

## 2A. The Growth And Problems Of The Global Economy: Key Developments And Reasons:

- **Reasons for the growth of the global economy**
- Problems that affected the growth of the global economy e.g. oil crisis, protectionism versus free trade, trade imbalances, debt crisis
- Reasons for the dominant role of USA in the global economy
- Japan's 'economic miracle': reasons for Japan's economic success and its problems
- Rise of China as an economic power in the post-Mao era

### Overview – Causes of the growth of the GE [Overview of the growth of the GE]

#### Growth can be divided into 2 phases:

- *From WWII to mid-70s – Age of Affluence/ Golden Age (mainly in Europe + US, but occurred in Asia, particularly Japan, as well)*
  - Global economic recovery felt by all, but led by Europe, US and Japan.
  - Mainly a **Western phenomenon**, centering on the recovery of Europe and the subsequent prospering of Europe from the late 40s onwards.
    - Average annual growth rate for per capita national output in 1950s: West Germany (6.5%), Italy (5.3%), France (3.5%). The significance of such high and sustained growth rates is best appreciated when they are compared with the same countries' performance in earlier decades from 1913-1950 (growth rate per annum): West Germany (0.4%), Italy (0.6%), France (0.7%).
  - During this period, Europe increasingly resembled America (catching up with US). US did not experience any extraordinary growth; she was simply continuing with growth, whereas Europe was making large strides.  
**\*Remember that everything is relative**
  - Other countries: Germany, France.
  - Even in the 1950s in Britain, people had an austerity mindset when the economy was booming.
  - **Post-war boom in Asia**: Japan.
  - Spectacular population growth in the Third World, with higher life expectancy due to increase in food production (economic progress in agricultural terms).
  - Also happened in many countries in SEA where they adopted the ISI (import-substitution industrialization) growth model.
    - However, note that ISI does not fit into the general pattern of economic growth, as economic growth in that period focused on free trade and liberalization, whereas ISI was more of protectionistic. ∴ ISI was an alternative economic growth model, but eventually it led to a dead-end which prompted them to switch to EOI (export-oriented industrialization) growth model.
    - Singapore and Hong Kong were the leaders in EOI.
  - **Remind yourself of the Cold War context – to what extent did CW influence this? Effects of the end of CW on economic growth.**
  - Opening up of the Eastern bloc after the collapse of the USSR (state economy).

- **Peace dividend** – less \$ spent on defence, can be diverted to other more productive areas
  - Ended in American victory – was a victory for free market principles. Led to a global acceptance of such principles, which was beneficial to global economic growth. Discredited state economy principles which retarded economic growth.
- *Mid-70s to 2000 – Acceleration/ Economic slowdown*
  - 70s and 80s were “crisis periods” (not synonymous with “economic slowdowns”).
  - Just when people started to become confident
  - Post-war boom as a cyclical occurrence
  - Accelerated Growth – factors that influenced this
    - Advancements in **technology** (ICT, engineering tech etc.)
    - Emergence of **trans-nationalism** (diminishing importance of national borders). Seen in economic activities such as outsourcing, offshoring, MNCs, offshore finance (the invention of Euro currency/ rise of London as a financial hub.
  - Rise of the Asian Tigers
    - Thailand, Indonesia, Philippines as leaders in EOI.
    - Link to ASEAN – e.g. How much of a contribution did ASEAN make to the development of the GE.
    - China + Vietnam – both share the common strait of an ideological revolution allowing capitalism to take flight
    - This pressured India to improve its economy

## 1) REASONS FOR THE GROWTH OF THE GLOBAL ECONOMY

### 1. IMPACT OF WWII

**A) WWII and its (lack of) impact on economical growth** – damage could have been much worse.

- Short-term catastrophic effect mainly on housing and transport.
- **Lack of economic damage:** It was primarily people and urban places that suffered, but factories (the means of producing manufactured goods) were relatively less damaged. Due to the survival of productive equipment, it contributed to a speedy recovery after the war.
  - Only ~ 20% of German industrial plants had been destroyed by 1945.
  - In Czech lands, industry and agriculture thrived under German occupation and emerged virtually unscathed (// to Japan)
  - Parts of Hungary and Slovakia saw accelerated industrialization during the war years and actually emerged better off than before.
  - Note: The **degree** to which each country suffered is unique. Germany is the most shocking.

**B) War stimulated economic growth**

- Compare post-war with pre-war economic growth – there is a dramatic difference.

- **USA:** Significant overall growth, expansion of employment and personal income.
  - **Stimulated economic growth:** GNP increased from \$88.6 billion in 1939 to \$135 billion in 1944, due to the skyrocketing war-related production in many manufacturing sectors from 2% to 40% GNP in 1943.
  - **Expansion of employment:** Paralleled the expansion of industrial production and also in war administration agencies.
  - **Rise in personal incomes:** Driven by the federal government's ability to prevent price inflation and to subsidize high wages through war contracting and by the increasing in the size and power of organized labour. These rising incomes were part of a wartime "great compression" of wages which equalised the distribution of incomes across the American population.

**C) Acceleration of scientific and technological innovation**

- This is mainly war-driven – the search for technological advantage in waging war led to improvements in production, production processes and productive capacity.
  - Most notable being the Manhattan Project – creation of an atomic weapon.
  - War-driven technological breakthroughs also transformed complex sectors such as aerospace and shipbuilding.
- Innovated most characteristically in plant layout, production organization, economies and scale and process engineering.

**D) Creation of a vast and advantaged class of citizens that contributed to economic growth**

- This happened through the G.I. Bill, whereby servicemen obtained numerous economic benefits beyond their jobs.
- Former servicemen thus became this new class of citizens that demanded goods such as inexpensive suburban housing, vocational training, college educations and private cars.

**E) Established American hegemony that would have knock-on effects on the growth of GE in the post-war world**

- The war not only decisively ended the Great Depression, but also enabled the US to emerge economically strengthened due to wartime industrial expansion, which placed her at absolute and relative advantage over both its allies and enemies.
  - Can compare this to the Napoleonic Wars on Britain's economy.

