

A Short Economic History of the Post Second World War World

Part 1 - Where did it all begin?

Let's begin by taking our analysis back to a dawning of the age when the wars in both Europe and the Far East had been brought to an end. The latter had seen the US president Truman decide to use the atomic forces at his disposal and coupled with the joy of peace was an awareness that a power had been unleashed that might come to haunt us all. With peace came a re-alignment of the world's nations into three distinct groups. These were:

- the so-called 'free world' which consisted of the USA, most of Western Europe and Japan
- the Soviet Union and its satellite states in eastern Europe
- what was to be come known as the developing or Third World

It is interesting to reflect just where each stood on the eve of the millennium. The first had long abandoned the quest for full employment, which had been seen as the principal way of destroying the evils of mass poverty so familiar in pre war Europe. The second had also failed to deliver the promised increases in the economic security of the lives of the masses and the last had seen its standards of living continually fall since gaining independence from its colonial masters.

To this must be added another underlying trend, namely the loss in the belief that government could cure the problems of economic systems. In the 1990s we saw privatisation, deregulation and economic liberalism in what we know as the 'West'. The institutions founded in those far off days of Bretton Woods (the conference that took place in 1944 in New Hampshire, US, at which the Allied powers planned for post-war economic reconstruction) and therefore based on a more interventionist approach, decided that market forces were the best way of solving the problems of distribution. Into the frame of international language crept the term 'globalisation' and as we all now appreciate this was to further change the status quo that developed in the 1950s and 60s. In the Far East the economic miracle of the period post 1945 was rudely shattered by the crashes of the late 1990s. Elsewhere, Russia, the largest of the post Soviet Union states defaulted on its loans from the west. Now all eyes are turned to China and its desire to be a major economic power by 2020.

As I write we must begin to analyse the emerging signs of slowdown in the US and the arrival of the demographic time clock at 6 billion and rising. Yet as we begin our brief look at the last 50 years it is worth noting the following:

- despite all the news that crosses our TV screens we in Europe have only seen one major conflict since 1945 and that was in the Balkans, so long the breeding ground of many of Europe's disagreements
- the world's output is greater than it has ever been and average life spans are higher for most that at any time in recorded history
- infant mortality is lower in all regions, with the exception of parts of the developing world

But, inequality is greater, poverty is more widespread and to this we have the widely believed problems of global warming and environmental degradation.

We must now look in more detail at how the so-called free world managed its affairs in the post war period.

The quest for sustained wealth

With war over the search for a lasting peace began. In Britain this was combined with a genuine desire to find a better way of running a society. The Conservatives and their wartime leader Churchill were defeated and the little known Labour leader Atlee was installed in Downing Street. Like Churchill, he also appreciated the need for a secure framework from which to combat the growing threat of the Soviet Union and its newly acquired empire. Peace has cost millions of lives and a considerable proportion of the wealth of Britain. However, another significant change had occurred, namely the beginning of the end of the British Empire. The leaders of the US had already fought one war to rid their own land of imperialists and they were not prepared to allow the British and French to simply return to where they had been in 1939. (Some of you may like to read more on the expansion of the US and the treatment by the Americans of Indians, Negroes and Mexican Spanish. It assists in understanding some of the American psyche.) India was the first to be returned and by the mid 1960's over half of all African territories had gained their independence. Many of those who argued against a return to colonialism also supported the creation of new economic order based on expansion, monetary stability and liberal trade principles. Such moves had their opponents, especially in Europe, where a fear of mass unemployment and its effect on the wider acceptance of Communism led to some thinking that protectionism was the best way forward. In the space of just three years Marshall introduced his huge inflow of currency to mainland Europe, currencies were re-aligned and by the early fifties, even with the threat of Korea, the 'West' was enjoying very low levels of unemployment and ever increasing growth rates. Some have described this as merely the re-building phase after a hideous conflict but for those who embraced the new convenience age the world was an exciting place in which to live.

