ECONOMIC AND BUSINESS HISTORY 26/27

LECTURE 13: REGLOBALIZATION

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1. Reglobalization

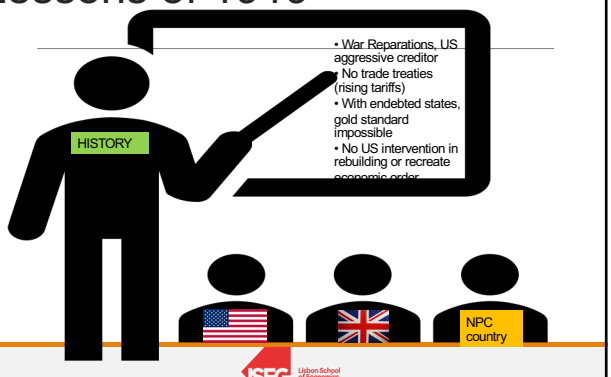
2. New Policies

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1. Reglobalization

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Learning from the Past: Lessons of 1919



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Planning for Peace in 1945 (2)

- The arrangements were designed as the opposite of what had happened 1919:
  - Incapacity for creating a sustainable international payment system
  - Rise of proteccionism
  - vanquished forced to pay for the reconstruction and war debts

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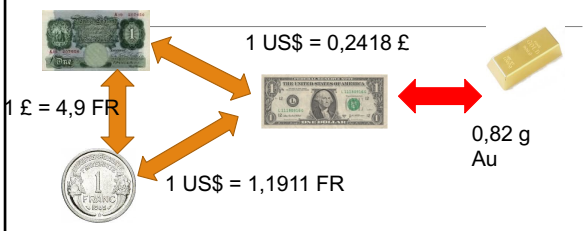
Planning for Peace 1945 (1)

- 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

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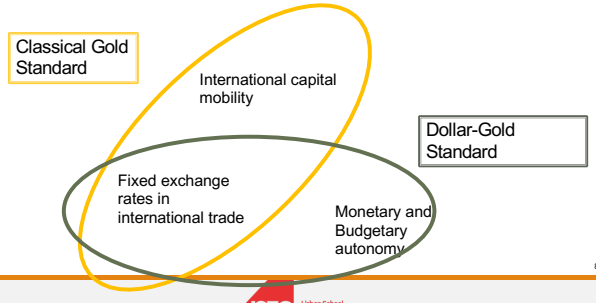
Dollar Standard



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Dollar Standard (2)



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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)

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GATT

General Agreement of Tariffs and Trade (1947)

GATT

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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World Bank

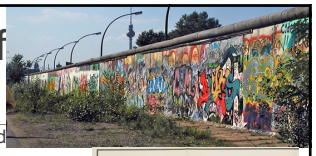
Designed as BIRD to help with reconstruction
- Open to both governments and corporations
- Policy advice

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

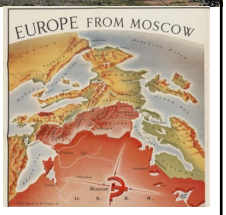
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The Incentives of a Divided World



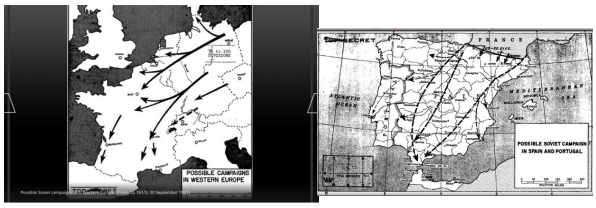
- The Cold War rivalry favoured the World (especially European countries)
- Communist threat materialized in the 1940s:
  - Red Army stationed in Eastern Europe
  - favourable public opinion (anti-Nazi resistance, intellectuals)
- US gov realized that Bretton Woods and GATT could not be enough:
  - World (especially European) economies had little capacity to exploit its comparative advantages:
    - Capital scarcity
    - High prices of commodities



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Clear and Imminent Danger



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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)

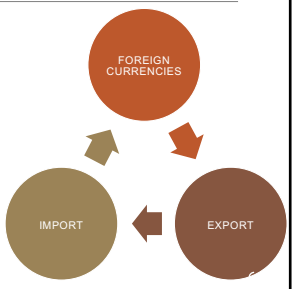


- Offered also to Germany, to neutral countries (Port., Turkey) and even to USSR, Poland or Czechoslovakia
- The logo (see this slide) is clear about its overall aims
- Economic plen with a geostrategic motivation:
  - Ensure that European allies could resist Soviet power
  - Show that capitalism would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

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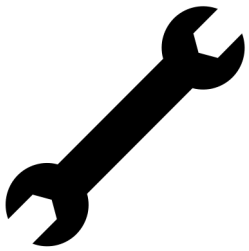
Marshall Plan (3)

- Designed as a stimulus for recreating a market economy (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)



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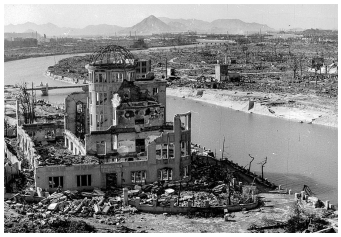
2. New Policies



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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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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



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

	1950	1973
GDP per capita	45.5	76.8
Hours worked per capita	115.2	101.9
GDP per hour worked	39.5	75.4
Capital input per hour worked*		82.3

Source: Calculations based on the Groningen Growth and Development Ce
Accounting Database (June 2005) as described in Timmer and van Ark (20
are converted by GDP purchasing power parities for 2002.
* Measured as capital services per hour worked. Entry for 1973 refers to

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The Incentives of a Divided World



- The Cold War rivalry favoured the World (especially European countries)
- Communist threat materialized in the 1940s:
  - parties that were competitive in elections (see next slide)
  - labour unions
- Euro govs realized that Marshall Plan, Bretton Woods and GATT could not be enough:
  - Labour could make high wage demands and increase prices



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Communist Parties, after 1945

Country	Parliamentary Elections	Share of vote	Position
France	1946	26.2%	1st (in gov, in coalition)
Finland	1945	23.5%	1st (in gov, in coalition)
Italy	1946	18.1%	3rd
Denmark	1945	12.5%	4th
Belgium	1945	12.7%	4th (in gov, in 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

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Social Market Economy and the Welfare State

Born out of the 1930s interventionism and social welfare experiments, this model combines a democratic (not liberal) state and with a new type of policies

- 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 oder to provide public goods at low prices.
- Some elements of economic planning (incentives for the private sector)

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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

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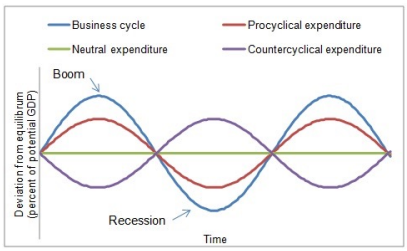
Pro-Employment policies

- 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
- The new policies were called the 'Social Market Economy'

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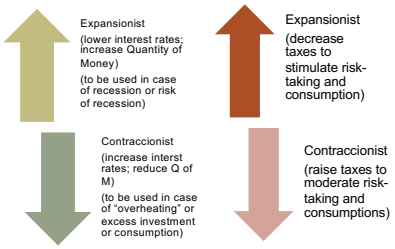
Countercyclical Expenditure



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Monetary and Fiscal Policies



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