What were the reasons for the growth of the global economy after WWII?

Objectives:
Students would be able to:
- Analyze the casual relationships that underpinned the growth of the global economy
- Evaluate the challenges that affected the growth of the global economy

1. Introduction:

"The global economy has always existed…What keeps changing is the nature of the global economy…"

- Louis Uchitelle, a journalist, 2002

What is the global economy?

The dictionary definition would indicate that the global economy is the economy of the world, as an international exchange of goods and services.
- In the context of your study, this would be narrowed down to the 20th century, in light of the growth that had spread to all regions of the world during the century, when world GDP per capita quintupled.

Another way of defining the global economy is by examining its characteristics, and the defining characteristic of the post-World War II era has been
1. the dramatic increase in economic integration among the liberal capitalist countries,
2. an increasing number of developing countries, and;
3. during the past two decades, a number of former communist nations that are undertaking a transition to more open markets.[1]

The highest growth occurred in the 1960s during post-war reconstruction. In particular, shipping containers revolutionized trade in the second half of the century, by making it cheaper to transport goods, especially internationally.[2]

(For those interested in how shipping containers contribute to global economic growth: https://www.wnyc.org/radio/#/ondemand/346069)

[1] Joseph M. Grieco The International Political Economy Since World War II Duke University. Prepared for the CIAO Curriculum Case Study Project. October 2000
[2] Marc Levinson *The Box: How the Shipping Container Made the World Smaller and The World Economy Bigger* Princeton University Press, 7 January 2008

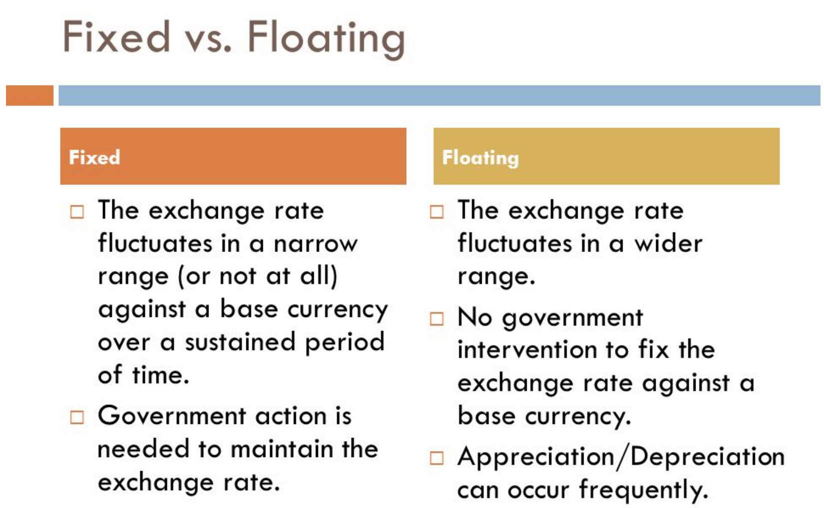
What are some basic economic concepts that would be good to know?

A. Free Trade

- Free trade refers to the unhindered flow of goods and services between countries.
- Trade can be hindered by trade barriers such as tariffs (an additional charge imposed on imports) or other policies such as subsidies, taxes and regulations that give domestic firms an advantage over foreign ones. The policy of imposing such barriers to trade is known as protectionism.

B. Exchange Rates

- There are two types of exchange rates systems that you need to know for this topic → The floating exchange rate system and the fixed exchanged system.
- The **floating exchange rate system** means that the value of a country's (let's say Singapore) currency is dependent solely on the foreign demand for that country's products. Since demand changes daily, the value of the Singapore dollar will keep fluctuating.
- The **fixed exchange rate system** functions such that the government of the country fixes and guarantees the official price of the currency in terms of a foreign currency. Under this system, the government is committed to maintain the fixed exchange rate by using its reserves (gold and foreign exchange) to exactly offset the changes in foreign demand.



Why does the story start with 1945 then?

The development of the global economy can be divided into three broad stages:

1. Golden Age of Capitalism (1945-1973)
2. Crisis Years (1974-1991)
3. Regional and Globalism (1991-2000)

The first two stages were defined by Eric Hobsbawm, while the last stage was coined by Jeffrey R. Freiden.