In economics one man stood out above others at this time and he was British. His name was John Maynard Keynes (who had died in 1946) and his main ambition had been to discover a way of running an economy at or near full employment. He was not successful in persuading the US to accept a world currency and an international bank charged with the responsibility of settling trade deficits and surpluses. However, his plan for stimulating demand within an economy by injections of money led by governments was adopted by most democratic administrations. To this brave new concept the British added the welfare state and so society, as we now know it was born. It was not quite the utopia that the left had dreamed of but in the UK health and social welfare were now universally available to each according to their needs and not their means. In most economies parts of the main industrial sectors were taken into public ownership and many of the practices so repugnant to the workers of the 1920s and 30's were finally laid to rest.

A brief look across Europe sees similar systems being put in place but with national characteristics colouring their social and economic mix. In France a more centralised planning procedure was incorporated in the Monnet Plan of 1946, whilst in West Germany a mixed approach to economic management resulted in what has become known as the 'economic miracle'. With the exception of Britain the restored economies of Western Europe all grew rich on external trade. The British uniquely had a trade balance dominated by domestic demand. Whichever route was taken the 'free world' recorded some notable victories and by the mid 1970s they all showed a high degree of:

- rapid and sustained economic growth
- long term stability of the business cycle
- very low unemployment

and, although British growth rates seldom reached the levels recorded by the other fast growing economies the first thirty years of 'peace' resulted in:

- the longest period of sustained non-conflict on mainland Europe for over two centuries
- the removal of the deep cyclical downturns that had resulted in such misery in the 1920s and 1930s
- the acceptance that governments could have noticeable influence over the macro economy and so deliver electoral promises
- the complete re-building of most of the war torn economies
- the acceptance by the US that they were the engine of economic stability and had to accept financing the deficits and surpluses of both Europe and Japan

Some commentators have also noted the development of money illusion, which led many to believe that inflation was not important if one could negotiate wage increases above the rate of price increases.

This last point is where we end the first section of this brief trip through economic time. We leave it at the eve of: stagflation, commodity prices booms, an oil crisis, a financially strained US as it fights to bring its Vietnam campaign to a satisfactory conclusion and a re-alignment in the world order of economic power. The first thirty years of peace had passed with very little obvious conflict, or had they? Did Suez go by without our leaders fully understanding its implications, had labour power grown too great and just what was happening in the Far East? We are concluding in the middle of what was my youth. It was an age of 'anything seeming to be possible'. We had created our own music, culture and heroes. Symbolically, if we take 1970 as being a pivotal year in economics it also recorded the break up of The Beatles, who to many had represented the new attitudes and values which many felt would shape the new economic order. The new generation of what emerged in the US as 'baby boomers' did subscribe to ideas that the power of capital, the inadequate distribution of wealth and the need for a re-alignment in ideological thinking would feature in the world of the 1970s. As we shall see in the next part of this all too brief analysis of economic history, many of these dreams were not to materialise.

Part 2

The long unwinding road

In the early 1970s and possibly even sooner, it became apparent that the accepted 'model' of post war growth had within it a fundamental problem. This rested on what some of you will know as the Phillip's Curve, which had allowed politicians and planners to target a specific level of price inflation against an accepted level of unemployment. In doing so, those in power were able to 'manufacture' socially agreeable levels of macro success whilst delivering economic stability. However, the approximately four yearly business cycles began to show a worrying trend, namely that with each down turn the level of recorded unemployment became greater and with the subsequent upturn came higher and higher levels of price inflation. The impact of these trends affected some economies more harshly than others.

Alas, post-colonial Britain was shown to be very vulnerable to the impact of this new reality, whilst both Japan and West Germany managed to disguise many of the ill effects. In their case it was probably the benefits of re-building their war damaged economies that postponed the onset of a new way of thinking about how to manage the quest for economic growth. Another feature of the Japanese economy was its high dependence on exports. It also supported a social system

that bore little resemblance to those of the 'West' and much of its export trade and the subsequent capital generated by the successful harnessing of modern technology was transferred to the US. Over one-third of all Japanese exports are destined for the US market. In Europe both France and West Germany experienced rapid export-led growth and the subsequent problems of an over valued currency.

