

# The world economy since 1945 essay

[Business, Management](#)



The World Economy Since 1945

Introduction

After the end of

the Second World War, international economies faced the need for complete economic restructuring. Traditional western loyalty to Keynesian theory of economic development was undermined by the lack of economic resources and labour force, as well as deep and continuous economic decline in Western Europe (particularly, in Britain). Despite the revolutionary economic successes, by the beginning of the 1970s the world economy appeared in the midst of the new economic crisis, marked with stagflation and the dramatic productivity decline.

After 1970, both the Western bloc and the Soviet bloc were experiencing serious economic problems; yet, while western economies have successfully overcome and resolved their productivity issues, for the Soviet bloc the economic decline of the 1970s has become the beginning of its end. The major difference between the soviet and the western approaches to economic crisis were in the visible flexibility of western ideologies and markets, which could easily adjust to the changing economic conditions. While the Soviet bloc was fighting with the crisis, the Western bloc used economic problems as the basis for radical transformation of their economic ideologies, with special emphasis made on technological advancement and innovation as the keys to continuous economic prosperity. The Soviet and Western economies in the 1970s: an overview The beginning of the 1970s in the Soviet bloc and the USSR was more favourable than the leaders had previously expected: the GNP displayed steady growth rates, while agricultural workers were provided with additional incentives for expanding the range of agricultural products in the state planned economy

(Horelick 1990). However, the initial “ stabilising” impression was inherently deceptive. The states were consciously distancing themselves from the need to resolve the major economic debate: “ there was scant effort to conceal the regime’s awareness that apart from the highly privileged military sector of the economy the Soviet bloc lagged badly behind other advanced industrial countries in assimilating advanced technology to production” (Wolf & Popper 1992). Behind that technological and economic senselessness there was the persistent inability of the communist states to provide their markets with incentives for innovative development and growth.

In other words, in state-planned economies, industries were completely inflexible and non-adjustable to the changes, which took place in the outside world; as a result, the Soviet bloc was completely unprepared to facing the economic challenges brought into Eastern Europe from the West. The economic situation in the Western bloc (especially in Britain) was similar to that in the Soviet bloc. Western European countries (Germany and the UK) were experiencing unprecedented inflation. In July 1975 the inflation rates in Britain crossed the psychological limit of 25% (Crafts 1998).

“ The rate of overall economic growth suffered a major decline; between 1974 and 1975 the European economy was actually contracting” (Crafts 1998). Inflation was accompanied by the growing unemployment, and the western bloc seemed unable to combat the crisis. The U. S. was coping with the dramatic oil price increase (Barski & Kilian 2004).

The deficits of the British balance of payments constantly increased.

European investors were reluctant to invest into declining economies and

were withdrawing their funds to re-invest elsewhere (Thomson 2002). The reasons of such dramatic economic collapse can be attributed to the four different groups of factors: first, the crisis of technology (Crafts 1998; Geroski 1990); second, the Japanese economic revolution and the growth of Japanese competition (Thomson 2002); third, the shifts in the manufacturing balance from developed to developing countries with cheaper labour and economic resources (Crafts 1998); and fourth, the oil crisis of 1973 (Barsky & Kilian 2004). These factors might not have been equally important for the Western and the Soviet blocs, but all together they have formed the basis for the emerging crisis that led the communist states to collapse and made western countries seek effective and rapid methods of economic recovery.

The 1970s: the causes of the dramatic economic decline                      The 1970s are frequently associated with the “ crisis of technology and labour” in all major economies (Crafts 1998). Both the Soviet and the Western bloc were equally susceptible to the changing technological needs in economic performance; yet, the problem of technology was particularly serious for the soviets. The roots of the Soviet bloc’s economic decline lay in the authorities’ inability to shift the emphases from planning to free markets, and to realise the critical role of technology and innovation in the economic growth. In economic theory and practice, the economic potential for growth was always linked to the state’s ability to balance human labour resources, machinery, and technological innovation (Geroski 1990; Mulholland 2006). With the abundance of the first two, the Soviet bloc was consciously neglecting the third. The problem was particularly serious for the USSR. “ The USSR was abundant in the mineral resources required for industrialisation, including

huge quantities of coal, oil and iron ore – if only they could be got out of the ground. The limiting factor was the ingredient which the Soviet Union could not find mainly from within its own borders” (Mulholland 2006).

That factor was described by Mulholland (2006) as the physical embodiment of production knowledge, or technology. That is why, since the middle of the 1960s the soviet bloc has been gradually losing its power to fight the productivity decline. Instead of resolving the productivity problem, the Soviet bloc seemed to further aggravate the situation by supporting all military industries, with minor (almost zero) attention to the factors of long-term sustainable economic growth. In a research initiated by RAND Corporation, Wolf and Popper (1992) suggested that political leaders had consciously sacrificed long-term investment incentives for the sake of satisfying short-term consumer needs, and by the middle of the 1970s the process of technological development in previously progressive countries was almost stopped. In case of the Western bloc, the productivity problems were supplemented with the excessive centralisation of the capital and the internationalisation of business as such. The concept of “ failed fordism” implied the absence of quality entrepreneurial skills that would promote the need for technological revolution at workplace (Thomson 2002). Beyond technology, work ethics declined, and western countries could no longer perceive the benefits of improved productivity in their home-based industries.

