Les Trente Glorieuses

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October 31, 2022

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A golden age

- French economist Jean Fourastié (1907-1990) coined the expression “the thirty glorious years” to describe the deep transformation of the years 1945-1973:

  1. Peace and stability in Western Europe and the English-speaking world.
  2. Most countries consolidate modern democracies with generous welfare states (main exceptions: Spain and Portugal).
  3. Fast economic growth.
  4. Full employment, shorter hours of work, and lower income inequality.
  5. Mass consumption of durable goods (radios, TVs, appliances, houses, cars): Fiat 500, Seat 600, Citroën 2CV, Volkswagen Beetle.
## TABLE 2.2

Growth of real gross domestic product per capita, 1820–2000
(Average annual compound growth rate)

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Sources: Maddison (2001) and author’s calculations.

Notes:
- a Weighted by period-average GDP.
- Regional averages exclude countries whose data are not available in the specified period. An exception is Ireland in the periods before 1938, for which Maddison uses U.K./British figures.
La machine à laver

LA FLAMANDE

à essoreuse centrifuge

Fait bouillir, rince, lave, et essore

Votre linge

ETS NAMUR FRERES A QUAROUBLES (NORD) TÉL. 10
A surprising outcome

- Most observers in 1945 were extremely pessimistic about the future of Western Europe (i.e., World War III, communist takeover, economic stagnation, ...).

- In fact, in much of the rest of the world, economic strategies in 1945 are based on Europe not recovering from WWII.

- But we should not romanticize the three decades between 1945-1975. As we will see, much of the growth came from one-time deals, and little attention was paid to important issues such as the environment.

- Furthermore, the world was close to World War III on several occasions: the Berlin Blockade, the Korean War, the Berlin Crisis of 1961, the Cuban Missile Crisis, and Yom Kippur War.

- In 1969, the Sino-Soviet border conflict left several hundred soldiers dead, and the Soviet Union seriously considered a nuclear attack on China.
THE EUROPEAN ECONOMY SINCE 1945

BARRY EICHENGREEN
ECONOMIC GROWTH IN EUROPE SINCE 1945

edited by
Nicholas Crafts
and
Gianni Toniolo

Centre for Economic Policy Research
Why do we have the thirty glorious years?

- Peace.

- Return to political stability after 1914-1945 (you can have peace without political stability, e.g., Italy since the early 1990s).

- Open, democratic institutions.

- Free trade.

- Well-protected property rights.

- Catching up with technology accumulated between 1914-1945 that had not been fully implemented because of the two world wars.

- Development of modern welfare state: the virtuous cycle of wage moderation and profits channeled to investment.
The postwar arrangement

- End of WWII sees a radically different reordering of the world than at the end of WWI.
- Belief among main policymakers that WWII was a product of the incorrect handling of the end of WWI.
- Thus, Churchill and Roosevelt (and other leaders) are keenly focused on avoiding repeating the mistakes of 1918-1923.
- Already in the Atlantic Charter, on August 14, 1941 (before the U.S. has even entered into the war!).
- Institutions:
  1. Political: UN, NATO.
  3. Integration: Marshall plan, OECD, EU.
Eight points of the Atlantic Charter

1. No territorial gains were to be sought by the U.S. or the U.K.

2. Territorial adjustments must accord with the wishes of the peoples concerned.

3. All peoples had a right to self-determination.

4. Trade barriers were to be lowered.

5. There was to be global economic cooperation and advancement of social welfare.

6. Freedom from want and fear.

7. Freedom of the seas.

8. Disarmament of aggressor nations, postwar joint disarmament.
By and large, international economic cooperation failed between 1918 and 1939: not capable of handling international debts created by WWI, exchange rate adjustments, and creating financial stability.

Furthermore, after the 1930 Smoot-Hawley Tariff Act, protectionism skyrockets, and international trade collapses.

Many economists and policymakers think that the lack of cooperation was one of the driving factors behind the Great Depression.

