(2478) Economic History

Suggested citation


• Proofreading Services provided by www.rachelbland.com
• CONVOCATORIA PARA EL IMPULSO Y LA CONSOLIDACIÓN DE PROYECTOS DE DOCENCIA BILINGÜE DURANTE EL CURSO 2015/2016 (Resolución R-552/2015); 2016/2017 (Resolución R-632/2016)
6. The Golden Age of Capitalism and the Limits of Prosperity
6.1. Introduction.
6.3. The Golden Age of Capitalism.
6.4. Decolonization and Developing Countries.
6.5. The New Role of the State.
6.6. The Limits of 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:

- The 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).
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 created vast opportunities for women because men joined the army, leaving many jobs to be filled.

• 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 the “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 period 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 on the post-war restoration.
• Did you know…?

• The charter would subsequently affect other members that signed it.

• The charter would inspire decolonization after WWII.

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

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

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

• Larger role for the state in economic and social affairs than in the pre-war 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.
  • Governments’ assumption of greater responsibilities for maintaining satisfactory levels of economic performance.
6.2.2 The Foundations of the 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 the 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 the 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 the 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 an 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 the Welfare State: Planning for the Postwar Economy.**

- After 1971, volatility in 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 a floating exchange rate regime.
  - Floating rates.
  - Gold was abandoned as a reserve asset.
UNIT 6.2. The Foundations of the Welfare State


International Monetary Fund (IMF):

- Responsibility for managing the structure of exchange rates among the various world currencies.
- IMF was made responsible for maintaining 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 the reconstruction of war-devastated economies
  - Later: to grant long-term loans for the development of the poorer nations of the world.

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.

General George G. Marshall, the US Secretary of State (President Truman) announced at Harvard University that the US government would respond positively to any 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 the 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 US aid.

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

• **6.2.3 The Foundations of the Welfare State: The Marshall Plan and Economic Miracles.**

• **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 overall deficits 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 dependence on the US and other overseas suppliers.
- OEEC countries were able to restore free convertibility of their currencies and full multilateral trade in 1958.
UNIT 6.2. The Foundations of the Welfare State

• 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](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 Eastern European satellites into a more cohesive union.
• Task 1

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

• European Union. The History of the European Union.
UNIT 6.2. The Foundations of the Welfare State

**Evoluzione dell’Unione Europea**

1951: Trattato di Parigi: nasce la Comunità del carbone e dell’acciaio (Ceca)

1957: Trattati di Roma: nascono Mercato comune europeo (Mec) ed Euratom

1967: Ceca, Mec e Euratom si fondono nella Comunità Economica Europea (Cee)

1979: Nasce il Sistema monetario europeo

1991: Col Trattato di Maastricht si gettano le basi per la futura Ue

1992: Nasce il mercato unico

1997: Si avvia il processo che porterà alla moneta unica

**XX° secolo**

1999: Patto di Stabilità e Crescita: deficit non oltre il 3% del Pil, debito non oltre il 60%

2002: Entra in circolazione l’Euro

2003-04: Germania e Francia sfiorano il deficit impunemente

2010: Semestre europeo: ministri e Parlamento orientano le scelte economiche

2011: Sixpack: 6 regole di sorveglianza sui bilanci degli Stati membri

2013: Fiscal Compact: pareggio di bilancio e riduzione del debito

2014: Contratti con singoli Paesi: più tempo per risanare i bilanci in cambio di riforme

**XXI° secolo**
• 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 military conflict.

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


UNIT 6.2. The Foundations of the Welfare State
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.
6.3. The Golden Age of Capitalism.