- The **Golden Age of Capitalism** marks a period that saw unprecedented economic growth. It was the longest period of uninterrupted growth and had the highest growth rates. The Crisis Years saw a period of crises (as the name suggests) that caused great economic instability in the international economy, resulting in very slow growth rates, even negative growth. Regional and Globalism marked the economic recovery of the USA as well as the economic integration of various geographical regions.
- The Second World War had caused more destruction, human as well as material, than any previous conflict. Europe suffered the most, together with Japan, but there was massive destruction also in China and Southeast Asia. By the end of the war, the European economy had collapsed with 70% of the industrial infrastructure destroyed.[3] The property damage in the Soviet Union consisted of complete or partial destruction of 1,710 cities and towns, 70,000 villages/hamlets, and 31,850 industrial establishments.[4] Great Britain had been the world's largest creditor prior to the war, and became the world's largest debtor by 1945. In order to pay off these debts, many countries resorted to simply printing more money, which caused inflation to skyrocket. In a short period of time, many European currencies, like the French franc, became virtually worthless.[5]
- There had been much fighting which ravaged North Africa, and all maritime nations had sustained grievous losses at sea. The United States, Canada, Australia and New Zealand, among others, had devoted enormous resources to the war though they had been spared actual warfare on their territory, and together with the colonial dependencies of the European powers, they mourned many killed and injured in the forces. Few areas of the globe outside Latin America were left unaffected.[6]
- By 1950 colonialism was in an advanced state of disintegration. With one or two exceptions, the exit from empire was more or less complete by the 1960s. The British imperial order was finished, as were those of Belgium, France, the Netherlands and Japan. In the West, the United States had emerged as the hegemonial power competing with the Soviet bloc for leverage in the newly independent countries of Asia and Africa.

The world economy grew very much faster from 1950 to 1973 than it had ever done before. **It was a golden age of unparalleled prosperity.** The French economist Jean Fourastie called it "*les trente glorieuses*'. The Germans and Italians referred to them as *Wirtschaftswunder* and *miracolo economico* respectively.

World per capita GDP rose nearly 3 per cent a year (a rate which implies a doubling every 25 years). World GDP rose by nearly 5 per cent a year and world trade by nearly 8 per cent a year. This dynamism affected all regions.

[3] Marc Pilisuk, Jennifer Achord Rountree. *Who Benefits from Global Violence and War: Uncovering a Destructive System*. Greenwood Publishing Group, 2008
[4] *The New York Times*, 9 February 1946, Volume 95, Number 32158.
[5] Christopher Sailus. *Economic Reconstruction in Europe After WWII: Recovery Programs & Their Effect*.
[6] Sidney Pollard, *The International Economy since 1945*. Routledge, 11 Sep 2002. P.1.

The acceleration was greatest in Europe and Asia. Real per person GDP of Western Europe increased at an annualized rate of 4.1 percent. Even the USSR grew at 3.4 percent. There was also a degree of convergence between regions, though a good part of this was a narrowing of the gap between the United States and the other advanced capitalist countries (Western Europe and Japan).[7]

Table 17.1 Levels and Rates of Growth of Real GDP/Person in European Countries ($1990GK and average % per year)

	1950	1973	1950–1973
Switzerland	9064	18,204	3.08
Denmark	6943	13,945	3.08
UK	6939	12,025	2.42
Sweden	6739	12,494	3.06
Netherlands	5971	13,081	3.45
Belgium	5462	12,170	3.54
Norway	5430	11,324	3.24
France	5271	13,114	4.04
West Germany	4281	13,153	5.02
Finland	4253	11,085	4.25
Austria	3706	11,235	4.94
Italy	3502	10,634	4.95
Czechoslovakia	3501	7041	3.08
Ireland	3453	6867	3.03
USSR	2841	6059	3.29
Hungary	2480	5596	3.60
Poland	2447	5340	3.45
Spain	2189	7661	5.60
East Germany	2102	5753	4.47
Portugal	2086	7063	5.45
Greece	1915	7655	6.21
Bulgaria	1651	5284	5.19
Yugoslavia	1551	4361	4.59
Romania	1182	3477	4.79
Albania	1001	2273	3.62
United States	9561	16,689	2.45

Sources: Groningen Growth and Development Centre (GGDC) (2007), *Total Economy Database* at http://www.ggdc.net/databases/ted.htm; for West Germany, *Statistiches Bundesamt Deutschland* (2007), *Volkswirtschaftliche Gesamtrechnungen der Lander VGR d L: Bruttoinlandsprodukt 1991 bis* 2007 at http://www.vgrdl.de/Arbeitskreis_VGR/tbls/tab.o1.asp.