Part of the blame is the *ad hoc* structure of cooperation that comes out of WWI settlement.

For instance, failed London Economic Conference in 1933.
Two exceptions to lack of cooperation

1. Bank for International Settlements:
   - Created in 1930 to handle the payment of the WWI reparations imposed on Germany and to act as the trustee for the Young Plan (a program to consolidate German reparations).
   - It later becomes a forum for central banks’ cooperation (the role it still has today).

2. Tripartite Agreement of 26 September 1936.

Architects of new economic organizations want to build on these experiences.
The Bank for International Settlements
Monetary War and Peace


Max Harris
The Bretton Woods system

- United Nations Monetary and Financial Conference, July 1 to 22, 1944, at the Mount Washington Hotel, in Bretton Woods, New Hampshire (only large hotel available to hold a conference on short notice).

- Delegates from 44 nations, including from the Soviet Union and China.

- It creates two institutions: International Monetary Fund (IMF) and World Bank.

The Bretton Woods resort
The negotiations I

- Product of protracted negotiations, mainly between Harry Dexter White (U.S. Treasury) and J.M. Keynes (British Treasury).

- “Keynes plan” vs. “White plan.”

- J.M. Keynes defends a more multilateral system: an International Clearing Union with its new reserve currency, the “bancor.” Reflects the interest of Britain, which is functionally bankrupt and cannot aspire to much power at the IMF.

- Harry Dexter White proposes a system closer to an international bank and dominated by the U.S.: an IMF built around the dollar.

- Final agreement mainly reflects White’s views (and U.S. power).
The negotiations II

- Much of the final round of discussions involved the quotas (e.g., roughly the “shares” at the IMF) that every country would have at the IMF.
  - Some countries want larger quotas (more prestige), while others seek smaller ones (to save resources).
  - Even in 2022, much of the discussions about the reform of the IMF are about how to change (or not to) the quotas.

- Exhausting days of negotiations are followed by “lively nights” of generous food and alcohol consumption:
  - Most delegates come from countries under severe food rationing due to the war. They want to take full advantage of the abundance of food (fresh vegetables, red meat, sugar, coffee, bourbon) in the U.S.
  - The “night rounds” are overwhelmingly won by the Soviet delegates, who easily out-drink all other delegates night after night.
1. U.S. dollar was the reserve currency. Fixed relationship of the dollar to gold ($35 an ounce).

2. Fixed exchange rates: a peg with a $\pm 1\%$ fluctuation band. Possibility of devaluations/revaluations.

3. Convertible currencies.

4. IMF loans for restructuring.

5. World Bank loans for reconstruction and development.

6. GATT: lower tariffs and other barriers to trade.
Why is the Managing Director of the IMF always a European?

- Paradoxically, White is a Soviet Union secret agent (and he manipulated several aspects of the agreement in favor of the Soviet Union).

- Deep irony given that he is the main designer of the archetypical Western economic institution (the IMF).

- After the treaty is signed, Truman nominates White to be the Managing Director of the IMF.

- Soon after that, Truman learns about White’s illegal activities through signal intelligence (Venona project) but cannot disclose it to the public.

- So, in a political gambit, he argues that a European should be the Managing Director of the IMF to “balance” the U.S. influence.

- That is why, up to today, the Managing Director of the IMF is a European. Currently: Kristalina Georgieva from Bulgaria.

- Asian countries are increasingly unhappy about this tradition.
Bretton Woods in practice

• 1950s: stability and fast growth.

• 1960s:

  1. Gold shortage: the world economy grows much faster than the supply of gold.

  2. Tensions between France-U.S. Valéry Giscard d’Estaing calls the U.S. ability to print dollars (the reserve currency in the system) the “exorbitant privilege”.


• Era of floating exchange rates.

• IMF and World Bank today: conditional loans for restructuring and growth, general economic advice.
Three Days at Camp David
How a Secret Meeting in 1971 Transformed the Global Economy

JEFFREY E. GARTEN
The Marshall Plan I

- In 1948, the U.S. approves the European Recovery Program or ERP.