**F) The war itself and significantly the recurrence of war (WWII after WWI) on such a scale established a consensus amongst Western countries that the existing economic approach has to change.**

- This is a consensus that the pre-war economic policies were wrong, and these pre-war policies may have actually contributed to the recurrence of war, and must thus be scrapped and replaced with something else.

**G) Brought USSR into Europe (controversial)**

- In 1930s, USSR was a politically and economically alienated world power – inward looking, self-sustaining and isolated. The war changed this via political alliances and

territorial means (creation of the Eastern bloc).

- What were the consequences of this economically?
  - The economic story of Europe is one of **integration**. Cannot argue that the USSR was part of this.
  - The contribution of USSR on European economic growth was the rapid industrialization in the hitherto agrarian economies in USSR eastern bloc.
  - This replication of Soviet industrialization led to severe discontent due to the emphasis on heavy industries, while light industries producing consumer goods and agricultural products were neglected. This lowered the standard of living, and as discontent threatened the political power, it led to a new policy introduced by Khrushchev, "goulash communism".
  - By the 1960s, the USSR began to rethink its approach on international economical ties. Eastern European countries began decentralization and increased the role of prices and profits.

H) Directly led to the **Cold War**, which had a **direct effect on global economic growth**.

## 2. POST-WAR CONSENSUS (broad theme)

- Broad theme of consensus between statesmen and ordinary people that facilitated smooth and rapid economic growth.
  - a. Statesmen: Economic and political recovery via trade liberalisation, which laid the foundations for the Bretton Woods system.
  - b. Ordinary people: Triangular tripartite agreement between the government, businesses and labour.

### Consensus Between Statesmen

#### A) Economic recovery via free trade

- The peacetime economic recovery was something that was planned considerably in advance – as soon as the war broke out.
- General agreement: Have to learn the lessons of the past, and not just specific to the economy, as seen in the establishment of the UN whose inception was based on consensus. The determination was not to allow what happened in the WWI.
- Another fear was **worldwide depression** due to **protectionism**
  - c. The great determination was to avoid the depression that occurred in the 1930s.
  - d. It was recognized that protectionism was not necessarily the cause of depression, but definitely worsened it.
- Hence there was a consensus to **ban protectionism**, and instead **promote free trade**.
- This consensus goes beyond the economic – it also has to do with trying to prevent another war by designing an international economic system where "beggar-thy-neighbour" policies, which characterized the international economic community of WWII, did not recur.
- This commitment to free trade is one of the absolute foundations of **Bretton Woods**.

## **B) Bretton Woods**

- Sought to establish **international monetary stability + full employment** (commitment to welfare and social security)
- Although free trade and economic integration was encouraged, the free trade could not be allowed to operate in a completely unrestricted fashion, as the sufferings of the Depression were largely caused by market forces.
- ∴ Market forces must operate within public planning and economic management.

## **C) Direction of economic policy**

- There was consensus between different variations of **political groups** as to the correct direction of economic policy.
- Conservative political groups (Christian democrats) accepted the need for the free market to be controlled to some extent
- Socialist parties accepted the need to work with market economy

## Consensus between ordinary people

### **A) Triangular tripartite agreement between government, businesses and labour**

- This consensus was instrumental in winning their support for free trade, other agreements/ broader consensus
  - Workers compromised by keeping their demands within limits to make sure they do not eat into business profits, which would stimulate further economic growth.
  - This arrangement worked very well, as rising profits was made possible by moderate wage demands.
- Increasingly Leftist European consensus derived from the Soviet economic model:
  - **State planning**, particularly in the earlier period up till 1947 (pre-CW), when the anguish of the Stalinist system were not yet very visible.
  - This argument is however controversial.
  - Legacy of fascist regimes (Germany, Italy).
- Monetarist movement
  - This consensus was characteristic of the second period of economic development.
  - Conceptualised by Milton Friedman, pioneered in Britain by Margaret Thatcher and Keith Joseph. Internationalised through the "Washington Consensus"

## **3. SUCCESS & CONTRIBUTION OF BRETTON WOODS SYSTEM**

Self-study

## **4. ENVIRONMENT & CIRCUMSTANCES OF COLD WAR**

### **The Significance of the Cold War to Global Economic Growth**

#### **Significance of the Marshall Plan to global economic growth**

- The concern was that economic instability or depression would create the very circumstances which would allow the rise of communism, and thus one of the central reasons for Marshall Plan was to ensure the economic recovery of Europe so these

conditions would not last for long.

- The Marshall Plan represents a fundamental change in American policy
  - At the end of the war, the US had no intention of helping Europe whatsoever – it wanted to expand aggressively in a fairly focused manner [rest of the world was seen as her competitors, which should not be helped if there was no good reason to do so.
  - Contrary to US convictions, the chief obstacle to a free-trading international capitalist economy was not the protectionist instincts of foreigners, but the combination of traditional US high tariffs at home and the drive for a cast expansion of US exports, which the wartime planners in Washington regarded as “essential to the attainment of full and effective employment in the USA”.
  - Aggressive expansion was plainly in the minds of US policy-makers as soon as the war was over; it was the Cold War (fears about communism) which caused this U-turn.
- It was also the Cold War which made it possible to sell this idea to Congress and the US public.
  - Congress was not happy about spending money on Europe – it was argued that Marshall aid would aggravate existing shortages in the US, driving up the wholesale price index and ending in new government controls over the economy
  - It was the episode in Czechoslovakia which caused Congress to approve the Marshall Plan – the Truman administration defended the Marshall Plan as an act of creative statesmanship to reverse the economic deterioration in Europe, put participating countries on a self-supporting basis, and clear a path to the multilateral system of world trade envisioned in the Bretton Woods agreements of **1944**.
  - These arguments were made all the more persuasive by Britain’s withdrawal from Greece, by the labour unrest in France, Germany and Italy, and by the Communist coup that toppled the democratic government of Czechoslovakia in **Feb 1948**.
- There is a debate amongst historians as to how important Marshall Aid was to the recovery of Europe
  - The popular view of it in America is that it was a nearly ideal and successful foreign assistance programme
  - Yet there was another view that the Marshall Aid was fundamentally self-interested:
    - Political aspect – necessity in the context of the Cold War
    - Economic aspect – recovery in Europe was necessary to sell American products in those markets
  - There was also another argument that the Marshall Plan was **not as important** [ex 5 and 6] **as domestic European economic policies and efforts**. The recovery record of Marshall Plan recipients demonstrates little evidence that would prove a steady correlation between the amounts of aid received and economic performance. Great Britain, for instance, received more aid than any other European country, but experienced the slowest economic growth rate

- o Possible essay qn on European recovery – to what extent was it due to efforts within Europe?