The QR code provides an overview of post-WWII reconstruction programs in Europe.

[7] Angus Maddison, *The World Economy: Volume 1: A Millennial Perspective and Volume 2: Historical Statistics*, OECD Publishing, Paris. P.24.

2. What are some of the explanations for post-war global economic growth?

a) There were several reasons for unusually favourable performance in the golden age. In the first place, the advanced capitalist countries created a new kind of liberal international order with explicit and rational codes of behaviour, and institutions for co–operation (OEEC, OECD, IMF, World Bank and the GATT) which had not existed before.

- There was a very serious East–West split from 1948 onwards, but the split reinforced the harmony of interest between capitalist economies, so the beggar– your–neighbour behaviour of pre–war years did not recur. The United States provided a substantial flow of aid for Europe when it was most needed, fostering procedures for articulate co–operation and liberal trading policies.
- Until the 1970s it also provided the world with a strong anchor for international monetary stability. North–South relations were transformed from the colonial tutelage of pre–war years to a situation where more emphasis was placed on action to stimulate development. The huge expansion of trade in the advanced capitalist economies transmitted a dynamic influence throughout the world economy.

b) The second new element of strength was the character of domestic policies which were self–consciously devoted to promotion of high levels of demand and employment in the advanced countries. Growth was not only faster than ever before, but the business cycle virtually disappeared. Investment rose to unprecedented levels and expectations became euphoric. Until the 1970s, there was also much milder inflationary pressure than could have been expected in conditions of secular boom.

c) The third element in this virtuous circle situation was the potential for growth on the supply side. Throughout Europe and Asia there was still substantial scope for “normal” elements of “recovery” from the years of depression and war. In the 1950s, countries with greater potential for postwar reconstruction (i.e. Germany) grew faster than others. Both in the 1950s and 1960s, countries with large agricultural sectors (i.e. Italy) performed relatively well by transferring resources from low to high productivity sectors. After 1965, shifts in capital to labour ratios and technology gaps took centre stage in engineering growth. In addition, there was the continued acceleration of technical progress in the lead country. The United States played a diffusionist role in the golden age in sharp contrast to its role in the interwar years.

Was post-war global economic growth a process of economic reconstruction instead?

Were the high rates of economic growth observed during this period the result of a process of reconstruction and economic reorganization that followed the most destructive armed conflict in human history?

If so, for how long did this process last after the cessation of hostilities, which regions of the world did it affect, and how important was it compared to other factors that influenced growth over this period?

One school of thought have argued that the post-war economic development was a result of economic reconstruction: a recovery of pre-war income level or as a return to its long-term growth trend. Ferenc Janossy argued that wartime destruction and dislocation generated a unique potential for reconstruction growth. This was grounded by his study of pre-war growth rates and examination of the decline of the golden age of capitalism by 1973.

By the end of 1945, GDP of the defeated European countries had fallen back to early 20th century levels, that of France to late 19th century. Reconstruction took place at an unexpectedly fast pace. Between 1949 and 1951, the whole continent had returned to income levels equal to those of the best pre-war years. In the process, several conditions for sustaining growth over the long run had been put in place.

Firstly, the **physical reconstruction** that entailed the substitution of old for new infrastructure and production plants, the latter incorporating state of the art American technology easily obtainable during that period of time.

- In France, Jean Monnet, the Commissioner of the Plan for the Reconstruction of Key Industries, drew up a comprehensive scheme of modernization in 1946. According to the Plan, the French government was to provide the financial resources for setting up a new transport system, for modernizing the machines of the basic industries, for constructing more houses and for improving farming facilities.
- Government investment encouraged private investment, created full employment and led to continuing economic growth of Europe in the long run. The Monnet Plan, with its electrified railways and hydroelectric dams, not only created a more modern France, but also a popular image of modern France.

Secondly, **institutional changes** became politically feasible. The impact of restored democracy in Germany, Italy and Austria, and the creation of the Fourth Republic in France, created an unquantifiable opportunity for a more open economic environment in Europe.

- For Italy, there was the prospect of orienting its economy more firmly to international trade and competition, as we as tackling the backwardness of the rural South (something unthinkable under fascist autarky).

