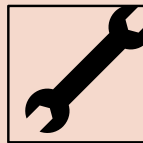


ECONOMIC AND BUSINESS HISTORY 23/24

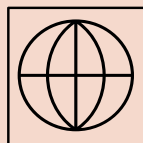
LECTURE 14: REGLOBALIZATION AND THE GOLDEN AGE



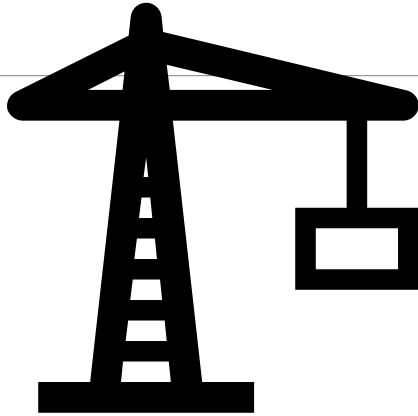
1. Rebuilding



2. New Policies



3. Reglobalization



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)



Distance to the US

- In contrast the 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 Centre Accounting Database (June 2005) as described in Timmer and van Ark (2006). Data 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 Benefits of a Divided World



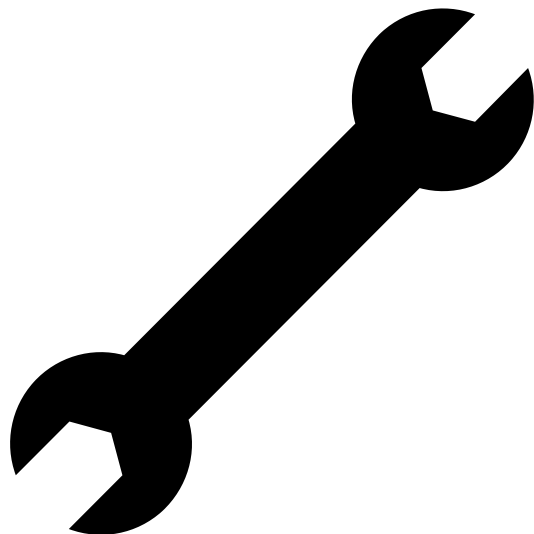
- The Cold War rivalrly favoured the World (especially European countries)
- As the communist threat materialized in the shape of parties that were competitive in elections (see next slide), labour unions, the Red Army stationed in Eastern Europe and a favourable public opinion, the US reacted
- US government 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

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

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2. New Policies



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'

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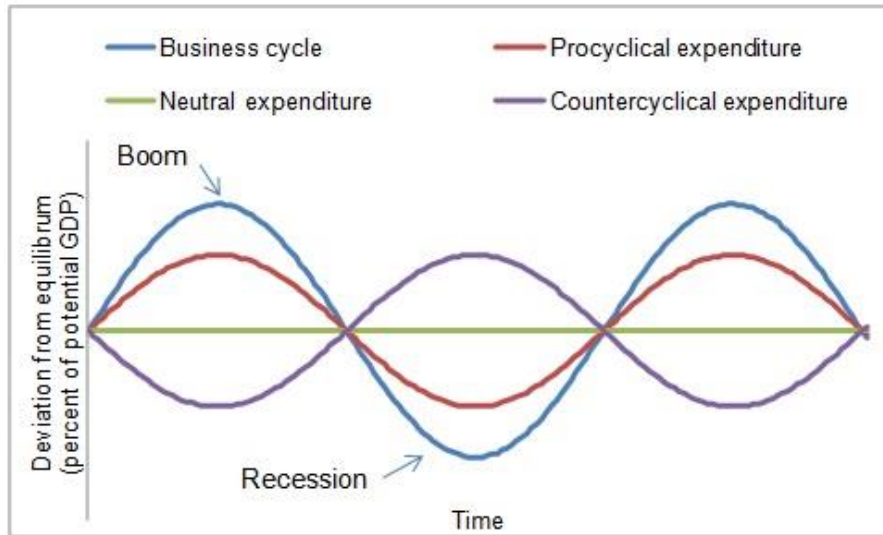


Social Market Economy Policies

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

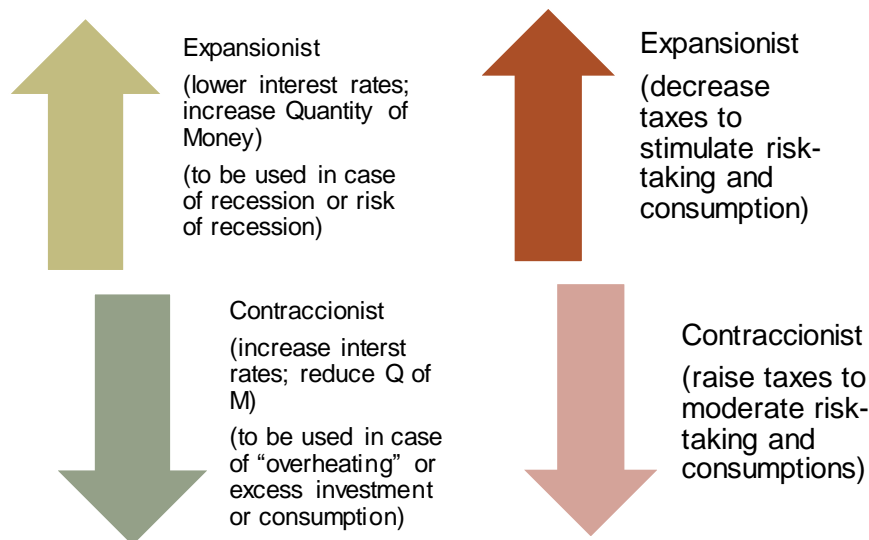
- With budgets, money and interest rates, governments and central banks had the capacity to influence private business decisions
- Governments could increase or decrease the propensity to hire and to invest
- Money, interest rates and taxes became tools for governments to attain their goals