- Popularly known as the Marshall Plan after George Marshall (1880-1959), the Secretary of State at the moment and the main proponent of the program (address at Harvard on June 5, 1947).

- Motivation: to stop the increasing deterioration of the economic situation in Western Europe and its political fallout.

- The U.S. is particularly concerned with the situation in Greece and Turkey (the U.K. cannot keep its military effort in the region any longer → Truman doctrine of communist containment).
The Marshall Plan II

- Generous U.S. aid to Europe reconstruction.
- The U.S. is the only country that can supply enough dollars, food, and capital goods.
- However, its primary importance is the “nudge” it gives to European integration and the restart of normal commercial exchanges (e.g., return to currency convertibility instead of trade barter, lowering of trade barriers, ...).
  - Important point: financial aid without a change in incentives is usually a pure waste.
  - In absolute terms, the Marshall Plan was relatively small (around $230 billion in 2022).
- Aid rejected by Soviet satellites in Eastern Europe as a U.S. “Trojan horse.” The Soviet Union solidifies its stronghold on Czechoslovakia and Poland.
Whatever the weather
We only reach welfare

together
European integration
The European Union

- Level of international cooperation never seen before.

- Build on an old tradition of European federalism and Christian Democracy links:
  - Konrad Adenauer (1876-1967) in Germany.
  - Robert Schuman (1886-1963) in France.
  - Alcide De Gasperi (1881-1954) in Italy.
  - Paul-Henri Spaak (1899-1972) in Belgium.

- Complex set of multi-level institutions that evolve over time toward an ever-growing union.

- Rival institutions: European Free Trade Area (EFTA). Much less ambitious, just a free trade area.
Evolution over time I

- Treaty of Paris, 1951: European Coal and Steel Community (ECSC). Notice the choice of coal and steel as the first industries to integrate.

- Treaties of Rome, 1957: Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany.
  - Sets up two more communities: the European Atomic Energy Community and the European Economic Community.
  - Collectively known as the European Communities.

- Four European freedoms:
  1. Freedom of movement of capital.
  2. Freedom of movement of labor.
Evolution over time II

- Treaty of Maastricht, 1992, creates the modern European Union and the Euro as a common currency.
- Eurozone comes into existence on January 1, 1999.
- Current structure:
  1. Treaty on European Union.
  3. *Acquis communautaire*.
- Supremacy of European law vs. national law. Germany and Poland.
Why a European Union?

- Why do so many countries engage in such an unprecedented level of integration?
- The European integration was the salvation of the European nation-state.
- European nation-states failed, in 1914-1945, to deliver on the two fundamental functions of modern state:
  1. Security (internal against revolutions/civil wars and external against invasion).
  2. Economic growth.
- Only three European countries (plus a couple of micro-states) were neither invaded nor seen a non-constitutional transfer of power between 1914 and 1945: United Kingdom (not part of the European Union), Switzerland (not part of the European Union), Sweden (not part of the Eurozone, skeptic member of the European Union).
THE EUROPEAN RESCUE OF THE NATION-STATE

2nd Edition

After the ball was over...
Why a European Union?

- European integration is seen as a path forward.

- First group of members:
  1. West Germany: export markets without the need for military aggression.
  2. France: security against Germany, modernization of its agriculture.
  3. Italy: break away from its own rent-seeking political-economic equilibrium.
  4. Benelux: too small to sustain a modern economy.

- Later members:
  1. U.K. and Ireland: a solution to economic decadence. Denmark is so economically integrated with the U.K. at the time that it needs to go along with the British.
  2. Greece, Spain, and Portugal: a way to consolidate democracy.
  3. Central and Eastern European states: a way to leave socialism behind.
A LAND OF MILK & BUTTER

HOW ELITES CREATED THE MODERN DANISH DAIRY INDUSTRY

Markus Lampe & Paul Sharp
International comparisons

• However, during the “thirty glorious years,” not all countries perform at the same level.