### What the Marshall Plan did:

#### A) Finance essential imports

- Helped European states finance essential imports necessary for economic rehabilitation and containing inflation.
  - o Inflation had been contained in most of the participating countries by **1950**, and both intra-European and extra European trade had recovered to levels well above those anticipated at the start of the Marshall Plan.
  - o While shortages growing out of the Korean War undercut these gains, this was a temporary reversal in an established pattern of recovery that resumed in the **early 1950s**, continued unabated over the next decade, and led to the restoration of European currency convertibility and the formation of a multilateral trading system comparable to the one envisioned at Bretton Woods.

#### B) Important supporting role

- Even though there may not be a direct correlation between the amount of aid a country got and how well they did, Marshall Plan still played an important supportive role to these European economies [ex 9 and 10]
- It is often said the Plan provided a “critical margin” of support **which made European self-help possible**, facilitating essential imports, easing production bottlenecks, encouraging higher rates of capital formation and helping to suppress inflation – all of which led to **gains in productivity, to improvements in trade, and to an era of social peace and prosperity** more durable than any other in modern European history
- In a sense, the Marshall Plan **reinforced the central role of these governments in terms of state-planning and economic management**, such as in the use of **counterpart funds** [ex 11 and 12].
- These funds comprised the local currency equivalent to American grants, which the **Economic Cooperation Act** (ECA) required participating countries to set aside in special accounts jointly controlled by the ECA and governments involved; the funds supplemented domestic sources of capital, made it easier for governments to direct resources into politically desired uses and thus **strengthened state control over Western Europe’s economies**.
- This did not really accord with some of the aims of Bretton Woods (emphasis on the market and economic liberalization); here, the Marshall Plan is underscoring and supporting the role of government. The more important the role of government, the less crucial the role of investment.
- *Think about the relationship between the Marshall Plan and the Bretton Woods system created – **to what extent did the Plan support or run counter to the Bretton Woods consensus?***
- The US did not insist on a single uniform economic approach to be adopted by each European country [ex 13 and 14]



- There were certain constraints and conditions with regard to communism generally, and cooperation was limited largely to the countries of Western or Central Europe and to democratic or anti-Communist political forces. Besides that, the Marshall Plan placed a premium on European self-help and did not break down when the Europeans devised plans and programs of their own – there was much autonomy allowed to the European economies to achieve the economic recovery which was their mutual objective
- *Again, one could argue that this willingness to allow for independence for each country undermined the Bretton Woods institutions, specifically the IMF.* There is also an argument that Marshall Aid, to some extent, marginalized the IMF. [Ex 15] Marshall Aid was seen as a substitute for the IMF revenue, and recipient countries did not have access to short-term borrowing from the Fund. Secondly, France's decision to adopt a multiple system of foreign exchange rates of the franc and Britain's devaluations in **1948** and **1949** respectively, both violated the IMF principles and dealt a blow to any authority it might have enjoyed before.

### **C) Provision of expertise**

- Primary aim – to promote industrial efficiency in Europe.
- The vehicles for achieving this goal included a variety of technical assistance projects, engineering schemes, and productivity surveys launched in Europe with the aid of American experts, and a host of productivity teams of European workers and managers who came to the US to study agricultural and industrial production methods.
  - There is an argument that improvements in productivity was a basis for global economic growth.
  - In general, this led to improved engineering and marketing methods, to important technological adaptations, and to the spread of industrial planning, the growth of automation, and the better organization of production – all of which contributed substantially to the high rate of European productivity that persisted through the **1950s**.

### **D) Laid the foundations for European economic integration**

- Precondition: MP made it clear that they would only provide aid to European nations if they agreed to restructure their economies on a cooperative basis. ∴ They formed OEEC to administer the MP.
  - Its function was to divide US aid among members states, to reduce trade-barriers, to improve the system of payments in intra-European trade, to make technical studies necessary for European economic growth, and to ultimately provide for a large free trade area in which member states would enjoy stable currency, increased production and increasing prosperity.
  - The OEEC never became a truly supranational authority, but proved an effective instrument of economic cooperation with an increasingly European identity and a burgeoning staff of international public servants.
- MP also went further beyond this precondition, actively and continually **encouraging** integration.



- There was both economic and **political logic** behind the MP due to the CW situation.
- Wanted **to integrate Germany into a broader European unit** to allay the fears of another German threat. The US wanted to ensure that Germany's progress would be coordinated and sympathetic to the rest of Europe. Europe's economic recovery depended a good deal on Germany; however, a crucial task was to ensure that economic recovery would not lead to reinvigorated German nationalism or any form of dominance over its neighbours. Economic integration would reconcile West Germany's recovery with security concerns of her neighbours, thereby creating a unit of power in the West sufficient to contain Soviet power in the East.
- The US continued to encourage European economic integration after the establishment of OEEC and the liberalization of intra-European trade → **European Payments Union** which allowed OEEC members to settle their trade accounts on a multilateral basis rather than by bilateral agreements between individual countries. *This was what Bretton Woods aimed; previously, most were bilateral (dependent on commercial agreements between different countries).*
  - Limitation: **Multilateralism was within a fairly limited framework** – it was only **multilateralism within Europe** – consistent with Bretton Woods.
  - BW was a general liberalizing of trade, though you could argue that liberalization of trade in Europe was a precedent for liberalization of trade elsewhere.