In the war's immediate aftermath, governments of all political persuasions had no qualms about resorting to nationalization and other forms of public ownership to achieve their economic objectives. De Gaulle and his successors nationalized gas, electricity, banks, and coal mines, as well as numerous private companies owned by pro-German collaborators.

- The British Labour government seized control of the so-called "commanding heights" of the global economy, notably the Bank of England, the coal and rail industries, and the utilities. In Italy, a somewhat different path was taken, as the post war state inherited and reinvigorated Mussolini's giant public sector corporations such as the Institute for Industrial Reconstruction. In each case, these policies rested on a broad political consensus.

Thirdly, **decolonization** was in motion, notably with India's independence, resulting in the unwinding of empires that had long been a drag on national resources. This is of course debatable, and subject to the particularities of the empire in question.

- Part of the reason for the laboured decolonisation process did indeed stem from policymakers' belief that holding on to colonies were necessary for postwar reconstruction.

Lastly, the labour market institutions that emerged out of social and economic contracts that sustained wage moderation by workers in return for high investment by firms. In Britain, for instance, there was little opposition to the nationalization of the coal and rail, as both had suffered from chronic under investment in a myriad of private hands.

- From 1945 to 1947, west European governments enjoyed valuable support of the communists and the trade unions in giving the highest priority to industrial production, even at the expense of low wages.
- In Scandinavia, Austria, and Switzerland there was a tightening of the web that bound governments and unions together. In Belgium and Netherlands, the government was more of an active partner in forcing the social partners into forms of cooperation. In the early 1950s, the newly born Federal Republic of Germany gave workers the right to elect one-third of their company's supervisory board as well as work councils that were legally bound to cooperative relations with the employers. In all these cases, they aimed at introducing explicit or implicit pacts between labour and capital, with the government as a broker.
- While in France and Italy official institutions were never formalized, the state played the same role. Both in France and Italy, direct government intervention in wage setting by nationalized companies operating in the technologically advanced sectors provided guidance and moderation to private sector industrial relations. The existence of a large supply of labour, and particularly in Italy, the moderation of communist-led trade unions contributed to the result.

3. Did trade liberalization bring about post-war economic growth?

With the end of WWII, the UN was founded to replace the League of Nations. A number of key decisions were taken at a conference of delegates of 44 nations held at Bretton Woods in New Hampshire in July 1944.

The US had unrivalled economic power and all the structures that evolved from the conference were proposed by the American representatives. It has been said that steady economic progress of the industrialized nations from between the Korea War to the oil crisis of 1973, was a result of the stability provided by the Bretton Woods financial and trading system.

The success of these initiatives has been argued to be possible as a result of US willingness to fund these institutions, as well as maintain the monetary policies conducive to world economic growth. With the Bretton Woods institutions introduced, the US pegged the dollar to gold at US$35 an ounce, and enacted large foreign aid programmes to pump liquidity into the international economic system and made the largest subscription of funds of any member to the assets of the World Bank.

Allied leaders were determined to forge international cooperation in financial and economic realms, believing that trade barriers, monetary manipulations and practices of economic nationalism had been the reasons that led to the clashes during the interwar period.

Under American leadership, conference members had agreed to the formation of three institutions to create a post-war global free trade system: the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD aka World Bank) and the General Agreement on Tariffs and Trade (GATT). These institutions were formed with three goals:

- Maintain financial stability through a fixed exchange rate system
- Facilitate free trade under the auspices of GATT
- Support developmental programmes to aid reconstruction of war torn nations.

Role of the Fixed Currency Regime

The IMF was set up during the Bretton Woods Conference in 1944 and its role was to maintain the fixed exchange rate system set up by the USA.

- Its primary function was to ensure that all currencies worldwide could easily be converted in order to facilitate trade between countries. Its second role was to provide short-term loans to countries that had balance of payments problems.
- Countries with large balance of payment deficits would encounter problems trading because they were unable to pay for imports. As such, in a bid to encourage and promote free trade, the IMF would extend short-term loans to allow these countries to continue trading. The last purpose of the IMF was to provide technical advice and training to countries, training governments in financial management, policies affecting the monetary system, managing balance of payments problems etc.

Sponsored by the US, the IMF was tasked to limit the fluctuation of foreign-currency exchange rates while using the World Bank to channel needed capital investment into war drained nations. A fixed currency system was introduced, with each currency tied to the dollar (USD), which would in turn be tied to the value of gold at $35 an ounce. Currency rates were not allowed to fluctuate more than 1%, and dollars earned from trade could be redeemed for gold. This was possible as the US owned 70% of the world's official gold reserves at the time.

