European Economies Since the Second World War

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Edited by

Bernard J. Foley

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Introduction

This book is not concerned with the European Economy as a whole, hence there is little discussion of the range of supranational institutions which have developed in Europe since the 1950s. Here we are concerned with the post-war economic history of a number of European Economies. Such an enterprise poses several problems. In the first place there is the issue of which economies to consider: some take the view that every case deserves attention but, given limitations of space, this is not possible in this volume. Hence there is a problem of where to draw the line. We have dealt with it by excluding those small economies which cannot easily be fitted into a larger grouping – specifically economies such as Ireland, Austria and Greece.

In the current volume therefore we have taken the core large economies – West Germany, France, Italy and the UK – as important in their own right while extending our purview to encompass those smaller, peripheral economies we perceive as more or less cognate groups. Hence Scandinavia, Iberia, Benelux and the Visegrad states (Poland, Hungary, the Czech Republic and Slovakia) are regarded perhaps controversially as relatively coherent entities. There is nevertheless a rationale for treating them in this way. Scandinavia, for example, comprises a group of societies which are culturally similar and for a long time enjoyed an extraordinarily wide social democratic consensus about the subordination of the market economy to the imperatives of the welfare state. This was sufficiently distinctive as to give birth to the notion of a ‘Swedish model’ of political economy shared by Norway and Denmark to some degree.

Portugal and Spain by contrast featured two of the most durable personal dictatorships in Europe under Salazar and Franco respectively. Portugal never attempted to follow the path of autarky pursued by Franco’s Spain between 1939 and 1959 and was indeed a founder member of the Organization for European Economic Cooperation (precursor to the OECD) in 1948 and of EFTA in 1960. Nevertheless, both regimes were characterized by a rejection of liberalism, suspicion of market capitalism and very heavy-handed, sometimes irrational, intervention in the economy by the authorities.

The Visegrad countries of course also endured dictatorship, but of the communist variety and largely imposed by their giant neighbour, the USSR. They were pushed into adopting the Stalinist model of central planning and had to cope with its priorities and idiosyncrasies for some four decades. Hence in both Iberia and Eastern Europe ‘economic rationality’ was subordinated to political forces in ways which were very different from mature capitalist societies. The inclusion of a chapter on the Visegrad Four may strike the reader as somewhat out of place as there is no discussion of the other economies of

the former Soviet bloc. Nevertheless, we considered such an inclusion desirable as moves by Poland, Hungary and the Czech Republic toward the European mainstream via membership of the OECD and NATO as well as candidate membership of the EU, place them in a different category than Russia and its immediate satellites. In the latter cases, subordination to Russia was complete while many peoples in the former USSR, including the Russians themselves, have historically been ambivalent about the degree to which their country is truly European. Some analysis of Poland, Hungary and the former Czechoslovakia is warranted therefore, partly because their post-war history is less well known and partly because this history may mean that they will constitute 'problem children' within the EU in the near-term future. For these reasons students of European history will find Chapter 8 intrinsically interesting while it will yield insight into the problems these new democracies may pose for the European Union.

Having decided which economies to include, the second problem is how far should one stress the common features of economic performance? There is a template of sorts. The main themes which come through are: the exceptionally rapid growth of the post-war boom between 1945 and 1973; the significance of the liberalization of international trade in the 1960s; the slowing down of growth after 1974; the acceleration of inflation and rise in unemployment in the 1970s; and finally and very significantly, the shift from the state to the market allied to sweeping financial liberalization in the 1980s.

These constitute some of the main themes of the volume but there are significant variations: not every economy fits the template precisely. The UK, for example, appears to have 'missed out' on the early growth surge – the so-called Golden Age. Why this was the case and whether the UK has repaired the slippage as a result of Thatcherite policies (and if so, at what cost) is addressed in Chapter 1. Spain and Portugal were also underperformers in the decade of the 1950s, but whereas Spain's economy stagnated, Portugal's expanded at about 4 per cent per annum – respectable at first sight but not enough to close the gap with its more prosperous neighbours. The explanation for this seems to lie, as argued in Chapter 6, in the stifling political economy of both countries. After 1959, however, when greater openness and some elements of economic liberalization were allowed, both economies picked up speed dramatically. Indeed, the acceleration of growth in the latter part of the period was sufficiently high to lift them into the ranks of the fastest growers. How far the political reforms of the 1970s, reinforced by the continued shift to the market and EU membership in 1986, has helped or hindered continued convergence toward the affluent economies of northern Europe is also discussed from a critical perspective.