Countercyclical Expenditure



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Monetary and Fiscal Policies



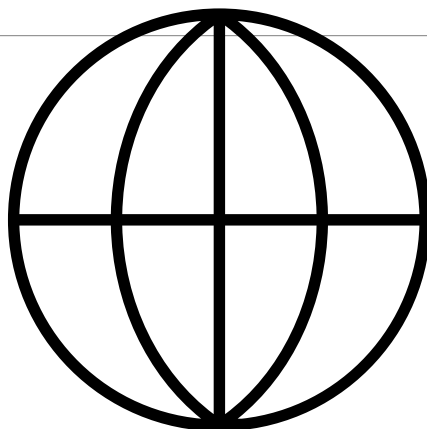
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Social Market Economy and the Welfare State

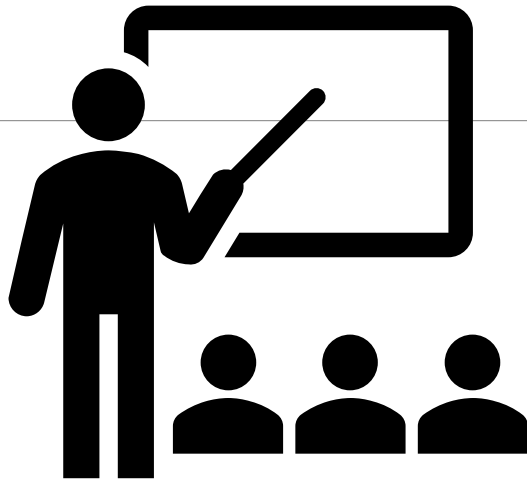
While Socialism and Nazi economic policies had some short-lived successes, the most successful model was the social market economy

Born out of interventionism and mixed with socialist-influenced elements, this model combines a new type of state (see below) and a new type of policies (see next slide)

- Development of social security schemes and free supply of merit 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)



3. Reglobalization



Learning from the Past

Remember 1919 Deglobalization

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

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

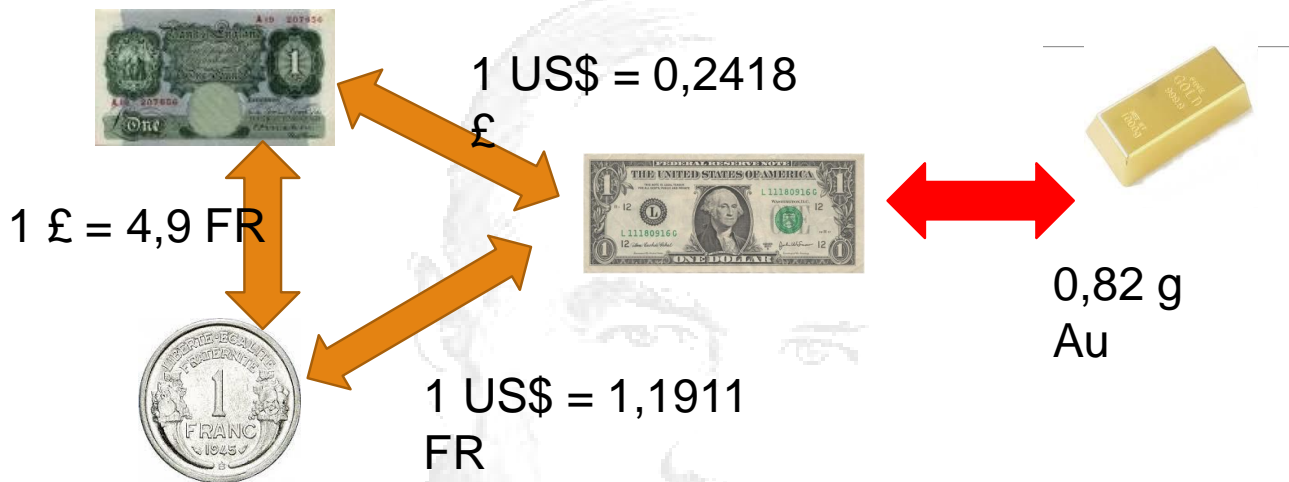
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Planning for Peace in 1945 (2)

- 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

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Bretton Woods



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Bretton Woods System (II)

Classical Gold Standard

International capital mobility

Fixed exchange rates in international trade

Monetary and Budgetary autonomy

Dollar-Gold Standard

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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)

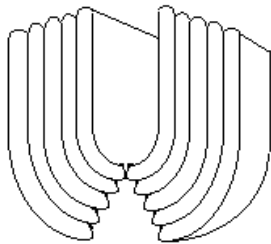
GATT

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

GATT



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)

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

Marshall Plan

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

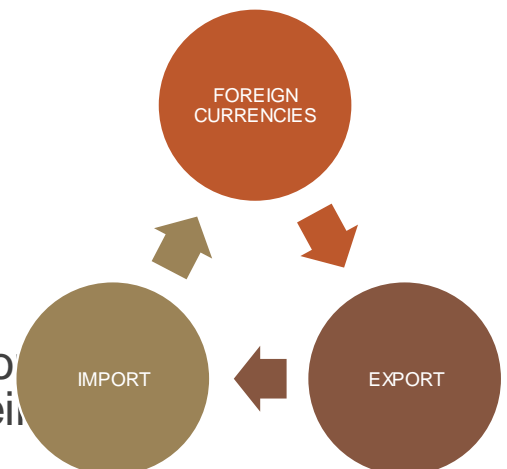
Marshall Plan (2)



- Offered also to Germany, to neutral countries and even to Soviet Union (and Poland and 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 could also mean cooperation

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)



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