The US had hoped that the system would discourage the economic nationalism of the interwar years. It would eliminate the use of competitive currency devaluation and the erecting of trade barriers, which had devastated the global economy through the 1930s and contributed to the rise of facism and imperialism in Japan, Germany and Italy.

However, it must be noted that the loans extended by the IMF came with strings attached in the form of conditionalities – which means that the loans were only given to countries that agreed to adopt the policies the IMF considered appropriate. This gives the IMF the power to intervene in the domestic policy-making of individual countries, the significance of which we will see later in the debt crisis.[8]

Impact of Free Trade

[8] Brett, The World Economy since the War, p. 69

The system with its fixed exchange rates and steady reduction of protective tariffs led to steady progress for most developed nations.

Through rounds of negotiations, GATT members had eliminated tariffs, quotas and other impediments to international commerce. Based on the Most Favoured Nation (MFN) principle, should one state give an advantage to another country, that same advantage must be given to all other GATT members. It was seen as a superior multilateral system, compared to the old bilateral ways of conducting trade agreements.

Between 1947 and 1995, 8 rounds of trade negotiations under GATT set up a complex web of 60 agreements government world trade. GATT accomplished its mission and was renamed the WTO in 1996.

GATT was a multilateral treaty to promote free trade, and supported liberalisation, nondiscrimination in trade, reciprocity, multilateral negotiations to reduce trade barriers ie. Uruguay Round. It covers agriculture, textile, state trading, product standards, subsidies and antidumping policies.

Support Development

Established in 1945, the World Bank (or International Bank for Reconstruction and Development, IBRD) was charged with a mandate to aid the reconstruction of nations ravaged by WWII and to further the flow of capital around the world. This includes extending low-interest loans to countries.

In its early years, its loans went mostly to war-devastated European countries; in the 1950s, they focused on middle-income countries and others inhabited by Europeans overseas, thereafter to exclusively third world countries. The key was to help them onto the path for development. For the first 20 years, there was much optimism and belief that the loans for capital investment made through the World Bank would lead to structural transformation and allowed sustained growth to take place. The US and European banks had also insisted on sound economic policies favouring market orientation and laissez-faire on the receiving governments.

The Bank operated on a very limited scale during this period, as it only had $570 million available for lending (contributed by the USA), which was insufficient to deal with the urgent need for reconstruction in Europe. As such, like the IMF, its role in facilitating economic reconstruction was dwarfed by the USA's Marshall Plan.

Moreover, the Bank began as a very conservative institution due to the fact that it had to borrow from private financial institutions because of its limited funding. Hence its lending policies were in reality as conservative as that of private banks, and it refused to lend to countries that had defaulted on previous debts, and only lent to countries that could guarantee repayment.

How effective were efforts at trade liberalization?

- The IMF indeed provided the monetary stability needed to restore confidence in the US' allies and facilitated the liberalisation of the trade regime.

- While GATT saw a 73% reduction of all non-agricultural tariffs, most of this came from the USA. This made the US products cheaper to its allies, allowing them easier entry into the US markets.
- The World Bank was dwarfed by the Marshall Plan and private US investment. It lent out only US$500 million in its first four years.
- Moreover, while the international financial institutions did contribute to stabilising the global monetary order and increasing the overall trade volume, it must still be noted that they were created, dominated and sponsored by the USA. On their own (without the sponsorship of the US), these institutions would not have been able to contribute significantly to the growth of the global economy.
- As such, the international financial institutions should not be considered a major factor contributing to the global economy.

4. How did nation states contribute to post-war economic growth?

What was the role of the USA?

"Communist movements are threatening established governments in every part of the globe. These movements, directed by Moscow, feed on economic and political weakness. The countries under Communist pressure require economic assistance on a large scale if they are to maintain their territorial integrity and political independence. "

\- *Will Clayton, Assistant Secretary of State for Economic Affairs*

Beyond the leadership role played by the USA in the creation of international institutions and systems, the American government had also undertaken unilateral action in the initial years to spur global economic recovery. One such action, was the introduction of the Marshall Plan.

