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Suggested citation

CONVOCATORIA PARA EL IMPULSO Y LA CONSOLIDACIÓN DE PROYECTOS DE DOCENCIA BILINGÜE DURANTE EL CURSO 2015/2016 (Resolución R-552/2015)
6. The Golden Age of Capitalism and the Limits of Prosperity

6.1. Introduction.
6.3. The Golden Age of the Capitalism.
6.4. Decolonization and the Developing Countries.
6.5. The New Role of the State.
6.6. The Limits of the Prosperity.
6.9. Conclusions
Textbooks:


Other references

- “Before the Flood”. 2016. [https://www.beforetheflood.com/ ]
Seminar on Firms.


• **6.1 Introduction**

• World War II (WWII): belligerent countries had suffered military defeat and enemy occupations.
  
  • Neutral countries suffered from many war-induced shortages.

• Europe faced the urge to supply its population with basic needs.

• Channels of relief:
  
  • Allies (the US) distributed emergency rations and medical supplies to the civilian population - enemy as well as liberated population - (winter & spring 1944-45).

  • United Nations Relief and Rehabilitation Administration (**UNRRA**).
UNIT 6.1. Introduction

6.1 Introduction

United Nations Relief and Rehabilitation Administration (UNRRA)

- 1945-6: 1 $ billion & 20 million tons of food, clothing, blankets and medical supplies.
  - The US contributed with more than 2/3 of the cost.
- 1947 UNRRA x International Refugee Organization, World Health Organization, and other agencies.
- The US emerged from the WWII stronger than ever.
  - To a lesser extent:
    - Canada.
    - Several countries of Latin America.
Did you know…?

- WWII opened vast opportunities for women because men joined the army, leaving open many jobs.
- Women entered in markets that had been previously closed to female workers.
Did you know…?

After the war, women were asked to leave the job market. The same situation had happened after the WWI, though this time many women remained employed as waitresses, secretaries, etc. They were called “pink collar” workforce.
6.1 Introduction

(American) Industries and agriculture benefited from high wartime demand:

- Full use of capacity.
- Technological modernization.
- Expansion.

The US extended economic aid for the rebuilding of Europe and other war-devastated lands.
• Did you know… ?

• Planning for the postwar began during the war itself.

• The Atlantic Charter was a joint declaration signed by the US and Great Britain on August 14, 1941.
  • On a battleship in the North Atlantic

• Roosevelt & Churchill signed a charter: their countries agree to undertake the restoration of a multilateral world system.
  • Statement of intentions. Both countries agreed by the post-war restoration.
• Did you know… ?

• The charter will affect subsequently to other members that signed it.

• The charter would inspire the decolonization after the WWII.

• Even though the US was neutral, Roosevelt showed solidarity between the US and Great Britain against the Axis aggression.

• In December, after the attack on Pearl Harbor, the US declared the war to Japan.

Source: http://www.voltairenet.org/article177735.html
6.2.1 The Foundations of Welfare State: Larger Role for the State.

Larger role for the state in economic and social life than the prewar period.

- [The task of reconstruction]

- Nationalization of key sectors of the economy.
  - Transportation, power production, banking system.

- Extension of social security and social services.
  - Retirement pensions, family allowances, free or subsidized medical care, education.

- The assumption by governments of greater responsibilities for maintaining satisfactory levels of economic performance.
6.2.2 The Foundations of Welfare State: Planning for the Postwar Economy.

Bretton Woods Conference, 1944

- 44 Allied nations (730 delegates) led by US and British delegates. Major accomplishments of the conference
  - The New International Monetary System
  - New International Institutions
    1. International Monetary Fund (IMF)
    2. International Bank for Reconstruction and Development (IBRD), World Bank
    3. International Trade Organization (ITO)
6.2.2 The Foundations of Welfare State: Planning for the Postwar Economy.

The New International Monetary System: gold exchange standard

(The IMF was to have the responsibility for managing the structure of exchange rate among the world currencies)

The countries agreed to keep their currencies fixed to the dollar (but adjustable in exceptional situations within a 1 percent band).

$ were convertible to gold at a fixed exchange rate of $35 an ounce.

Au. ounce == $35
6.2.2 The Foundations of Welfare State: Planning for the Postwar Economy.

The New International Monetary System: gold exchange standard.

1958: countries settled international balances in dollars.

In the 1960s, European and Japanese exports became more competitive with US exports ➔ US reduced domestic exports ➔ trade account moved into deficit.

In addition to a deteriorated balance of payments, the US had to deal with:

- Military spending.
- Foreign aid.
- Internal affairs (inflation and increasing unemployment rate).

1971: President R. Nixon announced that the US $ was no longer convertible into gold (at a fixed value).
6.2.2 The Foundations of Welfare State: Planning for the Postwar Economy.

