ECONOMIC AND BUSINESS HISTORY 25/26

LECTURE 14: AN ECONOMIC MIRACLE?

1

PLAN

1. Growth Forces

2. Economic Miracle

2

1. The Golden Age

3

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

4

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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5

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 CACTHING UP WITH THE US
3. TRANSITION FROM AGRICULTURE TO INDUSTRY STILL INCOMPLETE IN THE 1950s

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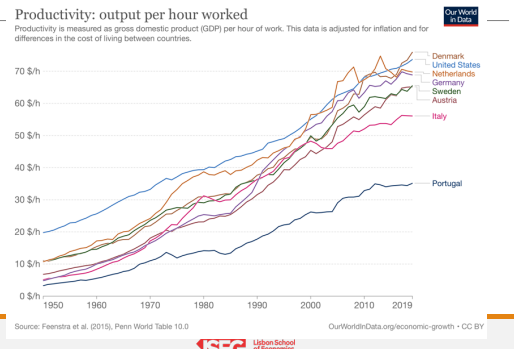
1. WW2 Inventions



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2. Convergence with the leading economy



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3. Incomplete Agr-Ind Transition

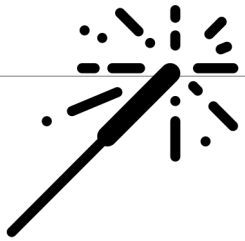
- The Deglobalization context of 1914-45 meant self-sufficiency and lack of international trade
- This slowed the speed of the transition from Agr. to Ind. in Europe
- WW2 affected more cities, so population went to the countryside
- This meant that there were still margin for increasing productivity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

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.

9



2. The Real 'Economic Miracle'

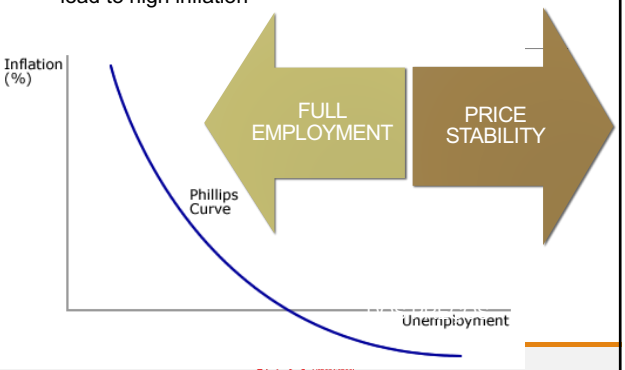
10

The Real Miracle

- The context was favourable for growth
- However pro-labour policies of the Social Market Economy created a RISK:
  - 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)

11

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



12

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

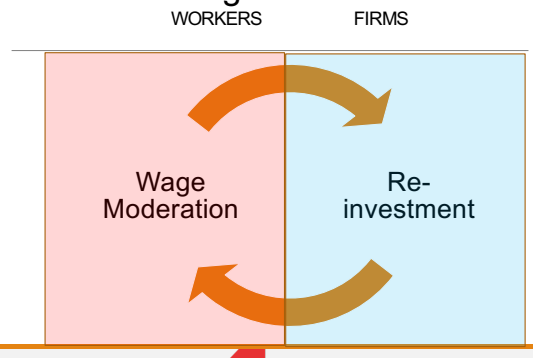
13

Wage Moderation

- The solution for keeping wage increases was the tripartite negotation (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.

14

High Levels of Investment and Moderate Wages



15

Elasticity of Labour Supply



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 France, Germany and Italy (countries which had c. 20% of manpower in agriculture in 1950)
- In Germany there was a pre-Berlin Wall East-West migration
- Political management of Emigration (from 1960s), until today
  - migration became a gov tool for lowering wage demands (unlike in the 1st Globalization)

16



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

17