Gdp in the golden age: economic analysis of the uk and germany essay

Outlined in previous sections, in terms of GDP, Germany outperformed the United Kingdom in the Golden Age by a vast amount.

Consequently the important question to ask is, what were the causes of such a great difference in GDP between the two countries mentioned, during that period of time. Although the UK made several mistakes, resulting in their disappointing performance, Germany's success in the Golden age is the main reason for such a difference in gross domestic product and therefore the main talking point when it comes to economic analysis. As one determinant of GDP is exports, it is relevant to discuss the matter with relevance to the UK and Germany. As mention in the literature review, during 1955-1960 exports in Germany increased 50% to the UK's 20% (Eichengreen, 2007 P126). One of the reasons for Germany outperforming the UK was the initial position that Germany was left in pre-Golden age.

The country already had the relevant range of industries, coal and steel and transport equipment to place them in a great position to get the economy moving. Furthermore Germany entered the Golden age with fairly underused resources due to Europe delaying their recovery in the 1940's. Therefore, in the words of Broadberry & O'Rourke (2010, p309), they had a " relatively large scope for post-war reconstruction. " In contrast the UK was very quick to restore full capacity in this period and so had little scope for catch up. So now drawing attention back to the Golden Age, it is apparent that Germany had a much better position for convergence catch up than the UK and hence this helped to tip the favour in Germany's way in terms of GDP growth. With such infrastructures in place, the main component that Germany created

effectively in order to stimulate exports was the establishment of a competitive environment.

The German government had low-level price-cost margins, running at half the UK level in the early 1950s (Crafts and Mills 2004, quoted in Eichengreen 2007, P93), and small/medium size firms competed against each other, which meant they were required to be very price aggressive and decrease costs to survive. The major impact of this was that German firms became more competitive in international markets. This in turn led to increases in exports from Germany. (Exports increased from 9% of national income in 1950 to 19% in 1960 (Eichengreen, 2007) alone), which greatly assisted in improving their GDP growth. In comparison, UK exports, as a proportion of national income, were far less. This was partly due to the UK's choice to join the European Free Trade Association (EFTA) as opposed to being one of the founders of the European Economic Community (EEC).

The disadvantage to this was, as stated in the United Nations (1962, quoted in Eichengreen, 2007 p126), " the mutual reduction of tariffs within the EFTA did not carry the same threat of intensified competition in the British market as did the signing of the treaty of Rome for the… members of the EEC". In addition the small size of prospects for trade in the EFTA meant that the UK, due to insufficient prospects for trade, underperformed against Germany in terms of exports. Furthermore, due to the Korean crisis increasing demand for capital goods worldwide, Germany managed to increase its exports further. As its industrial sector began diversifying into the production of consumer goods, private consumption surged across Europe, reflecting higher incomes.

This further helped to sustain the growth of German exports. Because of this rapid export growth, investment in Germany became very appealing. There are other important factors that, with respect to GDP, placed Germany in a better position than the UK. One such factor was the structure of industrial relations. Germany's unions' were very successful in limiting increases in the unit labor costs and devoting resources to capital formation.

This was made possible by the Deutscher Gewerkschaftsbund (DGB), an umbrella organization, which provided a platform for discussion between union leaders. The DGB allowed the union leaders to pick a level of wage increases appropriate for the whole economy and to encourage others to follow their example. In addition, Germany's growing labour force, from immigrants pre-Berlin wall, assisted in creating wage moderation and this helped to sustain German investment. By contrast, the UK had a society that lacked national unions together with a government that was incapable of harmonizing wage bargaining.

The UK, at the end of 1950, had more than seven hundred separate trade unions and only 186 were affiliated with the Trade union Congress (Eichengreen, 2007 p 123). For this reason, the power of the TUC was very limited as fragmented relations meant industries simply set ages at what they liked with no regard to the economy. Consequently owners, unsure of their future, paid out profits rather than invested in capacity expansion and modernization. The UK's difficulty in stimulating investment, economy-wide resulted in chronic pressure on wages.

As such the UK saw unit labour costs rise by 50%, whereas Germany’s hardly rose (Eichengreen, 2007 p96). Although the UK government sought union assent to a pro-growth program of wage restraint, it was rejected by the TUC. The UK didn’t adopt planning strategies for investment in mobility so it suffered. In contrast Germany’s free market orientation made it a success.

Furthermore, the German government provided tax breaks for investment but not for firms paying out profit as dividends. This further increased the success of investment across Germany. As investment is a component of GDP, the lack of investment from UK firms’ as compared to Germanys’ shows another cause for the differences across the Golden age. Other contributing factors to the failure of the UK in the Golden age are linked to the difficulty in stimulating investment, which led to uncompetitive real exchange rates.

The UK government tried to use fiscal policy to stimulate the economy but unfortunately ran up against the balance of payment constraint. This meant that the authorities were forced to repeatedly interrupt investment; this was done so in the pattern know as “ stop-go”. The UK’s fiscal initiatives were poorly timed and this, along with other automatic fiscal stabilizers, made firms reluctant to invest in new technologies. The labour force in the UK also resisted the introduction of new techniques that threatened traditional practices and the conservative government at the time merely caved in to demands in order to prevent issues. As Eichengreen (2007, p125) so greatly states “ the government became an engine of concession rather than change”.

Germany took a very different approach. The German government decided to maintain minimal interference. They worked to dismantle price controls and hence their monetary and fiscal stances were stable. This stability freed up resources for investment helping them with contributions to GDP growth. In addition the government took the initiative in reducing corporate and personal income taxes so as to favour private saving that could be channeled into investment in Germany's industries. That assisted the country in maintaining a comparative advantage.

As can be seen, Germany's minimalist approach to interference and reduction of taxes led to stimulated investment, contributing to GDP. Meanwhile, the UK's scrambled, poorly timed, fiscal interruptions made UK firms unwilling to invest in new technology. The different approaches of both governments highlights why GDP for Germany was so much more impressive than the UK in the Golden age. As can be seen from the earlier analysis, Germany's outperformance of the UK was due to rapid export increases and also their ability to stimulate investment due to several factors explained previously. The labour force is a key input to growth and, with Germany's capital availability for its workforce together with its high levels of investment and exports, impressive GDP figures emerged that largely dwarfed the UK.