In Britain, the expansion of the state economic sector seriously undermined the stability of the nation’s economic performance; “ public sector wage

demands encountered only political limits set by the government's will to resist, meaning that nationalised companies were not run according to the fundamental principles of capitalist business" (Thomson 2002). Generally, the 1970s were the reflection of the western tendency to experiment with economic policies, with that experimentation having been characteristic of the Golden Age (Marglin & Schor 1990). Instead of focusing on the development and implementation of technological knowledge and human capital, the Golden Age economic policies in Europe and the U. S. had been centered on the need to "subsidise physical capital" (Marglin & Schor 1990). The Golden Age emphasizes on the development of aerospace and nuclear power, mixed with the overwhelming (and thus unreasonable) interest to macroeconomic factors distorted the policy visions in the countries of western states.

Of all European countries, Britain appeared in the worst economic situation, damaged by serious policy errors and compelled to seek a quick and cost-effective solution to its economic problems (Thomson 2002). The Soviet bloc was experiencing similar problems, and in the face of the new crisis technology could potentially become an effective instrument for minimising the negative consequences of the major macroeconomic shifts.

Economic recovery: why the Soviet bloc failed      The development of new economic policies since the middle of the 1970s suggests that the Soviet bloc was unable (or reluctant) to use technological transformation as the tool of economic recovery. With the elimination of investment incentives, and under the growing pressure on the side of the foreign political opponents, communist leaders were constantly increasing the states'

military budgets, leaving innovation issues unresolved. “ The key to understanding the gradual build-up of problems in the soviet bloc lies in the relationship between the diversion of resources into defense and the enforced economic and technological isolation of the socialist bloc” (Mulholland 2006). Certainly, it is difficult to deny the presence of the strong scientific basis in the soviet research institutes; moreover, soviet scientific achievements always signified the soviet bloc’s loyalty to research and technical advancement (Kafouros 1996). Yet, in the absence of centralised state policies and without investments, all scientific initiatives in the Soviet bloc were initially doomed to a failure.

That the absence of the “ technological element” has become the driver of the soviet economic collapse is further confirmed by the fact that the presence of this very element in Europe has formed the foundation for the economic recovery in the Western bloc. The year 1979 for Britain was marked with a strategic political shift that later led to the emergence of the new political and economic trend – Thatcherism. The new political majority kept to the principles of modern growth economic theory, with the emphases made on technological progress, profit-maximisation, and innovation (Crafts 1998; Thomson 2002). The United States was forming a new image of a technologically innovative state as a response to the serious energy crisis (Barsky & Kilian 2004).

In distinction from the soviets, western countries were able to evaluate the positive impact of technology on firms’ profit maximisation strategies. From the very beginning, the Western bloc viewed technology and innovation as

the two instruments of cost reduction – the factor that predetermined the difficult but ultimately successful recovery of the west after the 1970s' shakes (Crafts 1998). Since the end of the 1970s, downsizing of industrialisation and deregulation have become the two key components of the western economic policy (Thomson 2002).

The “ creative destruction” concept formed the stem of market and technological flexibility in Europe, implying that firms and technologies that became obsolete had to exit the market, giving place to the new innovative players (Crafts 1998). In distinction from the Soviet bloc, Western economic professionals understood that “ slowing down or blocking exit of the inefficient is a perennial temptation for politicians who can clearly identify the votes of the losers to be helped but cannot expect any reward for the promise that their pain will be good for the living standards of unidentified future citizens” (Geroski 1990). Soviet economic ideas went against the principles of economic reason, which at the end of the 1970s required extreme flexibility of markets, deregulation, and technological shifts. What could potentially save the Soviet bloc from collapse was successfully utilised by Europe, confirming its long-standing economic superiority over the rest of the international economic blocs. Conclusion The 1970s were the worst times for the Western economic bloc in a sense that the European countries in general and Britain, in particular faced the need for complete economic restructuring.

The world economic crisis was equally tragic for the Soviet bloc, but the communist authorities failed to address serious technological issues. The



roots of the 1970s' economic collapse laid in the outdated approaches to technological management and profit maximisation. At that stage of historic and economic development, industrialisation was no longer a relevant economic option, for successful and sustainable economic development could not solely rely on human resources and machinery. While the Western bloc was decreasing public spending and expanding public access to higher education, supplemented with de-industrialisation and taxation restructuring (Crafts 1998), the Soviet bloc remained loyal to planned economic strategies and military superiority. As a result, what for the Soviet bloc was the crisis and collapse, for the Western bloc was nothing more but the need for transformation – the transformation that has ultimately reinforced the dissolution of the new economic ideology in the way that fostered rapid economic recovery in western countries. References Barsky, R & Kilian, L 2004, Oil and the macroeconomy since the 1970s, NBER Working Paper 10855. Crafts, NFR 1998, 'Forging ahead and falling behind: the rise and relative decline of the first industrial nation', *Journal of Economic Perspectives*, vol. 12, no.

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