Palafox (2014, 207): Cuadro 7.2

### Table: PIB per cápita and Population

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Europa Occidental</td>
<td>4.578</td>
<td>11.417</td>
<td>26.2</td>
<td>25.6</td>
<td>12.1</td>
</tr>
<tr>
<td>EEUU</td>
<td>9.561</td>
<td>16.689</td>
<td>27.3</td>
<td>22.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Otros Occ.*</td>
<td>7.424</td>
<td>13.399</td>
<td>3.4</td>
<td>3.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Occidente</td>
<td>6.304</td>
<td>13.392</td>
<td>56.8</td>
<td>50.9</td>
<td>19.0</td>
</tr>
<tr>
<td>China</td>
<td>448</td>
<td>838</td>
<td>4.6</td>
<td>4.6</td>
<td>21.7</td>
</tr>
<tr>
<td>India</td>
<td>619</td>
<td>853</td>
<td>4.2</td>
<td>3.1</td>
<td>14.2</td>
</tr>
<tr>
<td>Japón</td>
<td>1.921</td>
<td>11.434</td>
<td>3.0</td>
<td>7.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Resto Asia</td>
<td>924</td>
<td>2.046</td>
<td>6.8</td>
<td>8.7</td>
<td>15.6</td>
</tr>
<tr>
<td>América Latina</td>
<td>2.503</td>
<td>4.513</td>
<td>7.8</td>
<td>8.7</td>
<td>6.6</td>
</tr>
<tr>
<td>Europa del Este y URSS</td>
<td>2.602</td>
<td>5.731</td>
<td>13.1</td>
<td>13.8</td>
<td>10.6</td>
</tr>
<tr>
<td>África</td>
<td>890</td>
<td>1410</td>
<td>3.8</td>
<td>3.4</td>
<td>9.0</td>
</tr>
<tr>
<td>No Occidente</td>
<td>1127</td>
<td>2379</td>
<td>43.2</td>
<td>49.1</td>
<td>81.0</td>
</tr>
<tr>
<td>% Asia en el Mundo</td>
<td>14.9</td>
<td>24.2</td>
<td></td>
<td></td>
<td>54.8</td>
</tr>
</tbody>
</table>
6.3. The Golden Age of 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.
UNIT 6.3. The Golden Age of Capitalism.

- 6.3. The Golden Age of Capitalism.

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

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

Reasons 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.

6.5. The Decolonization Movement and the Third World.

- WWII weakened the control of European imperialist regimes over their colonies.
- After WWII, the imperial powers temporarily regained control over their former colonies. Elements of weakness:
  - Independence movements.
  - Cold War and superpower attraction.
- By the mid-1960s, 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 installing viable democracies.

- They succumbed to one party governments (dictatorships, communist regimes).
- Limited resources (included human capital).
- High degree of bureaucratic inefficiency and corruption.
UNIT 6.4. Decolonization and 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 common policy 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 the revenues.

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.

1980: the political establishment had concerns about it

The future sustainability of budget deficits.

The influence of large public sectors on controlling the unemployment.

- Awareness of the crowding out effect on private sector activity.
6.5.2 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. Unemployment.

1973–90: unemployment rose, on average, in all 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.

• **6.5.3 World Leaders.**

  
  • “Reaganomics”:
    1. Reduce public expenditure.
    2. Cut income tax (business taxation).
    3. Deregulate the economy.
    4. Control inflation.
6.5.3 World Leaders.


“Thatcherism.”

1. Low taxation
2. Control the money supply with high-interest rates.
3. Privatization of state-owned industries (British Airways, British Gas).
6.5.3. 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 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%.
- Unemployment increased from 5% to 10%.
- Pervasive nature of inflation.
- Also, shocks in the oil market eroded business confidence.
UNIT 6.6. The Limits of Prosperity

6.6. The Limits of Prosperity.


<table>
<thead>
<tr>
<th></th>
<th>1961-70</th>
<th>1971-80</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>2.9</td>
<td>1.9</td>
</tr>
<tr>
<td>EU15</td>
<td>4.8</td>
<td>3.0</td>
</tr>
<tr>
<td>US</td>
<td>4.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Japan</td>
<td>10.1</td>
<td>44</td>
</tr>
</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 them by 300%

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

• Task 2
• Briefly describe the milestones in the history of OPEC.
• What caused the 1970s oil price shock?

(Please remember to cite your sources.)
• Did you know…?

• G. Tverberg writes this article about the consequences of the cheap energy for the global economy.

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 major deflationary action
  - 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 major deflationary action.

- 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.

UNIT 6.6. The Limits of Prosperity

- 6.6. The Limits of Prosperity.

- Palafox (2014, 258).

Gráfico 9.2. Evolución de los precios del petróleo.

• **6.7. New Business Models and New Enterprises.**

NB: The 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 about 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 on Earth.

- 6.8.3. Global Climate Change.
- Task 3.
  - *Before the Flood* (2016).
    
    [https://www.beforetheflood.com/](https://www.beforetheflood.com/)
UNIT 6.9. Conclusions.

• 6.9. Conclusions
• What are the key concepts of Unit 6?
• What would you highlight as the most relevant points?