Since 1971 volatility in the international markets was higher due to unexpected monetary shocks:

- Oil crisis (OPEC- Organization of the Petroleum Exporting Countries: 1973…)
- 1976: Jamaica Agreements signed the end of the Gold Standard and opened an era of floating exchange rate regime.
  - Floating rates.
  - Gold was abandoned as a reserve asset.

International Monetary Fund (IMF):

- Responsibility for managing the structure of exchange rates among the various world currencies.
- IMF was charged with the maintenance of a system of fixed exchange rates centered on the US dollar and gold.
- Financing short-term imbalances of payments between countries.

Source: 
http://blogs.cfr.org/geographics/2014/09/04/notablequotables/

J. M. Keynes, flanked by Soviet delegation head M. S. Stepanov (left) and U.S. delegation head Henry Morgenthau, Jr. (right), addressing delegates at the Bretton Woods conference. July 1944 (Bettmann/CORBIS).

International Bank for Reconstruction and Development (IBRD), World Bank:

- Goal: to grant long-term loans for reconstruction of the war-devastated economies
  - Later: to grant long-term loans for the development of the poorer nations of the world.
• 6.2.2. The Foundations of Welfare State: Planning for the Postwar Economy.

Bretton Woods Conference, 1944

• **International Trade Organization (ITO):** to formulate rules for fair trade among nations.
  • General Agreement on Tariffs and Trade (GATT) [1947, Geneva]: to seek to reduce/remove tariffs.
  • 1994: GATT x World Trade Organization (WTO).
• **6.2.3. The Foundations of Welfare State: The Marshall Plan and Economic Miracles.**

• General George G. Marshall, the US Secretary State (President Truman) announced at Harvard University that the US government would give a positive response to a potential European request for help.

• Representatives of 16 nations met in Paris on July 1947: Committee of European Economic Cooperation (CEEC).
UNIT 6.2. The Foundations of Welfare State


• Committee of European Economic Cooperation (CEEC) => Organization for European Economic Cooperation (OEEC).

• Organization for European Economic Cooperation (OEEC) & Economic Cooperation Cooperation (ECA) responsible for allocating the US aid.

• Members of OECC also had to put counterpart funds in their own currencies to be allocated with the consent of the ECA.
  • Members
UNIT 6.2. The Foundations of Welfare State


• Committee of European Economic Cooperation (CEEC). Members

1. All democratic nations of Western Europe (and Iceland).
2. (Neutral) Sweden and Switzerland.
3. Austria, still under military occupation.
4. Portugal, Greece, and Turkey (none of them democratic countries).
5. Neither Soviet Union nor any other East European country was represented (BUT they were invited)
6. Spain was not invited.
7. Germany had no government to be represented. [West Germany was integrated later]

• The US Congress passed the Foreign Assistance Act in 1948 => created the European Recovery Program (ERP).

European Payment Union (EPU):

- Biggest obstacle to increased trade: shortage of foreign exchange (mainly $)
  - The necessity for bilateral balancing of trade.
- EPU allowed for free multilateral trade within the OEEC
  - Accounts were kept for all intra-European trade
  - At the end of each month balances were struck and canceled
- How did EPU work?

How did EPU work?

- Nations with deficits overall were debited on the central accounts. **IF** their deficits were larger, they had to pay a portion in gold or $.
- Nations with surplus received credits on the central accounts. **IF** their credits were very generous, they received gold or $.
- EPU provided incentives for OEEC countries to increase their exports to each other and to lessen their independence of the US and other overseas suppliers.
- OEEC countries were able to restore free convertibility of their currencies and full multilateral trade in 1958.
Did you know…

“On 28 December 1949, British cartoonist David Low illustrated the United States’ irritation at the slow establishment of a European Payments Union intended to aid transactions and revive trade between the OEEC member countries”.

Source: http://www.cvce.eu/en/obj/cartoon_by_low_on_the_united_states_reaction_to_the_slow_negotiations_for_the_establishment_of_a_european_payments_union_28_december_1949-en-38d3d490-1a21-445a-b256-9e88a767bc06.html

• European Recovery Program (ERP)

• $13 billion in economic assistance in the form of loans and grants for the US to Europe by the beginning of 1952.

• 1/3 consisted of food, feed, and fertilizers (mainly in the first year of the program).
• Did you know…?

• Berlanga's film "Welcome Mr. Marshall" is an ironic comedy of the Spanish society. Villar del Río inhabitants prepare the visit of the "Americans." But the visit will never come.

GARCÍA BERLANGA, Luís (dir.).
1953. “Bienvenido Mr. Marshall”.
[http://www.veoh.com/watch/v20636631amRJdWTF]
Did you know…?