### Is it fair to credit the Marshall Plan for European integration?

- In terms of **promoting multilateralism and liberalizing trade** it was mainly successful through the work of the European Payments Union; with regard to any moves towards **political integration** or at least supranationalism it **fares very poorly**.
- In particular, the distribution of aid turned out to be more of an **instrument for separating the participating countries than a device for integration**.
  - Annual plans were based on an assessment of the respective needs of each country and, crucially, on a common strategy as to how the means provided could maximize the reconstruction effort.
- The principal reason why OEEC did not become a stepping-stone towards European political integration was the **opposition encountered from 2 crucial players, Great Britain and France**.
  - The former objected to being involved in any kind of supranational organization that brought into question its role in world politics.
  - For France, the OEEC was not an appropriate way of achieving its main goals: access to German resources (mainly coal and steel) and, related to this, firm political control over Germany.

### Significance of the Korean War to global economic growth

- Can see its significance on:

1. Effect on Korea and its subsequent contributions to the economy
2. Effect on American economy
3. Effect on Japanese economy
4. (To a lesser degree) Effect on SEA economies. Downgraded in significance because SEA economies did not make major contributions to GE prior to that.

### Positive Effects of the Cold War on economic growth

#### 1. Effect on (South) Korea

- The war was very important as it ensured America's commitment (with political and economic consequences) to South Korea once the war was over – this was a commitment that was by no means established before the war.
  - The three years of war and continued military tension necessitated a military buildup; in addition, the professional training many Korean soldiers received in the US made the military a strong institution with Western-style organization.
- Rise of entrepreneurs in collusion with the military. The effect was spectacular economic growth.
  - The collusion of business conglomerates known as *chaebol* and the military-cum-political leadership gave birth to **crony capitalism**, which in turn is seen to have hampered the democratization process.
  - However, the **economic growth** (through import substitution and export expansion) under Park Chung-hee would serve as the legitimating device for his military regime.

#### 2. American economy

##### A) Establishment of a military-industrial complex

- Short-term war boom in America in certain industries – particularly the military economy.
- Long-term consequences of the Korean War on the **American military economy**.
  - NSC-68: Was originally not approved of; it was the Korean War which won support for the proposal, which was the basis for massive military spending in the US.
  - This was the basis for the creation of a military industrial complex, which became in its own right an **engine of growth**.
  - Similar pattern seen in the Vietnam War.
- The Korean War and its aftermath was economically stimulative, but it also produced various forms of economic dislocation (e.g. inflation) – but was most important for the stimulation of the global economy.
  - The decision to build and maintain in perpetuity a Cold War mobilization base and to keep defense spending at high levels resulted in several interesting developments: the size and scope of government was increased, the ties between the public and private sectors tightened and progress in the US economy and industrial landscape accelerated
- This linkage between military spending and economic growth is called Military Keynesianism.
  - Reagan's military spending in the CW (star wars) is a specific example of this.

## B) Technological Advancements

- Accelerated technological advancements and development in the same way in the 50s.
- These advancements had **civilian spin-offs** in the American economy – computers, transistors, semiconductors, Internet etc.
  - It was the Korean War that led to a decision by IBM to enter the market for commercial computers. Demand for semiconductors continued to be dominated by military and defense related applications as the need for increasingly powerful computers continued to grow well into the **1970s**.
  - The development of the Internet involved the transformation of a computer network initially established in the **late 1960s** by the Defense Department Advanced Research Projects Agency.
- For question on technological development in GE – start with WWII.

## C) Containment Policy

- The Korean War extends it globally; the US perceives her responsibility as one of a global policeman
- This would imply propping up economies of countries the US identified as its natural allies, which had great benefit on economic growth
  - This was seen in Thailand, Indonesia under Suharto, Egypt (Aswan Dam), etc. – buttressed further by the establishment of SEATO and the Baghdad Pact (later, the CENTO)
- This was the start of the US combining economic policy with its security policy; economic aid was used to keep her clients loyal.

## 3. Japanese economy

- Link between the KW and Japan's economic growth – Japan was used as a manufacturing base. It benefited massively; overnight, there was a new market for Japanese industrial production.
  - Filled all kinds of orders for the American forces (uniforms, construction, textiles). This was of immense benefit to the Japanese firms such as Toyota.
  - Governor of the Bank of Japan called the KW (and the US spending that resulted from it) "divine aid". Also seen as a parallel of the MP in terms of consequences. (Book: Scheller)
  - The US funded the doubling of Japan's manufacturing output between **1949-53**, and it is no less accident that **1966-70** were the years of peak Japanese growth.
- The Vietnam War, later on, also played a role for Japan – by the time America participated fully in the Vietnam War, the basis for Japanese economic success was more well-established.
  - Thus the Korean War was more crucial **in terms of timing**.

## 4. SEA Economy (lesser degree)

- Supplied raw materials (Burma, Indonesia)

### **Negative effects of the Cold War on economic growth**

#### **A) Opportunity cost – better ways of spending money**

- Peace Dividend: A **1997** study by economists at the IMF examines data for 130 countries concluded that while most countries that cut their military spending, they also reduced their non-military spending while simultaneously protecting the social sector and in many instances increasing social spending.

#### **B) Hindered the progress of liberalization of trade**

- Go back to Bretton Woods – which operated on the basis of consensus of free trade.
- CW made it harder for consensus to be reached by establishing blocs which made economic integration difficult (removed the entire Eastern bloc from trade, though admittedly USSR did open up later).