There was considerable political will from the Americans to promote international trade and economic development in capitalist countries. In 1946, US manufacturers produced half the world's total output with huge surpluses, while Europe faced unparalleled shortages in food, fuel, raw materials and capital equipment. As a result, the outlook of the industrialized world during the post war years was dominated by the 'dollar shortage'.

It marked a shift in the distribution of the world's economic weight away from Europe to the US. It also helped that the US had greater wealth in both natural resources, and the ability to invest in capital and research. This placed them ahead of the rest of the world in terms of technological advancement.

Instead of pursuing isolationism (like after WWI), the Americans were determined to bring its economic and military might to bear. This was particularly pertinent, as the post-war world was divided into two hostile camps (the western capitalist and largely democratic states led by the US and the eastern 'socialist' states dominated by the Soviet Union). Each had tied their allies to their cause via tight military alliances in the form of NATO and the Warsaw Pact.

From 1947 onwards, suspicion had deepened even further, with Soviet spread of communism through the absorption of the Baltic states and parts of Poland, Germany and Romania. The intensification of the Cold War and of American concern for the political stability of the capitalist systems of Western Europe convinced the USA of the necessity for the use of its own military and financial resources to contain the spread of Communism. The USA believed that prosperous, democratic regimes in Western Europe and Japan were bulwarks against Soviet expansionism, as the Truman administration claimed that Communism was capable of flourishing in conditions of poverty in March, 1947.

As such, the USA implemented the Marshall Plan in June, 1947, to accelerate the economic recovery of Western Europe. This entailed a massive injection of capital and liquidity (money) into Western Europe.

- From 1948 to 1951, the U.S. contributed $13.2 billion to European recovery. $3.2 billion went to the United Kingdom, $2.7 billion to France, $1.5 billion to Italy, and $1.4 billion to the Western-occupied zones of Germany. From 1948-1952, an added US$20billion in investment.
- In its first year, half of all Marshall aid was devoted to food. Overall, 60 percent was spent on primary products and intermediate inputs: food, feed, fertilizers, industrial materials, and semi-finished products, divided evenly between agricultural goods and industrial inputs.

In this sense, it can be argued the Cold War prompted the US to promote international trade and economic development in capitalist countries to prevent communist infiltration. We can see this in their involvement in South Korea, Taiwan, and the creation of the Bretton Woods System.

Was the Marshall Plan simply a Cold War strategy?

Partly humanitarian in intent, Marshall Plan was intended to grant temporary aid from US resources to European countries. Many were in need of food, fuel, raw materials and capital equipment, but had no US dollars to pay for them. The Americans had also hoped use Europe as a market to absorb surpluses in commodities like agricultural produce and steel. $3,176 million went to the British, while the French receive $2,706 million. Other grants were made to West Germany, Italy and Netherlands, among smaller grants offered to European states.

The Soviet Union had rejected these grants, and insisted its East European Allies to do the same. This foiled the other motive for US offer of aid; to consolidate the West against the influence of socialist and communist parties propagating economic planning and the widening of the welfare state in Western Europe.

(For those interested in a brief overview on the topic, consider viewing the video at the following link https://youtu.be/pUt7Lr3lubc)

What effects did Marshall Plan had on the economies of Europe?

Marshall Plan provided large amounts of liquidity and capital that played a significant role in post-war reconstruction and the resumption of economic activity and trade in Western Europe and Japan. The British had used the funds for imports to ease the balance of payment in the short run, while West Germany focused on long term investments. The Marshall Plan gave a new impetus to reconstruction in Western Europe. It led to the renewal of the transport system and the resumption of normal production, which in turn facilitated intra-European trade.

The success of the Plan was evident by 1951, when production levels rose above that of the pre-war years in all the nations that received Marshall Aid. The United States injected $11.8 billion into Western Europe between 1948 and 1952, equal to $120 billion in 1997 prices. This injection of capital financed technology transfers and the import of vital machinery, spare parts, and raw materials, all of which put Western Europe's industries back on their feet by 1952.

In addition, the Marshall Plan pushed Western Europe towards economic and political cooperation, to lay the foundations of a united Europe. The need for a federal Europe that could stand together in the post war era, independent of other nations came to dominate the political climate in Western Europe.

This was first realized with the formation of the European Coal and Steel Community (ECSC) in 1951. This was the first time an international community was formed based on supra-nationalism and international law, but was designed to help the economy of Europe and prevent future war by integrating its members.