In September 1953 an agreement was signed between the US and Spain for military bases: Spain would receive economic aid in exchange for the installation of military facilities (Rota (Cádiz); Morón (Sevilla), Torrejón (Madrid); Zaragoza.)

NOTE: the Soviet Union created the Council for Mutual Economic Assistance (COMECON, 1949) in an attempt to mold the economies of its East European satellites into a more cohesive union.
Task 1

The following link contents the milestones of the European Union, since the beginning as the European Economic Community or Common Market.

European Union. The History of the European Union.
UNIT 6.2. The Foundations of Welfare State
Did you know…?

The Cold War is the name given to the tense relationship developed between the US and the USSR after the WWII.

Both global powers began a long struggle for supremacy without direct bellic conflict.

The two superpowers continually antagonized each other through political issues, military coalitions, economic aid, etc.

Infographic-The Cold War. Source. http://www.pindex.com/b/discover-history/the-cold-war-
• Did you know…?

• During the night of November 9, 1989, the Germans began dismantling the Berlin Wall (symbol of the Cold War division of Europe. By October 1990, Germany was reunified; and on December 25, 1991, the Soviet Union dissolved.
### UNIT 6.3. The Golden Age of the Capitalism.

- **6.3. The Golden Age of the Capitalism.**
- Palafox (2014, 207): Cuadro 7.2

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</tr>
</tbody>
</table>
6.3. The Golden Age of the Capitalism.

1950-1973: industrial countries had an average increase in GDP/capita of 4.5% per year.

• Facts

1. Growth was most rapid in those countries that had abundant supplies of labor (Japan, Italy, France) or influx of refugees (West Germany).

2. Growth in the US, Canada, and UK was slower than that of continental western Europe and Japan.

   – But more rapid than in any prolonged period in their histories.
6.3. The Golden Age of the Capitalism.

3. Countries with relatively low per capita incomes within the industrial group grew more rapidly than the average.

– Italy, Spain, Greece, (Japan)
UNIT 6.3. The Golden Age of the Capitalism.

• 6.3. The Golden Age of the Capitalism.

  • Reason for a miracle

    1. American aid.
    2. Technological modernization.
    3. The role of the government.
       • Nationalized (some) basic industries.
       • Aggregate demand policies (Keynesianism).
    4. High degree of intergovernmental cooperation.
       • Wealth of human capital
       • High rates of literacy
6.5. The Decolonization Movement and the Third World.

At the end of the WWII, 1/3 of the world’s population lived in dependent territories (Source: http://www.un.org/en/decolonization/pdf/world1945.pdf)

World Map of Colonization at the end of the WWII Source: https://en.wikipedia.org/wiki/Atlantic_Charter#/media/File:Colonization_1945.png
• **6.5. The Decolonization Movement and the Third World.**

• WWII weakened the control of the European imperialism over their colonies.

• After WWII the imperial powers temporarily regained control over their former colonies. Elements of weakness:
  
  • Independence movements.
  
  • Cold War and superpowers attraction.

• By the mid-1960 the former European colonial powers had granted independence to almost all their Asian and African dependencies.
6.5. The Decolonization Movement and the Third World.

The former colonies had problems to install viable democracies.

- Succumbed to one party governments (dictatorships, communist regimes).
- Limited resources (included human capital).
- High degree of bureaucratic inefficiently and corruption.
UNIT 6.4. Decolonization and the Developing Countries

Source: Blog Descolonización y consecuencias en la actualidad
http://historiadescolonizacion.blogspot.com.es
6.5.1 The Role of the State.

During the 1960s and 1970s, it was a common policy practice for governments to select a combination of unemployment and inflation, and then expand or contract the economy to obtain this target rate.

The **stop-go policy** relied strongly on fiscal policy to create the expansions and contractions required.

1. Taxes (income taxes).
2. Public expenditure.

Source: [http://www.economicsonline.co.uk/Global_economics/Phillips_curve.html](http://www.economicsonline.co.uk/Global_economics/Phillips_curve.html)
6.5.1 The Role of the State.

By the mid-1970s, the Phillips Curve trade-off no longer existed. The stable relationship between unemployment and inflation appeared to have broken down.

- **Stagflation** = inflation + unemployment (moderated during 1970s; higher 1980s)

- Defined by high inflation and stagnation (no economic growth or even a contraction)

- During the 1970s and early 1980 (most) countries saw the rise of growing budget deficits (5-10%)

- Rising public debt: the public expenditure did not match with the revenues.

Source: http://www.economicsonline.co.uk/Global_economics/Phillips_curve.html
UNIT 6.5. The New Role of the State.

• 6.5.1 The Role of the State.
• 1980: the political establishment had concerns about it
• The future sustainability of budgeted deficits.
• The influence of the large public sectors to control the unemployment.
  • Awareness of the crowding out effect over the private sector activity.
UNIT 6.5. The New Role of the State.