  1. Fast growth: Germany, Italy, Spain, Portugal, Greece.

• An important comparison: West Germany vs. the U.K.

  1. Germany: becomes the largest and most dynamic economy of Europe. It does better than forecast by a simple neoclassical growth model of catch-up.
Real GDP per capita, 1900-2000 (2017=100)

Source: Maddison dataset
Germany
Germany in 1945

- East Prussia transferred to Poland and the Soviet Union. Most German population forcefully expelled.

- Saarland becomes a French protectorate (until 1957).

- Rest of the country is divided into four occupation zones: British, U.S., French, and Soviet.


- Soviet occupation zone becomes East Germany in the same year. Always a client state of the Soviet Union without much popular support (Volksaufstand vom 17. Juni 1953).

- Berlin stays as an “enclave” under special administrative status: Soviet blockade (June 24, 1948-May, 12 1949).

- Enormous level of physical destruction.

- Many think this is the end of Germany: Finis Germania!
• And yet, there is no more spectacular example of success in the world than Germany after 1949.

• Often called the Wirtschaftswunder: the economic miracle, represented by firms like Volkswagen, BMW, and Siemens.

• But it goes much deeper: the Federal Republic of Germany becomes a peaceful democracy with exquisite respect for the (internal) rule of law and international law.

• The German fundamental law, the Federal Constitutional Court, and its case law is deeply influential across the world.

• Also, deep national reckoning with a Vergangenheitsbewältigung (“coming to terms with the past”), especially after the 1970s. Japan or Russia, for example, have never done anything like that.
The Constitutional Jurisprudence of the Federal Republic of Germany

Third Edition, Revised and Expanded

Donald P. Kommers and Russell A. Miller

With a New Foreword by Justice Ruth Bader Ginsburg
Wirtschaftspolitik in Deutschland 1917-1990
• Mass migration: German expellees from East and Central Europe plus Germans leaving East Germany. Usually, the highest human capital population.

• West Germany population: from 39 million in 1939 to 49 million in 1950 (Braun and Mahmoud, 2014).

• Capital deepening.

• A more general point: Germany loses much of its physical capital during WWII but much less of its human capital. Much easier to rebuild a bridge (≈ 12 months) than to educate a top new engineer (≈ 20 years).
Share of gross capital formation on the GDP, 1950-2000

Source: Maddison dataset
Productivity

- A new general purpose technology: mass production.
- Large potential for catch-up.
- Destruction from the war allows the building of state-of-the-art plants and implementing most recent managerial techniques.
- Also Nacional-socialist regime and war eliminates many old pressure groups that had limited growth in Germany before 1939:
  1. Much of old Junker class is executed after the 20 July plot (failed attempt to assassinate Adolf Hitler) and their lands, in East Prussia, are expropriated by the communists.
  2. David Schoenbaum called this process Hitler’s social revolution.
- Vocational education (dual system of apprenticeships and school).
- (Largely) good industrial relations. Role of workers’ codetermination (*Mitbestimmung*) was probably not very important except as an example of good relations between management and labor.
TFP index (2017=100)

Source: Maddison dataset
Institutions

• A federal republic organized around two large, moderate Volksparteien: CDU/CSU and SPD.

• Embrace of open markets and property rights: Ludwig Erhard’s view of a social market economy (soziale Marktwirtschaft).

• An independent central bank (Bundesbank) furiously committed to low inflation.

• The Deutsche Mark earned the status of a hard currency in the 1950s.

• Strong commitment to NATO and European integration. Dual power with France within the European Union.
mit Adenauer

Für den Frieden, die Freiheit und Einheit von Deutschlands darum CDU.
The United Kingdom
Labour, led by Clement Attlee (1883-1967), comes to power in the 1945 election: program of nationalizations and the expansion of the welfare state (e.g., creation of the NHS).

Extremely difficult economic situation:

1. The U.K. is bankrupt from the effort of financing and fighting two world wars in 30 years. In particular, it has spent most of its net foreign assets (which had generated large income flows before 1914).