Students of current economic worries might be seeing some of the early signs of what was to manifest itself as the need for a single currency, following the inevitable ending of the fixed exchange rate era and the emergence of the much used words productivity, efficiency and value added! In 1971 the US devalued the dollar (at what became known as The Smithsonian Agreement) and set about making its own goods more competitive in the world markets. With this monumental change in how the US saw its role in international economics came the end of the Bretton Woods acceptance that the US would run sufficiently high trade deficits to accommodate the surpluses of the other major economies.

Economists who followed the writings of Milton Friedman, Harry Johnson and others of the 'Chicago School' began to put forward the fact that high unemployment could not be brought down by expansionary fiscal and monetary policy. Indeed, they prophesised that such policies would merely result in sustained price inflation. As this debate raged in the Treasuries of the western economies, one final fact of life in the new economic order emerged, namely the power of those who owned oil to upset market stability with alarming speed.. OPEC reacted to the Yom Kippur war in the Middle East in 1973 by quadrupling the price of a barrel of oil. The shocks of this single act were to have enormous repercussions. In Britain the Prime Minister, James Callaghan, pronounced in 1976 that full employment was no longer possible (a statement that both angered the Trade Unions, who were the traditional purse holders of the Labour Party and allowed the newly appointed Conservative Leader Margaret Thatcher to quietly change the economic policy of her party). The so-called era of Butskellism (where the two major political parties agreed to run broadly similar economic policies and goals) in the UK was over and the dawn of a greater emphasis on free enterprise economics was upon us.

Meanwhile in the US president Jimmy Carter (a Democrat) appointed Paul Volcker as chairman of the Federal Reserve (their Central Bank) with the express command of stabilising prices by the use of monetary policy. Price stability and not full employment became the most important goal of economic policy. Macro targets were replaced by a fascination with micro objectives. The role now of fiscal policy, was thought to be that of assisting in the quest to 'balance the budget' and to oversee a reduction in the size and power of the State sector in an economy. As all students of economics appreciate we cannot ignore the influence that politicians had on the behaviour of our subject and two who came into office at this time had notable influence on the directions economic history took. One was Ronald Reagan, who despite having been a B feature movie star was swept into the White House in 1980. He brought with him what are often known as 'homespun' philosophies or beliefs and a foreign policy based largely on the need to defeat the perceived threat of Communism. To enforce this, he and his advisers devised a 'Star Wars' defence policy, which attempted to build a nuclear missile shield around the US (and possibly its closest allies). This laser age dream was to cost billions of dollars and did not materialise. However, his deepening of the arms race came to be accepted by many as the largest single influence on the demise of the Soviet Union.

The cost of matching the levels of expenditure passed by Congress imposed an enormous strain on the USSR and by 1985 Gorbachev was introducing radical reforms to the once mighty superpower. Whatever one's opinions of someone alas now suffering the agonies of Alzheimer's

disease, Reagan did re-focus US foreign policy, which had suffered traumas post Vietnam and introduced us to what economists call the Radical Right. The latter were to unleash supply side economics on an unsuspecting world.

In Britain Reagan's close ally was Margaret Thatcher, who came to embrace (some have said somewhat reluctantly) privatisation and de-regulation. She supported the US in all of its overseas exploits and carried on her own war against many sacred cows of the establishment, including organised labour. Market forces came to reign supreme and only after some noticeable social unrest in the cities of Birmingham, Bristol, Liverpool and London was the 'Iron Lady' persuaded that mass unemployment in a democracy was not a recipe for peace and tranquillity. Historians are yet to formalise their opinions on what became known as Thatcherism but she left office in 1990. She left many of the bricks firmly in place that Tony Blair (1997 to present time) used to build his own economic order. Students of politics might like to read Hugh Stephenson's account of the rise of the Social Democratic Party in the UK called 'Claret and Chips'. It describes the split that arose in the Labour Party in the early 1980s and how Europe emerged as a major political topic that continues to dominate the politics of this century. However, enough of the present, let's return to the 1970's and the demise of the post war Keynesian demand management era and in the eyes of some the consensus politics that had been the mainstay of post war UK political life.