6.5.2 The Unemployment.

1960-1973: the U.S. unemployment rate was 4.9 percent; the rate for Canada was 5.1 percent; the unemployment rate was 1.3 percent for Japan; and 2.6 percent for G4 Europe (France, Germany, Italy, and the UK.)

6.5.2. The Unemployment.

1973–90: unemployment rose, on average, in all of the countries.
- The highest relative increases in unemployment occurred in Europe.

1990–2000: the United States unemployment rate (5.6 percent) was lower than in 1973–90.

[https://www.bls.gov/opub/ted/2002/sept/wk1/art03.htm ]
UNIT 6.5. The New Role of the State.

• 6.5.3 The World Leaders.


  • “Reaganomics”:
    1. Reduce the public expenditures.
    2. Cut income taxes (business taxation).
    3. Unregulated the economy.
    4. Control inflation.
• 6.5.3 The World Leaders.

  
  • “Thatcherism.”
  
  1. Low taxation
  2. Control the money supply with high-interest rate.
  3. Privatization of the state-owned industries (British Airways, British Gas).
6.5.3. The World Leaders.

“Few modern politicians have generated more fictions than -- and few so deliberately as -- the American and British conservative revolutionaries of the 1980s, Ronald Reagan and Margaret Thatcher. According to their overlapping myths, they were idealists who stood together for freedom, robust militaries, and a firm hand against terrorism. Yet looking back, the truth seems more complex and subtle.”


6.6. The Limits of Prosperity.

In the 1970s the growth was less rigorous than in the previous decade.

For the European Countries, the average rate of growth of GDP fell from 4.8% to 3.0%.

- The industrial production rate fell from 5.4% to 2.6%.
- The unemployment increased from 5% to 10%.
- Pervasive nature of inflation.

Also, shocks in the oil market eroded the business confidence.
UNIT 6.6. The Limits of Prosperity

• 6.6. The Limits of Prosperity.


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<tr>
<td>Japan</td>
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</tbody>
</table>

• NOTE: The EU15 comprised the following 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.
• 6.6. The Limits of Prosperity.

(*) Energy and commodity problems.

• The global price explosion was due to:

• The boom in industrial countries.

• Deficiencies in the supply of some commodities

1. Oil price shock: OPEC (Organization of the Petroleum Exporting Countries) announced new crude prices, increasing by 300%

2. Grain market: several shortcuts; less stocks in the US; bad harvest in Asian and the Soviet Union.
UNIT 6.6. The Limits of Prosperity

• Task 2
  • Describe briefly the milestones of the OPEC history.
  • What caused the 1970s oil price shock?

(Please, remember to cite your sources.)
6.6. The Limits of Prosperity.

(*) Energy and commodity problems.

“The global price explosion of the early 1970s was partly generated by the strong and heavily synchronized boom in industrial countries at this time and by supply deficiencies in some commodities” (Aldcroft, 2001, 195).

Results of the oil price increases (1973-1974):

- Britain, Italy and France: took severe deflationary actions
  - To reduce their external deficits
  - To stabilize their exchange rates.
UNIT 6.6. The Limits of Prosperity

6.6. The Limits of Prosperity.

(*) Energy and commodity problems.

Results of the oil price increases (1973-1974):

- Britain, Italy, and France: took severe deflationary actions.
  - To reduce their large external deficits
  - To stabilize their exchange rates.
- Germany, Japan, the US: absorbed the oil shocks with a sharp upsurge in exports, particularly to OPEC countries.

Source:
• 6.6. The Limits of Prosperity.

UNIT 6.7. New Business Models and New Enterprises


NOTE: Contents of this section have been extensively studied in the Seminars:


- 6.8.1. Poverty and underdevelopment.

6.8.2. Gender Inequality.

Gender Inequality Index measures gender inequalities considering three aspects of human development:

1. Reproductive health == maternal mortality ratio and adolescent birth rates

2. Empowerment ==
   - Proportion of parliamentary seats occupied by females
   - Proportion of adult females and males aged 25 years and older with at least some secondary education.

3. Economic status== labor force participation rate of female and male populations aged 15 years and older.
• 6.8.2. Gender Inequality.

Source: Gender Inequality Index. United Nations Development Programs
http://hdr.undp.org/en/content/gender-inequality-index-gii

- 6.8.3. Global Climate Change.
- Task 3.

- Before the Flood is a documentary at how climate change affects our environment and what society can do to protect it.
  - DiCaprio travels around the world to examine the effects of climate change and to learn how to prevent the end of human life in the Earth.
6.8.3. Global Climate Change.

Task 3.


[https://www.beforetheflood.com/ ]
UNIT 6.9. Conclusions.

• 6.9. Conclusions
• Which are the key concepts of Unit 9?
• What do you highlight, as the most relevant ideas?