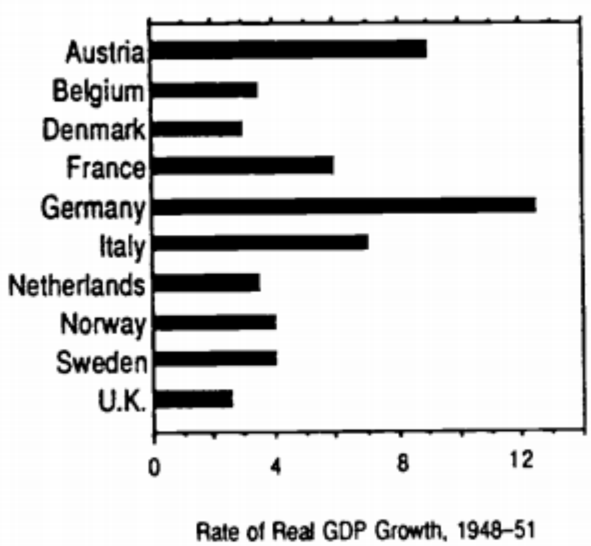
To further reiterate this goal, two further communities were proposed: a European Defence Community (EDC) and a European Political Community (EPC). However, the concept of an EDC ran contrary to NATO so the idea of a European customs union came to fore. This lay the foundations for the formation of the European Economic Community (EEC) on 25 March 1957.

Evaluating the Marshall Plan

Some scholars, Milward (1984) argues that Marshall aid was simply *not large enough* to significantly stimulate Western Europe's growth. Nor did the Marshall Plan matter by financing the reconstruction of devastated infrastructure, as reconstruction was largely complete before the programme began.

Nonetheless, the Marshall Plan did alter the environment in which economic policy was made. It saw a rapid dismantling of controls over product and factor markets in Western Europe. It also saw the restoration of price and exchange rate stability. Marshall aid gave the governments room to maneuver within "mixed economies" with a strong pro-market orientation and less directive planning. It provided funds to finance investment and public expenditure and allowed countries to import from the US. As seen in the figure below, European growth was very rapid after 1948.

Economic Growth in European Nations During the Marshall Plan Years



What else did the USA do in Europe?

The Americans saw a need for a strong Western European economy. In turn, the US insisted on European collaboration and the integration of their economies to hedge against the East. US pressure also led to agreements to reduce quantitative trade restrictions within Europe and the formation of the European Commission for Europe (ECE), the Organisation for European Cooperation (OEEC). This later converted into the Organisation for the Economic Co-operation and Development (OECD). The process had the effect of forcing Western Europeans to include the West Germans and cooperate seriously for the first time, providing a stimulus for the European integration process that would reshape the continent.

The OECD became a permanent institution that saw a coming together of the Western European countries with those of North America and other industrialised regions. However, in terms of influence, it was largely confined to the provision of services like economic advice and data.

There were claims that OECD and the Marshall Plan had directly revived Europe's economy; an argument that is no longer as persuasive today. This could be seen in Latin America, were the US had invested $10.3 billion from 1961 to 1969 in the Alliance for Progress initiative. Effects were deemed negligible.

Furthermore, Marshall Plan had coincided with European attempt to pool their coal and steel resources, resulting in the European Coal and Steel Community (ECSC) in 1950. This created a common market for coal, steel, coke, iron ore and scrap between France, West Germany, Italy, Belgium, the Netherlands and Luxembourg. Initial success led to the founding of the European Economic Community (EEC) in 1957. USSR had tried a similar project with COMECON in 1949, but dependency on USSR saw little trade and cooperation take place.

Did the USA play any role elsewhere?

OAS – Organization of American States
United States involvement in international affairs during the Truman Administration was not confined to Europe. In 1948 the United States joined 21 Latin American nations to form the Organization of American States (OAS), designed to insure peaceful settlement of inter-American disputes, to promote economic and social development in Latin America, and to provide for common defense.

Japan
US sponsoring of the Japanese economic recovery was done so to assist with the stabilisation of Asia and halt the growth of communism in Japan. Also, it served to lock Japan strategically and politically into the Western alliance as an unequal partner.

After 1945, the US had imposed an occupation army under General MacArthur and crafted the Treaty of San Francisco (granting Japan sovereignty in 1952). In 1948, the US stressed the need for economic recovery and eventual rearmament to re-establish Japan as a key player in the world economy and to discourage the growth of communism due to economic dislocation. During the 1950s, the US continued to believe that strong economic growth would undermine the appeal of the Left in Japanese politics, and have a beneficial effect on Asia.