In the US any form of consensus in the world of politics was reduced as the Democrats and Republicans moved further apart in their ideas as to how to manage the largest economy on the planet. Elsewhere in Europe conviction politics began its final period of life in France, West Germany and even Italy. Those interested in affairs European might like to take a closer look at the final experiment in wide scale change that followed the election of Mitterand (whose first cabinet contained Communists, as they had polled almost 15% of the vote) in 1980. Or the re-thinking of the Social Democrats in Germany as they lost both office and the support of their coalition partners the Liberals and the dying pains of radical swings and roundabouts of the constantly changing colours of Italian political life. You might also like to reflect on how the growing domination of global corporations came to set the ground for the emergence of both a business dominated European Union and the birth of political parties in Europe that produced a business friendly approach to economic management.

The 1970s saw deeper recessions, higher unemployment and higher price rises and the race was on for a new way to manage economic affairs. At the same time the newly independent economies of Africa and elsewhere in the developing world remained convinced that planning was the model for their economic development. In many of these new economies, and India was a prime example, five year plans became the order of the day. Protectionism and the need to develop import substitution industries coloured many of the schemes to bring these nations inline with their western counterparts.

The potential of these resource rich economies did not go unnoticed by the developed economies. Bankers and others from the financial sectors began to make their way to such places as Lagos, Kinshasa and other old colonial outposts. Some merely wanted the right to mine the minerals e.g. Lonhro but most wanted to lend money to these infant administrations. This was not reserved for the private sector banks and entrepreneurs, the large multilateral organisations, such as the World Bank, and the International Monetary Fund also lent vast sums of money on what are now considered to be less than secure terms. The birth of foreign direct investment to previously unknown recipients such as Zaire, Peru or Mexico was to pave the way for serious debt repayment problems and a complete re-thinking of how post colonial economies should be

encouraged to develop. Some of you may have heard of such phrases as structural adjustment programmes and other ways of introducing to the developing world the essentials of monetary and fiscal discipline.

In the 'West' strict monetarist policies had caused hardship to both industries and individuals and in the developing world, which possessed little, if any social welfare provision the results were very painful for the most vulnerable. Once again someone from my generation, with its hopes and beliefs, had to sit and watch as poverty levels increased. It is too early to tell, but some of the hideous conflicts that have ravaged Africa throughout the 1990s and continue now in the twenty first century, probably had their beginnings in the greed and corruption that was started by the desire to exploit the riches of the newly developed economies in the 1970s.

In the 1970s the free market economies of the 'West' were characterised by a decline in State intervention, whilst those in the Command or Soviet influenced bloc spent much of this era trying to match the development of the US and its sister economies. They had received a body blow as early as 1947 when the monies thought to be destined for them under the Marshall Aid programme were removed. This left what we now know as the economies of 'Eastern Europe' with no alternative but to accept the rule of Moscow and work as part of COMECON. There followed in 1948 the problems associated with the 'Berlin Blockade' and the various difficulties imposed by the costs of wars between the two superpowers in such far off lands as Angola and Mozambique.

It is difficult, if not impossible to actually determine whether the experiment in central planning was a success or not. Obviously, by the mid 1980s it faced virtual collapse. The problems exposed by the Chernobyl disaster only served to prove what many had believed for years, namely that with little real use of information, incentives, investment and innovation the USSR held its empire together by fear based on the might of the Red Army. In its favour the early post war days had seen the Stalin led economy rebuild itself from the war-damaged position. By the early 1960s the Space Race saw the USSR in the lead and amongst the better off much of the materialism of the 'West' was also part of their life style. For the masses the evils of unemployment and inflation were kept at bay by direct intervention. So, to the average Muscovite life was good. Queues were accepted in the name of the people fighting against the evils of the imperialist, capitalist world.

However, even with the apparent advantages of the post OPEC inspired hike in oil prices by 1973 the Soviet Union could only maintain its quality of life by massive exports of its natural resources. Unlike its export mix of the pre Bolshevik era it no longer produced a grain surplus. Successive leaders made certain that investment in consumer durables kept pace with consumer expectations but they could not ignore the technology gap that was emerging. It was soon reflected in both the quality and quantity of the output coming from the State-owned enterprises. To this must be added the Soviet Unions' version of Vietnam, which took place in Afghanistan. This long and costly confrontation showed once more that determined groups of individuals, however poorly equipped they might be, can take-on and defeat the total strength of a superpower. To the rest of the world it further re-enforced a growing awareness that fundamentalism was a force that would dominate both the 1980s and 1990s.