#### **B) Retarded technological transfer**

- The US did not want modern technology to be made available to the USSR, and was careful to restrict aid in certain areas (strategic implications of trade)
  - The Western powers were trying to limit the export of transfer of knowledge defined as strategic to the socialist bloc, a policy which culminated in the founding of the Coordinating Committee (CoCom) by the Western alliance in **1949**.
  - The western strategic embargo was operated by the NATO countries and the main aim was to retard Soviet technical progress in the key strategic areas of technology; the system forged a restrictive policy intended to place an embargo on high technology exports against the whole socialist bloc
  - With the Consultative Group (CG), a set of embargo lists were drawn up over the course of **1950-51**, and the Mutual Defense Assistance Control Act and Thy Amendment was ratified, in which aid was prohibited to any European government actively trading with Communist Bloc countries.
  - This was a sort of economic containment, which runs directly against what Bretton Woods was trying to do.
- However, there were certain countries – e.g. West Germany and Finland – which developed substantial trade with the USSR, which did not retard its growth.
  - CoCom and the control mechanism created barriers to trade between old pre-war trading partners and gave rise to new connections between other countries.
  - Finnish-Soviet trade was exclusively bilateral and handled through a clearing system. Finland imported raw materials and energy and paid the exports by research-intensive and highly processed products.

## **5. DOMINANCE OF USA**

### **The Willingness Of The USA To Assume A Leadership Role**

- Economic recovery was not accidental – it was planned by Western allies and America (start tracing in 1940).
- American motivation: Why is she planning for the post-war world? Determination not to allow what happened in WWI to happen again.
- These plans center around certain key ideas – economic liberalization and economic

integration. These plans could only work with American participation.

- Less to do with American being the global caretaker, but because of what they failed to do after WWI.
  - After WWI, America retreated into isolationism. There were great fears that America would repeat this.
  - After WWII, Americans became convinced of the links between economic policies and war (particularly protectionism – Americans were less frightened after WWII with engaging economically with the other countries, because America was in a totally different (superior) position. They would be engaging with the world in a position of huge strength.
  - This was not true after WWI (Britain was still a powerful imperial nation, while US was a younger, less developed country).
  - Changed relationship between America and the European powers. After WWII, America was able to lead in decision-making.
  - This engagement became acceptable domestically – no domestic, electoral pressure for a return to isolationism.
- Cold War: Each bloc leader took the task of holding its clients together ∴ the CW was a prime reason for America taking leadership roles.
  - Traditionalist view: American involvement in Europe economically was to prevent the spread of communism.
  - Revisionism: Spread economic imperialism. Using ideology to persuade people of the necessity of economic investment/ integration in Europe, harping on the fears of communism → “Hegemonic Stability Theory”

## **6. POST-WAR RECONSTRUCTION OF EUROPE – RECOVERY OF GERMANY**

*Historical context: What informs policy makers after WWII was the memory of what happened after WWI:*

- Determination to punish Germany by means of reparations, which had disastrous economic and political consequences → after WWII, there was determination not to go down that same route.
- Marshall Plan – this could not work without the recovery of Germany
  - The logic of the Marshall Plan required the lifting of all restrictions upon (West) German production and output, so that the country might once again make its crucial contribution to the European economy as a **market** and a **provider of raw materials**. In other words, a post-war settlement in Germany was the key to Europe’s future.
    - E.g. French plans to use Marshall counterpart funds to build a huge new steel mills would come to nought without German recovery as they needed German coal production, which was still chugging along in 1948 – only half the industrial output capacity of 1936.

### **Germany’s Economic Miracle – Wirtschaftswunder**

- Can only be understood in the context of the state of Germany after WWII.
- Major towns and infrastructure were destroyed by carpet-bombing
  - Berlin suffered from 40 thousand tons of shells before it fell to the Red Army,

leaving 75% of its buildings uninhabitable.

- 20% of all housing throughout Germany was completely destroyed, and transport and service infrastructure was pulverised.
- Industrial production was down to 1/10 of pre-war levels.
- **Comparison of Germany and Britain would be useful**
  - Britain: Generally it suffered quite little. You would expect Britain to lead the economic charge, but it was surprisingly Germany.
  - By early 1960s, Germany was the booming powerhouse of Europe, while Britain was an underperforming laggard, its growth rate far behind that of the rest of Western Europe. Already by 1958, the West Germany economy was larger than that of Britain.
- 3 ways to understand Germany's economic success:
  - **Reconstruction boom** – Werner Abelshauser: the more destruction there was, the more scope for reconstruction (1980).
  - Policies followed towards the German economy by the US (during occupation) and the later German government.
  - Germany's capacity to recover (view held by contemporary observers).
- Thesis: Recovery was inevitable – natural advantages, continuity of the 1930s (seemingly unstoppable rise), and theory of the recovery boom.
- Anti-thesis: Recovery was not inevitable – American intervention (specific events which recovery was contingent upon)/ accidental factors (individuals being there on the right time).

### **Reasons For Germany's Economic Recovery**

Time period: Up to 1947 – recovery from physical damage

#### **A) Although transport infrastructure was very badly affected, the industrial infrastructure was not (up to 1947)**

- Economic recovery in terms of physical damage was very fast, partly because most German industrial infrastructure survived the war.
  - Much of the industrial centres had been deliberately located out of population centres.
  - Once the workers' houses had been rebuilt, and the transport networks put back in place, industry was more than ready to deliver the goods.

#### **B) Wartime investment (up to 1947)**

- The industries in which wartime Germany had invested most heavily – optics, chemicals, light engineering, vehicles, non-ferrous metals – were precisely those which would lay the foundations for the boom of the 50s

#### **C) Continuity with pre-war economic progress (up to 1947)**

- WWII was not a complete break from German economic recovery since WWI
- Some would claim that the investments of the Nazis were undertaken for an economy geared to war, but their pay-off came 20 years later.
- Since the essential infrastructure of German business survived the war undamaged, firms in various industries were back in business by the early 50s, supplying a voracious foreign market with their products and services.