2. The U.K. has to digest the loss of the Empire and the subsequent reorientation of trade/investment/migrations.

3. Large military commitments across the globe (Attlee and most of the Labour Party are committed anti-communists).
The British relative decline, II

- Situation aggravated by poor macroeconomic management both by labour and conservative governments.

- High public spending without supply-side reforms. In comparison with the Bundesbank, the Bank of England is not independent from the Treasury and engages in “stop-and-go” policies.

- Stagflation: a combination of high inflation and unemployment.

U.K. annual inflation rate, 1945-2000

Source: Bank of England
Dollar/Sterling Pound exchange rate (1900-2000)

Source: Bank of England
The British relative decline, III

• Accelerated deindustrialization: less scope for gains from mass production.

• Reasons:

  1. Loss of traditional export markets (dominions, India, ...).
  2. High exchange rate of Sterling Pound.
  3. Antiquated manufacturing plants.
  4. Difficult industrial relationships (system of trade unions based on crafts makes it harder to internalize aggregate effects).
  5. Poor vocational education.
  6. Delayed integration into (then) European Economic Community.

• Best example: British Leyland (1968), a large conglomerate to boost economies of scale, but collapsed by 1975.
U.K. share of world merchandise trade, 1948-2000

Source: Bank of England

The diagram shows the trend of the U.K.'s share of world merchandise trade from 1948 to 2000, with a steady decline over the years.
Why did the U.K. only join the European Economic Community in 1973? I

- U.K. leads in creating the EFTA in 1960. Alternative to the European Economic Community.

- In comparison with the goals of the European Economic Community of an ever-growing union, EFTA is a limited institution focused on free trade.

- Reasons to create EFTA instead of joining the European Economic Community:
  1. Less feeling that the British nation-state needs to be “rescued” than in most of Europe. Most experts think that Britain just needs larger export markets.
  2. Most of Labour thinks that the European Economic Community is un-democratic: European institutions are disconnected from voters’ direct control.
  3. Many rural conservatives suspect the European Economic Community of being a French-German/Catholic plot to subjugate the U.K.
Why did the U.K. only join the European Economic Community in 1973? II

- Main proponents of joining: conservative business leaders and urban middle classes under the premiership of Edward Heath (1916-2005).

- Why? Feeling that the U.K. is falling behind West Germany and France. EFTA is not large enough to be of much use.

- However, in the continent, Charles de Gaulle (1890-1970) vetoes the U.K.: to protect France’s position within Europe, but also due to his deep anti-British feelings from WWII. Veto lifted by George Pompidou (1911-1974).

- 1975 United Kingdom European Communities membership referendum: “Do you think the United Kingdom should stay in the European Community (the Common Market)?” 67.23% yes, 32.77% no. Notice the very narrow phrasing of the question on purely economic terms.

- You can only understand Brexit if you realize that most British outside the highly-educated urban classes were reluctant “Europeans” from day one.
The U.S.
What about the U.S.?

- U.S. experience is similar to Western Europe.
- Comes out of WWII as the world economic hegemon: largest manufacturer and financial power.
- No physical destruction and very small human losses.
- Baby Boom.
- Widespread consensus about how to manage the economy: some of the most radical aspects of the New Deal are abandoned (cartelization of the economy), but Republicans accept many others (e.g., Social Security) under Eisenhower.
- Less room to catch up: most new technologies were implemented in the U.S. as they were developed.
The Crude Birth Rate (number of live births per 1000 people), 1910–2010.
Growing problems

- As Western Europe and Japan recover from WWII, the relative position of the U.S. is eroded (although you could argue this was foreseen and welcomed by U.S. policymakers as the best long-run path).

- Increasing burden of Cold War and welfare state.

- Inflation starts to pick up in the late 1960s.

- Much of the postwar consensus, both in terms of foreign and economic policy, unravels due to Vietnam War.

- Despite some clear mistakes, the era of Pax Americana is perhaps the era in history where the hegemon exploits its power the least for its own benefit.