The arrival of Gorbachev in 1985 and his introduction of perestroika merely served to underpin an already corrupt and inefficient system. Despite his apparent powers of statesmanship he was toppled in the coup of 1991 and the more 'down to earth' figure of Yeltsin emerged as the new leader of Russia. Despite all of Gorbachev's efforts to maintain the old style Soviet Union it became a set of loosely connected economies that agreed to trade but from behind the safety of

their own national governments and characteristics. The transition from command to free market economies had been a long and painful one. Indeed, in many ways it has not yet finished. For some, especially amongst the more elderly sections of the population, the days of the command economy were looked upon with considerable affection. But amongst the younger and more affluent sections of society a return to the old ways of doing things was not on the agenda. They feared anything that remotely resembled a return to supply and demand being signalled not by prices but by political ambitions and investment channelled by dogma. They also rejected in successive elections for the parliament any return to a lack of financial incentives set against clear production targets and any apparent fear of innovation. The latter had always been considered as an invasion from an evil force beyond the Berlin Wall.

Alas, it was the lot of those eastern European states rescued from Nazism to remain firmly within the control of Moscow until the final decade of the twentieth century. They had to accept that investment went mainly to heavy industry and that the amounts involved were normally allocated with no official 'return' in financial terms attached. In fairness to those who worked for an ideal that was designed to liberate the workers, they appear to have recorded exceptional growth figures. These may have been an over estimation but they did show that central planning was a force for welding together human effort in the pursuit of some common goals. As time went by, so the lack of clear consumer led messages meant that the allocation of resources became more and more suspect. The Soviet Union, in stopping COMECON countries from engaging in the more lucrative markets of international trade, swallowed up too much output from the satellite states.

We all know of crude examples of the might of Moscow dictating what should be done and the first of these, which followed the uprising in Hungary in 1956 cost communism dear in the 'West' as many card carrying members cancelled their membership. By 1968 and Prague most of the 'free' world was opposed to the might of the Red Army being used to crush popular public opinion. When the dictators did start to fall they mostly gave way in relatively peaceful rebellions. Only in Romania was force used on a wide scale to rid the country of the powerful elite. Alas, the fall of communism in the former Yugoslavia gave way to the smouldering forces of nationalism, which were only beginning to be extinguished as the twentieth century grew to its close. The former 'eastern block' spent the final years of the second millennium in 'transition'. Some, such as Hungary and Poland entered the market economy more easily but for others it was a very painful experience. Crime, corruption and organised underworld activities accompanied their entry to the free market system.

So, this second part of our brief journey through economic time together ends with some interesting situations still to be resolved. A convenient stopping place is the early 1990s. Let's think for a moment how the world looked when you first began to realise that school was a permanent part of your life and maybe even the occasional teacher began to talk of tests!

- the western world was again experiencing some cyclical trends of quite severe intensity
- the newest experiment with 'fixed' exchange rates, the ill fated European Exchange Rate Mechanism was moving towards its inevitable death
- the Single European Act had been signed in 1986 and Maastrich was soon to be the scene of the Act that gave birth to the single currency
- the North American Free Trade Association (NAFTA) had been formed and its close cousin the Association of South East Asian States (ASEAN) was emerging, so setting the ground rules for a world trading system that would be based on just three main trading blocks

- inflation was beginning to move back towards low, single figure numbers
- politicians were beginning to rediscover macro economics but not in the same depth and level of belief they had once shown
- supply side economics had taught us all to live with downsizing, de-layering, multi-skilling, flexibility and the need to be efficient, competitive and add as much value as possible. Competition was not based basely solely on prices but on the loser term of non-price factors
- the world had literally shrunk with the introduction of the information superhighway and cost centres, outsourcing and supply chains had become the jargon of the multinational corporations
- the final vestige of colonialism had gone with the return of Hong Kong to The Peoples Republic of China
- the third world had continued to get poorer and was riddled with war, famine and human tragedy on scale not previously known to a species now always in touch with reality through mass communications

There are others, which you may care to think over for a few minutes but as we close Part 2 it is difficult to sound very optimistic. The prophets of doom, now collectively known as the 'Green Movement' moved into a more mainstream position in both the business and political worlds. So, let's close now and get ready to turn our attention to the arrival of new giants - many of whom come from the little known areas of South East Asia.