- Moreover, Germany had natural advantages
  - Contained large internal resources (from coal to machine-tool plants).
  - A highly educated population, which was swollen by the emigration of talent from the East.
- However, be careful to say that the economic recovery of Germany was inevitable, given the strengths and advantages she had – this line of thought underestimates the success of the policies that were followed and the correctness of the decisions made and approaches adopted

#### D) Contributions of German key individuals – Konrad Adenauer

- His approach for the economy, the social market economy, was followed.
- Also important was Ludwig Erhard, responsible for building the **social market economy** – *soziale Marktwirtschaft*. The result was the German economic miracle.
  - Both belonged to a group called the Ordoliberals, who were committed to free markets with a social safety net, adding up to what they called a “social market economy”. This concept entailed the state playing the role of a benevolent guardian over the free competition of economic interests, mitigated by consensus.
- Qn: What accounts for the differences in economic growth between Germany and Britain and France?
  - **Difference in economic models:** In Britain and France, the state took control of the commanding heights so that it could provide prosperity for all; in Germany, the state created (and to a limited extent took control of) a network of organisations around the commanding heights so that the market could operate more effectively. The economy worked under a tripartite agreement between government, labour and business.
  - **Difference in trade emphasis:** German economic expansion tended to be export-led, while British expansion was consumption-led ∴ there were huge imports from Germany into Britain
- American economic minister: Lucius Clay
  - Not what he does, but the ideas that he has that underlies the whole approach towards the recovery of the economy.

#### E) Availability of a workforce in Germany (not Germans)

- Germany benefited from a virtually inexhaustible supply of **cheap labour** from East Germany (1949-62).
  - Berlin was the point of entry (*before the Berlin Wall was erected*). Between **1949** and **1961** somewhere around 3 million East Germans went through Berlin to the West, around 16% of the country's population.
  - There were also people from other (poorer) parts of Europe: Greece, Yugoslavia, Italy, Turkey.
  - **Characteristics:** CHEAP, docile, compliant, grateful.
- But in 1962 it all stopped when the Berlin Wall was erected
- Once the wall closed off the supply from East Germany, the migrants were grateful for their stable hard currency wages. Because of these conditions, they were not going to cause trouble.



- Native West German labor force was also compliant. The best way of measuring the compliance is looking at the behavior of the unions (representing the attitudes of the workers) – German trade unions saw no benefit in pressing for unrealistic wage demands due to [\(compare with Britain\)](#):
  - **Fear of inflation** – a legacy of the bitter experience of 1923
  - Since prices remained steady, **real earnings** improved (and they were grateful and contented with this)
  - The union leaders accepted the need to postpone consumption for the sake of greater productivity – they recognized that **improving wages could only come from improving profits**, which seemed to elude British trade unions.
  - Unions were **politically detached**, without the close links with the SPD such as the British trade unions had with the Labour Party.
  - **Devastating memories of the past** (which explains their docility). Making, saving, getting and spending became not just the primary activity of most West Germans, but also the publicly affirmed and approved purpose of national life. Internationally condemned after Hitler's fall for blindly obeying immoral orders, Germans thus turned the defect of their industrious obedience into a national virtue, devoting efficiency, detail and quality in the manufacture of finished products.

#### [Up to 1947 and beyond: American Assistance](#)

##### **F) Marshall Aid (after 1947)**

- Not that important to Germany – ironically Germany did not get that much as compared to other countries.
  - Cumulative aid from the Marshall Plan and other aid programs totaled only \$2 billion through Oct 1954.
  - Even in 1948 and 1949, when aid was at its peak, Marshall Plan aid was less than 4% of German national income.
  - Britain and France were the largest recipients; however Marshall Aid in itself did not guarantee economic success, as seen from the dismal economic performance of the two countries.
- Also, although Germany was getting help for Marshall Aid, it was also making reparations and restitution payments that were well over \$1 billion
- The Allies also charged the Germans \$2.4 billion annually for their costs of occupying Germany.
- **∴ Do not emphasise Marshall Aid as a reason for Germany's economic miracle.**

##### **G) American decision to reverse the 1944 Morgenthau Plan** [\(can draw //s to American occupation in Japan\)](#).

- The Morgenthau plan was a plan devised in **1944** on de-industrialising Germany – her big industrial and financial concerns would be dismantled.
- This plan, however, was shelved.
- Given that Germany's economic recovery was an industrial recovery, it would have been impossible with the Morgenthau plan.

### H) American confidence

- Continuing presence of American troops and integration of Germany into the new American structure of security treaties gave Germany confidence in terms of economic and security concerns.
  - Symbolic significance of the 11-month airlift during the Berlin blockade between **1948 and 1949** – symbolic of American commitment to Germany + buttressing NATO.
  - Crucial decision to **rearm Germany**. Though Germany rearmed, US still invested heavily in defense for Germany, and this acted as a stimulus for all military-linked economies → German defence expenditure rose steeply during the 1960s. Germany also saved money as it did not have to provide for its own defense; being relieved of defense expenditure made economic recovery easier.

### I) Currency Reform

- Up to the reform of **1948**, the heavily inflated reichsmark (RM) had impeded economic exchange and encouraged a black market.
- The new deutschemark (DM) was set at 1/10 the value of the old – a most brutal act of deflation – but it did produce the desired effect.
- Almost overnight the shelves and show windows of West Germany's stores once again displayed food and consumer goods, for which the destitute masses provided an unlimited market.
- **Note: American contributions to Germany were by no means altruistic – it was self-interested**

## 7. INCREASE IN EUROPEAN POPULATION & RISE OF THE CONSUMER

### 4. Increase in European Population and the Rise of the Consumer – “Europe becoming young again” (Judt)

- Primarily significant in terms of consumerism rather than productivity
- 1930s: Birthrates were stagnating everywhere in Europe
  - Due to the knock-on effects of the loss of a generation of young men in WWI, coupled with economic depression and political uncertainties
- 1950-70: Post-war baby boom
  - Due to immigration
  - More optimistic climate that paralleled economic growth. The ushering in of a new mixed economy model with safety nets (welfare systems), employment, increased financial security and other economic incentives, which coincided with peace and security improved people's future outlooks and thus fostered procreation.
  - Sharp fall in infant mortality rate not just in the Western world, but also in the Soviet bloc with improved nutrition, housing and medical care.