The experience of the underperformers contrasts with the core economies of what became the EEC in the late 1950s – West Germany, France, Italy and the Netherlands. In these economies the experience of growth and structural

transformation throughout the 1950s and 1960s was, by historical standards, extraordinary. Abundant supplies of labour, structural shifts from agriculture and high rates of capital accumulation fed the recovery and growth process, but a great deal of evidence now points to the phenomenon of 'catch-up' as highly significant. Catch-up implies making up lost ground and in this case relates to the ability to close the substantial productivity gap which had emerged between the economies of Europe and that of the US as a result of the combined effects of the inter-war depression and the Second World War. Of course, recovery and growth were also helped by a benign international policy environment in which low inflation, stable exchange rates, pressure for the reduction and elimination of trade barriers, and the diffusion of technology figured strongly.

One obvious result of this process was that by the 1980s West Germany had been transformed into the economic superpower of the region, as Chapter 2 demonstrates. This remains the case in spite of the unexpectedly large costs of absorbing the former East Germany and the baleful effects of record unemployment on West Germany's hitherto resilient institutional structures. France and Italy also benefited from catch-up during the Golden Age, but in both cases from very early on there was a conscious realization that a great deal of backwardness characterized their respective economies, hence modernization was high on the political agenda. In both cases too the opening of their economies as a result of the Treaty of Rome in 1958 was a decisive influence. The successes and failures of modernization – in particular Italy's difficulties with the South – as well as the later problems which beset each economy as growth slowed down are the subject of Chapters 3 and 4. For the Benelux countries the picture is slightly more complicated in that Holland was a participant from early on in the growth surge whereas Belgium exhibited similar symptoms to the UK in the 1950s – slow growth and a defensive mindset. By the 1960s, however, Belgium had joined the high-growth club. How and why that occurred are explored in detail in Chapter 5.

By contrast, catch-up plays a much smaller role for the economies of Scandinavia – particularly Sweden – which had enjoyed very high levels of productivity and income since before the war. These economies were aided by the degree of political consensus which they enjoyed as well as the active labour market policies which maintained the quality of human capital they were able to deploy. Even here, however, the consensual mode of decision taking which kept the lid on inflation via 'solidaristic' incomes policies and sustained employment in the 1970s came under severe pressure in the face of escalating public deficits in the 1980s. Thus in Denmark and Sweden at least, the old consensus no longer pertains while Norway's position has been sustained by the judicious exploitation of oil and gas, as demonstrated in Chapter 7.

The Visegrad countries experienced a period of rapid growth in the 1950s but as the years of extensive growth via the mobilization of underemployed

resources gave way to the need for intensive growth, the grip of communist orthodoxy proved stifling. This produced an increasingly desperate search for appropriate planning/motivational mechanisms – none of which dealt with the root of the problem – the lack of a reasonably coherent structure of incentives to encourage greater productivity and the efficient allocation of resources. Their story is one of decline and disintegration, as shown in Chapter 8. The question of how successful the transition to market economies has been thus far is discussed from a sceptical perspective, particularly in relation to the competence and commitment of the political elites which have come to the fore.

If the economic experience of the Golden Age in Europe was not quite uniform, nor was the policy reaction to the slowdown after 1973: some governments tried to deal with the stagnation via expansionary policies only to experience accelerating inflation with little impact on unemployment. Others were less tolerant of inflation, but most of Europe faced increasingly problematical public sector deficits, volatile exchange rates, calls for protectionism and rising nominal interest rates – although given the heights to which inflation soared in the 1970s, negative real interest rates were experienced in several countries. The explanation for the slowdown is usually posed in terms of the shocks to the world economy from the oil crises of the 1970s, but there is some evidence that a slowdown would in any case have occurred. Profit rates were already under pressure and the continuing productivity gains from catch-up were unlikely to be available for much longer.

The inability of governments to reduce unemployment and to restore the status quo ante also brought into question the post-war consensus on the role of the state in the management of the economy. This was partly a victory of ideas for the politics of the New Right but it also reflected events in the world economy. In particular the 'Mitterrand experiment' between 1981 and 1983 in France can be viewed as a signal event – a clear demonstration that the state's capacity to go it alone, that is, to undertake independent expansionary economic policy in the context of a global recession, was limited in a world of open economies and highly mobile capital. The thrust of policy since then, in France as elsewhere in Europe, has been on maintaining strict monetary discipline, containing inflation and achieving budgetary consolidation.

Even if the worst of the inflationary 1970s and 1980s is now over, deep problems persist in many European economies, in the form of sluggish growth and severe unemployment (the latter contrasts markedly with the record of the US and more recently the UK). Political elites in Europe now accept that changes are required to make the economies of Europe more flexible while maintaining control of public spending, but implementing such change in the face of entrenched vested interests is a different matter. If, in addition, exchange rate flexibility and control of monetary policy are given up in the quest for European Monetary Union these structural problems may be exacerbated for some economies or sub-regions. There is a great deal of institutional inertia

built into many European economies which is decidedly unhelpful in the face of growing competition from the countries of the Pacific Rim and a resurgent US. Indeed, this now constitutes a major challenge to the model of social partnership which some European countries wish to maintain and which the new Labour government in Britain seeks to emulate.

Bernard Foley
The University of Liverpool, 1997