Part 3

Up the Yangtse river with me

The other large experiment with communism was in China. Being from a different historical background the chronology was not that which had led to the creation of the Soviet Union. China had been occupied for much of the first part of the twentieth century and at the outbreak of Mao's war against 'imperialistic forces' probably as many as 99% of the population lived in abject poverty. The first few years of post revolution China saw enormous growth rates recorded and some of her near neighbours began to covet her emerging wealth. However, in the early 1950s a more Stalinist regime was introduced and any form of individual innovation was banned. The economic climate was one of total central control over all decisions. Another dimension of the Chinese experiment that requires our attention was their apparent failure to accept what many believe to be an economic truth, namely that to have industrial growth you first need to produce an agrarian surplus. In what was one of the most savage examples of mankind's ability to blindly follow what most considered barbaric over 20 million Chinese people starved to death between 1958 and 1960. (Readers might also like to look at the events in the Ukraine at the end of the 1930s, when an estimated 10 million rural dwellers lost their lives as a direct result of food manipulation by the controlling classes) Their industrialised brothers (who did receive food supplies) were extolled to create similar successes in the march for industrial output. Alas, this harmony in development failed to materialise and with the cities demanding food it was the lot of the rural peasant to suffer for the cause of the revolution. So great were the tensions between the two parts of the society that when the urban elite began to grow too powerful Mao mobilised the rural workers and the Cultural Revolution was born. This probably delayed real economic progress in China by at least two decades. In terms of lives lost it once again imposed a hideous

cost on a system that was supposed to release the working classes from the exploitation of the ruling elite.

In the period following the death of Mao the desire to grow once again appeared in China. Indeed, it aimed to be a major world economic power by the year 2020. Political power still resided in Beijing but market forces were now more obvious in the country that was responsible for one quarter of the worlds' population. In the closing years of the twentieth century the conduits of Hong Kong and Macau were returned to the control of China and in the most southerly provinces of the mainland the pace of capitalism was almost too fast to measure. Perhaps the only barrier that held back the Chinese economy was that of who would govern such a teeming mass of people and how. Throughout history regimes built on centralised power have struggled to maintain their control as the average citizen gained in material wealth. The conventional 'father figure' was no longer acceptable to many, so a form of democracy had to be conceived and it had to satisfy both the political elite and the international capital markets. It was interesting to see the emergence of certain similarities between the two great communist superpowers. Both had been 'bonded' by cult figure regimes and they had also undergone massive social and economic upheaval in very short periods of time. Russia remained the less popular haunt for foreign capital but China, with its access to the markets of the Pacific Rim, became a magnet for the savings of individuals, banks and entrepreneurs from all over the world. The Far East also boasted many of the newly industrialised countries, which together became known as the 'Tiger Economies'. These hugely successful economies based their growth on:

- free market enterprise
- competition
- low inflation
- competitive exchange rates
- investment in human capital
- high financial returns
- an openness to foreign technology imports
- respect for the vital role of agriculture

Within their number was Japan, Hong Kong, South Korea, Singapore, Thailand, Taiwan, Indonesia, the Philippines, and Malaysia (eventually Vietnam, Laos and North Korea will join their ranks). Most concentrated on developing already known technology in new and exciting ways. By producing in huge volumes they undercut many of the traditional producers and ploughed back vast amounts into new product development. They initially concentrated on the rich markets of the North and never overloaded these with products. This allowed them to record year on year high growth rates and begin the process of entering what became known as south to south trade, i.e. selling to each other and the rest of the Pacific Basin or Rim.

In simple economic terms each was exploiting their comparative advantages and geographically moving these as one nation began to reach diminishing returns. However, fault lines did appear in the late 1990s and these were primarily financial. With hindsight too much money had been lent against assumptions that demand would always rise. When it didn't the cash flow of entire economies was shown to be precarious. The bubble nearly burst but despite some quite well known casualties the major companies weathered the storm and continued to be household names across the globe. What the failure of one part of the system did show was the vulnerability of others parts of the capitalist world to shocks elsewhere on the globe. The world had become truly global and that meant that decisions now had to be taken with some acceptance that the 'chaos theory' so long the property of mathematicians was a reality.