### Relationship Between The Baby Boom And Economic Growth

*Chicken and egg question – cause or effect of economic growth? (in chronological order):*

A) **Large demand for baby products and later services** (schools and education

services – significant spending at both personal and government level), which becomes a driver of growth

**B) Rise of consumerism by teenagers**

• **Note: Don't confuse the teenager of the 50s and early 60s with the teenager of the later 60s and 70s (the latter group was the politicized group)**

- Until the 50s and 60s, young people had never existed as a distinct group of consumers.
- The new, intermediate category of “teenager”, in which a generation was defined not by its status but by its age – neither child nor adult – developed when teenagers increasingly retained independent cash earning to spend as they wished.
- With real wages rising rapidly, most families could subsist – and better – on the income of the primary wage-earner; a son or daughter who left school at fourteen and was employed was no longer automatically expected to hand over all his or her earnings every Friday.
- Spending on clothes and music. [This links back to the development of technology.](#)
  - Rise of distinct groups and teenage subcultures in the 50s and 60s (e.g. Teddyboys) with their own distinct spending powers.
  - Teenagers were hence the target of the advertising industry that followed, accompanied and prophesied the consumer boom

**C) Rise of advertising, which facilitates economic boom**

- Advertising was not new; it was the **scale** of advertising that was new.
- Advertising also now took into account consumer choice – the massive range of choice available to consumers.
- Post-war was the beginning of when advertising targeted different consumer goods, relying on an almost sociological analysis. Previously, consumption was *by the family unit*; now it was by easily identifiable, specific groups.
- Advertising had a focus on **youth**
- Arguably, the development of advertising was inspired by the American cultural and commercial practices, and could be seen as another form of **American hegemony**.

**D) Consumers in general were increasingly willing to buy non-essential items (related with the rise in wages)**

- This was a move away from basic subsistence (housing, food, alcohol) to non-essentials.
- For the first time, people had disposable income.
- In the 2 decades after 1953, real wages almost tripled in West Germany and the Benelux countries; by 1965, food and clothing absorbed just 31% of consumer spending in Britain; by 1980 the average for northern and western Europe as a whole was less than one quarter.
- Even traditional essential items were being sold and packaged in a different way
  - Supermarkets began to appear in the 1960s when the impact of the increase in purchasing power was felt most dramatically. They provided people with variety and choice because of the scale in which the items were sold.
  - Domestic appliances like washing machines increasing in sales as well.

- These were mass-produced (Fordism), which made them much more affordable.
- **Best example: Cars.** More than any other single item, the car was the driver of economic growth due to the rise in accessibility and affordability. The iconic car is the Mini.
- These goods and services that were once luxury good became affordable and accessible (normal goods).

## 8. TECHNOLOGY & TECHNOLOGICAL DEVELOPMENTS

- Most significant military technologies with civilian spin-offs: Computers, Internet, semiconductors + transmitters, telephones, television, transistor radio (portable), cassettes, vinyl, domestic appliances.
- **Miniaturization** and **portability** were the key characteristics in technological advancements applicable to civilian life.

### Relationship Between Technology And Economic Growth

#### A) **Novelty** – becomes the driving force of industrial production and consumerism

- People in the pre-war years tended not to demand 'the new'
- Technology made possible an unprecedented degree of novelty in its enormously increased and diversified output.
- Technological revolution entered consumer consciousness to such an extent that novelty became the main sales appeal for everything.

#### B) **Research and Development** – important in production process

- The process of innovation became so continuous that the cost of developing new products became an increasingly large and indispensable share of the cost of production.
- This was a recognition that technological advance gave companies advantage, which reinforced the gap between developed and non-developed countries.
- Became central to economic growth and for this reason, the already-enormous advantage of the "developed market economies" over the rest was reinforced
- Relevant again to **US leadership and hegemony**
  - In technological terms, the US maintained its lead as seen in the increasing concentration of scientists and science itself in the US – increase of American Noble Prize winners → confirms the centrality of R&D in US and consolidates American hegemony.
  - US also facilitated technological transfers (limitation: Cold War)

#### C) **Built-in obsolescence**

- You make something knowing the product will be superseded in a few years' time
- People come to expect this; this was very different from the pre-war attitude

#### D) **Impact of science on everyday life. Crucial characteristic: End user need not understand the workings of the science itself in the technologies.**

- Thanks largely to the astonishing explosion of information theory and practice, new scientific advances were translated, with ever diminishing time-lags, into a

technology that required no understanding whatever by the end-users; it did not even require literacy.

#### E) Technology and science transforming **agriculture**

- Innovation of agriculture in the US demonstrated the US lead
- The European economy also did very well, agricultural-wise
- Probably more important than all this was the Green Revolution and its impact on the developing world
- The Green Revolution led to sizable increases in returns to land, and hence raised farmers' incomes. With greater income to spend, new needs for farm inputs, and other marketing services, farm families led a general increase in demand for goods and services.

### 9. IMPROVEMENTS IN PRODUCTIVITY

#### A) Labour Force

- Europe's large demand for labour to facilitate economic boom was met by migration. Migration took three relevant forms:
  - **Internal migration:** From the countryside to the city.
    - This is a fundamental shift that occurs in the post-war world (from an agrarian to increasingly urbanized and industrialised continent)
    - In the next 30 years after 1945, many Europeans abandoned the land and took up work in cities. By 1977, just 16% of employed Italians worked on the land; in Austria it had fallen to 12%; in France, 9.7%; in Spain, only 20%.
  - **Country-to-Country (intra-European migration):** This was migration in the form of emigration from the poorer European country (Turkey, Italy, Greece, Yugoslavia) to the more developed ones.
    - The breaking up of the Soviet bloc accelerated this (cheap East European 'guest workers' moving to rapidly industrializing European countries, particularly Germany).
  - **Migration from Colonies/ Ex-colonies to Motherland:** This was politically more sensitive, and tended to be permanent.
    - In all, they amounted to some 40 million people in transit.
    - The post-war European states – and private employers – benefited greatly from a steady flow of docile, low-paid workers for whom they frequently avoided paying the full social cost, facilitating the European boom.
- Characteristics of European Workforce that Enabled **High Productivity**
  - Cheap (many were excluded from unions)
  - Compliant due to **weak unions + contentment with stability** (except Britain). Trade Unions (their attitude is important for productivity) saw themselves as the **partners of employers and government** (tripartite arrangement) ∴ [link productivity with points on consensus, in this case between major actors in the economy](#) → this consensus facilitates productivity.
    - This was the legacy of the inter-war decades: militant or political unions

never fully recovered from the impact of the Depression and Fascist repression. In return for their newfound respectability as national negotiating partners, union representatives through the **50s and early 60s** often preferred to collaborate with employers rather than exploit labour shortages to their immediate advantage.

