB	0,3	2,1	6,2	9,8	12,2
USA	2,2	10,3	9,2	15,3	20,2
mean	1,0	5,6	10,4	16,6	17,2

Source: Tanzi and Schuhknecht, p. 26

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Public Expenditure in Health (% GDP)

Países	1870	1913	1937	1960	1980
France	0,3	1,5	2,4	1,3	5,0
Germany	1,3	2,7	-	2,9	4,7
Japan	1,0	1,6	2,1	4,1	4,8
Italy	-	1,0	1,6	3,6	4,4
GB	0,1	1,1	4,0	4,3	5,6
mean	0,7	1,6	2,5	3,2	4,9

Source: Tanzi and Schuhknecht, p. 26

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Public Expenditure in Education (% GDP)

Paises	1910	1930	1960	1980
France	0,3	0,3	2,5	6,1
Germany	0,5	0,7	3,2	6,5
Japan	0,1	0,1	1,8	4,6
Italy			3	6
GB	0,3	0,6	3,3	5,2
USA	0,3	0,3	1,3	4,1
Sweden	0,3	0,9	3,4	8,8
Mean	0,3	0,5	2,6	5,9



Fonte: Tanzi e Schuhknecht 26

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State Employment (% of Total Employment)

	1870	1913	1937	1960	1980
France	2,5	3,0	4,4	-	20,0
Germany	1,2	2,4	4,3	9,2	14,6
Japan	1,0	3,1	5,0	-	6,7
Italy	2,6	4,4	5,1	7,7	14,5
GB	4,9	4,0	6,5	14,8	21,1
EUA	2,9	3,7	6,8	14,7	15,4
Sweden	2,2	3,5	4,7	12,8	30,3
mean	2,7	3,7	5,6	12,5	17,2



Source: Tanzi and Schuhknecht 26

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