Nation states, the original sinner in our brief look at the economic history of the last half of the twentieth century, had become somewhat secondary to the power of international capital. The last decade of the twentieth century saw the arrival of 'globalisation' and the freedom of capital, product and people became the cornerstone of the new economic age. It is therefore essential that we look at how this all-pervading influence came to be such an important part of our economic system.

Globalisation was little more than a high degree of freedom of movement of goods, services, capital, technology and management in response to opportunities offered by markets. To a lesser extent it also promoted the free movement of people. The world order of economic fundamentals had been altered by the changes made to GATT, now the World Trade Organisation, International Monetary Fund and the admittance of China into the more liberalised environment in which trade was conducted. Exchange controls became the property of rather old textbooks, whilst internal and external convertibility of currencies means that capital could flow with little real restriction.

At a more personal level ordinary people now expected their savings, pensions etc to reap the highest rewards and so they tolerated transfers to the locations that offered the highest returns. Occasionally, this caused some embarrassment as such locations showed adverse signs of exploitation but generally the lower the cost base the greater the opportunity for ordinary people to make money. The arrival of a post communist world was greeted with enthusiasm by the 'older' economies as they based much of their economic theory on the laws of international trade. To this was added a considerable body of evidence to support the belief that globalisation would further re-distribute the prosperity generated in a more 'liberal' trading environment.

However, two observations need to be made at this juncture, namely that the drive for low cost bases resulted in certain regions drawing the jobs of others to their shores and that enormous catastrophe might await all of us if the environmental consequences of global trade are not addressed. Serious questions began to be if to avoid such potential disasters we required a worldwide body with enormous powers of surveillance to police the planet and penalise the wrong doers. Others felt that it should be left to the market and the ability of the 'invisible hand' to correct collective over indulgence?

A more positive trend had arisen and that was giving some a grain of comfort in the fast changing order of economic power in the new century. It was that, as third world countries expanded their trade and earned surpluses, so they would import the luxury goods of the older economies. If this was true, then textbook economies would have worked. However, another fundamental of elementary economics needed to be addressed and attention turned to transfer earnings and economic rent. If the less well-organised workforces of the newly emerging nations did have less power in the market then who was being rewarded with part of what was previously their share? If labour was relatively homogeneous then the owners of capital could hire with considerable confidence regardless of location. If this trend continued to gather pace then those with the skills in short supply and high demand would reap high rewards but what of those whose skills were closely tied to specific capital investment? The need to be someone educated in the fundamentals of economics was not required to forecast that poor people living in rich countries would suffer. Once capitalism had noted that its funds could earn higher rewards elsewhere then why should it keep such monies in a particular country or region? The proportion of new financial investment going to first world countries was dropping and the removal of capital flow controls means that foreign direct investment could be channelled towards the highest return location. If the reader is based in Western Europe than I have another

note of warning concentrated on the shift away from the consumption of manufactured goods towards the desire for services. This would have been acceptable if productivity had not risen in the very manufacturing industries that once employed what were known as 'blue collar' workers. Some of you may know this to be 'de-industrialisation', a disease that swept the developed world in the 1980s. I believe that this trend will not be reversed and may lead to a further deterioration in the abilities of the older economies to:

- maintain at or near full employment. This in turn will increase the numbers now living in the underclass sections of our societies that many of us see on our street corners with alarming regularity.
- continue to pay such high levels of social welfare to all citizens. Already the once proud German economy is wrestling with how to provide benefits worth a minimum of 70% of previous earnings. The Italian fiscal time bomb ticks on with a nation heading towards enormous strains on its taxation system that an ageing population will place on those yet not even born.
- use the increased capital flows earned from overseas investments to produce extra income for those workers experiencing declines in the real levels of their take home pay.
- encourage younger workers to accept the provision of private funded health and welfare programmes for their older age. An increasing proportion of so-called expert opinion now supports corporate funded social welfare provision with some state provision for those least able to pay for the new ways of saving for their more advanced years.
- reverse shocks, such as those seen in the late 1990s, without considerable hardship being imposed on the most vulnerable members of society.