- There was a tacit or explicit consensus between employers and labour organisations to keep labour demands within limits such that it did not eat into profits, and future prospects of profits high enough to justify the huge investments, without which the spectacular growth of Golden Age labour productivity could not have taken place.
- De facto, the arrangement was triangular, with governments formally or informally presiding over institutionalized negotiations between capital and labour, who were now habitually known, at least in Germany, as the 'social partners'.

### **B) Methods of productivity**

- America's role as a model for increased productivity via **mass production** (Fordism).
- What was seen in post-WWII was the universal application of Fordist principles across Europe.
  - Relate this to the whole question of US leadership and hegemony – in both overt and subtle ways. Productivity is one of the ways (copying of America).
- Did US facilitate this leadership in productivity?
  - Marshall Plan – sharing of expertise in industrial methods and processes.
  - Look back on readings on WWII – advances in technology and production methods. When we look at Japan, incorporate Japanese production methods that differed from the US'.
- After 1990: Increasing engagement in **offshoring and outsourcing** when production became global.
  - Labour became very cheap
  - The products that entered world trade were increasingly international in both origin and market – for instance, the American Barbie dolls were assembled in Indonesia, Malaysia and China, then shipped to Hong Kong and from there to Mattel's customers in the US and elsewhere.
  - Companies could locate research and development, marketing, manufacturer and assembly thousands of miles away from one another, for economic, political or regulatory reasons, then ship the ultimate product to consumers everywhere.
  - Greater specialization. However, its attractions were tempered by the fact that it made some lines of business of long standing obsolete, increased the competition that companies and countries faced from others. In the developed countries, manufacturing employment went from 27% of the labour force in the **early 1970s** to under 19% in the **late 1990s**.

## **10. STABLE OIL PRICES**

- Growth of GE created a rapid increase in energy usage – energy consumption tripled

from 1970-73 in US.

- To sustain the rapid economic growth, energy prices had to be maintained at a low and sustainable level.
- Achieved as oil replaced the erstwhile dominant fuel in that period – coal.
  - Inexpensive imported oil became the primary energy source supporting the dramatic increases in economic output.
  - By 1970, demand for oil had outstripped coal as an energy source 44.5% to 31.2%.
  - Facilitated by the automobile industry (petrol used in the internal combustion engine).
- Oil supply came mainly from US in that period. Given that US was the economic leader at that time, it was no surprise that they pushed for the increase in usage of oil via:
  - Technology: Increase in technology that runs on oil.
  - Environmental argument: Oil as a fuel is cleaner than coal.
  - Price: Coal is more expensive relative to oil, partly because of wages. Oil prices declined in real terms up to 1970s (note: only look at early period – first 20 years). Average price of a barrel of oil from 1950-73 was < \$2 a barrel

#### Reasons For Stable Low Oil Prices

##### A) Supply increasing from Middle East in the late 30s

- Kuwait, made by BP; Saudi Arabia, by Chevron
- First major shipping of oil was in 1946 (due to the disruption caused by the war).
- Big oil companies (mostly American) found it very easy to get concessions.

##### B) Oil companies keeping oil prices relatively low

- 7 Sisters (band of oil companies) had a stranglehold on Middle Eastern oil in the early 30s.
- As late as 1972, they produced about 90% of Middle Eastern oil.
- **Significance: Cooperated with each other to avoid price competition.**
  - Rather than fixing prices at a high level, they kept it low and stable.
  - This was because it was in oil producers' interests to see continuing and steady economic growth which would constitute a steady growth in demand for their product. Hence, they did not want to cause any economic disruptions with oil price hikes.
- The steady demand for oil survived periodic booms and busts, proceeding in a very predictable, steady rate (completely unlike the volatility of oil prices in the 70s), which was **essential to the continued expansion of the global economy and markets.**
  - Suez Crisis (1956)
  - Six-Day War (1967)

##### C) America exercising pricing power (related to US dominance)

- Though Middle Eastern position in oil industry was rising, US still played a dominant and moderating role.



- The 7 Sisters were majority American companies.
- The US could intervene to keep oil prices relatively low, as it produced its own oil.
  - As late as 1952, crude-oil production in the US still accounted for more than half of the world's total.
  - Pricing power was in the hands of Americans like John D. Rockefeller, and later the Texas Railroad Commission, which raised limits on output to suppress price spikes, and cut permissible output to prevent sharp price falls.
- It continued to intervene until the 1971, when rising world demand finally absorbed the excess crude oil capacity of the U, ending US energy independence.
- The locus of pricing power shifted abruptly, at first to a few large Middle Eastern producers and ultimately to globalized market forces broader than they could contain.

### **11. ECONOMIC RECOVERY & GROWTH OF JAPAN**

Separate sheet

### **12. EMERGENCE AND IMPORTANCE OF ASIAN TIGERS**

Self-study

### **13. DEVELOPMENT OF TRANSNATIONAL ECONOMY**

Self-study

### **14. CONTRIBUTION OF LATIN AMERICA**

Self-study

### **15. ECONOMIC RISE OF CHINA**

Self-study

### **16. ECONOMIC RISE OF INDIA**

Self-study