In order to assist Japanese economic recovery, the US did the following:

- **1949:** SCAP (Supreme Commander of Allied Powers) the bureaucracy under MacArthur occupying Japan) introduced a policy of financial austerity designed to curb government expenditure, reduce inflation and encourage growth of export through the granting of preferential access to raw materials and foreign currency earnings.
- The occupation of Japan can be divided into three phases: the initial effort to punish and reform Japan, the work to revive the Japanese economy, and the conclusion of a formal peace treaty and alliance.
- The US military also maintained its procurements throughout the decade, purchasing trucks, clothing, bedding and other goods for the armed forces.
- The Americans sponsored Japanese entry into the General Agreement on Tariffs and Trade (GATT) organisation in 1955.
- Japanese protectionist policies pursued by MITI (Ministry of International Trade and Industry) were tolerated, which used high tariffs and limits on foreign direct investment to defend its growing heavy industrial sector.
- **1955:** The Eisenhower administration also allowed Japanese goods like textile, to enter the US domestic market. This was in consideration that the Japanese were denied access to the Chinese market and Southeast Asian markets were too small to soak up excess Japanese products.
- To aid the Japanese further, they were given the 'most favoured nation status'. Preferential policies continued even in the 1960s, with Japanese automobiles and motorcycles entering the US market for the first time. By 1965, the US suffered its first trade deficit with Japan.
- The Americans were keen to use Japan's growing economic power to stabilize the region in the **mid-1960s**, as Sino-US tensions escalated and the situation in Vietnam worsened. In 1965, the US brokered the opening of diplomatic ties between Japan and South Korea (something thought impossible before). This opened up a new market for Japanese goods and investments, while strengthening the Korean economy.
- Trade links with Southeast Asia was also encouraged, and by 1966 Japan extended credit to Thailand and Malaysia, while helped with restructuring Indonesia's debt, and became one of the largest contributors to the newly established Asian Development Bank.

South Korea and Taiwan

South Korea and Taiwan were seen by the Americans as vital buffers to the expansion of the communist bloc. Also, as a result of their partitioned status, they were also seen as showcases to demonstrate the superiority of capitalism over communism. This was what prompted the US to provide extensive economic and military aid. i.e. $6 billion to S. Korea between 1946 to 1978.

The Americans also gave them preferential access to the US market in the 1960s, while brokering economic ties with Japan (1952: Japan and Taiwan, 1965: Japan and South Korea). This arrangement created the conditions that enabled Japan to become one of the key sources for capital investment in the region.

The Global Cold War

"It took $84 000 million of grants and loans...or 15 times the original dollar component of the IMF and 6.5 times the total maximum lending power of the [World] Bank; and military expenditure and supply grants abroad of an

average of well over $5000 million per annum since 1952 to restore balance. American domestic demand was buttressed by military expenditure which between 1951 and 1961 amounted to $451 millions."[9]

The USA's involvement in various third world conflicts during the globalisation of the Cold War also spurred economic growth. During the Cold War, the military spending of United States remained roughly proportional to its share in the global economy. In 1986, this share was 28 percent of the world total ($365 billion) and 65 percent of the NATO total. Many economic historians label the Korean War the "Korean war boom", as the Korean war sparked a huge increase in demand. Both Japan and Germany moved into balance of payments surpluses as a result of 'the Korean boom'. Japan benefited particularly strongly as the USA built it up as the industrial base for the Korean War, and yet again for the Vietnam War. As such, 1966 to 1970 were the years of peak Japanese growth, with its economy expanding at 14.6% per annum.

What were the effects of US economic policies in Asia?

These economic measures were important in stimulating regional economic growth and benefitted Japanese exports. The Vietnam War was also significant, as it was a long drawn war in East Asia that required a regular flow of procurement that went into millions of dollars. Like the Japanese, the South Koreans and Taiwanese had benefitted immensely from access to US markets and American tolerance of their protectionist policies. It allowed both nations to strengthen themselves to cope with external threat and invest heavily in economic growth, despite being mired in a Cold War 'hotspot'. Furthermore, US urging of Japanese trade involvement saw the Japanese growth as a major contributor to regional investments, and sparked the miraculous growth of the Japanese economy.

[9] T. Balogh, Unequal partners, p.11