Perhaps as we close this brief trip through economic time I am being just a little pessimistic? Our journey together has seen us pass through enormous changes in ideologies, political systems and consumer expectations. Yet we are all still getting richer (well most of us anyway). So, has my parents' generation lived to see it 'never happen again'? Alas, like all of what is collectively called the 'human condition' we will have to wait and see. The last part of this 'overview' looks at what might happen and tries to reconcile this with what the majority hope will happen.

Part 4

What will we make of it all?

Our look at how we reached the present state of economic development, has led us through many of the major events of recent history. It is now time to set these against what may arise in the next era of economic development. There are certain observations that can be made and used as a guide as to what seems to remain essential to the subject we know as economics. These are:

- that as humans we possess extraordinary abilities that allow us to harness the powers of nature and use our brains to develop a wide range of high order skills.
- that some societies have been better at adapting natural resources and human abilities than others.
- that government, or some form of authority, is essential for the systems to work at what we subjectively call 'their best'.
- that economic growth is a concrete proof of mans ability to utilise the resources of the planet and that those societies who struggle to generate growth become increasingly detached from those who do.

- that the power for good to be created is centred on a precarious balance that all too quickly becomes a force for evil. An example of this continues to be much of post colonial Africa, where greed and corruption has squandered wealth and exposed the weakest members of society to hideous suffering.
- that growth seems to originate in an ability to create an agrarian surplus. This in turn allows populations to grow and therefore create both producers and consumers. In short, larger populations mean more demand for the prospective suppliers to aim at.

And yet have we (mankind) actually solved the fundamental economic problems of what, how and for whom to produce? We have certainly accelerated our ability to create economic wealth since the first signs of the agricultural revolution. To this we have added a range of industrial breakthroughs that allowed mass production to become the nucleus of most economic systems. We have also developed methods of transferring surpluses in the form of capital and widening the influence of some nations on others. It may not be the 'Glorious Revolution' of the 17th Century but by accepting that economic growth was the engine of legitimate change we opened the gate to a period of unparalleled prosperity.

However, as with much of what has been termed 'progress', there is a darker side and we need to be aware of this. Our thirst for knowledge has led to amazing scientific and technological discoveries but at what price? Can we look ICT in the face and say honestly that its properties will be used to the total good of common man? We know what can happen when the work of one scientist is taken by others and used for a different purpose. Knowledge appears not to be subject to finite supplies and therefore diminishing returns. So, it is our responsibility to write our history in such a way that future historians will not point to us as a time when so much knowledge was wasted, used for the exploitation of the many by the few or even for part of our own destruction.

To this list of possible shortfalls for the future of mankind, we as economists must put capital and its power to transfer wealth across the globe. Will it also prove to be an endless resource, or will it be subject to rationing? One look at the writings of Malthus and a less secure future begins to be a possibility. Can mankind survive if he continues to breed at geometric rates that constantly outstrip its ability to offer adequate food supplies too huge numbers of people? Against this fear is put the trends for differing societies to reduce fertility once living standards begin to reach a certain level.

So, will Darwin and his 'survival of the fittest' be the way in which our species utilises the resources at its disposal? This leads us nicely to the environment and how we intend to look after the planet's resources. We need energy, decent drinking water and relatively clean air. An awareness of these difficult issues has led economics to adopt such phrases as; sustainable growth and its important relations the various audits that are now central to economic life. We are waking up to external diseconomies of scale and suddenly the term free rider has some sinister connotations.

In your lifetime the planet may be supporting nine billion souls and will you be capable of spotting dangerous trends? Just look at all the arguing that surrounded the BSE fiasco. It ranged from being completely safe to eat beef to likely to give you a horrible wasting disease. To compound the issues raised by this sensitive issue experts accept that contaminated feed may have been exported to the developing world. Alas, if this is the case, then those least likely to be able to absorb such an enormous problem will have found themselves confronting another dilemma.

Will the sheer scale of the possible problems to be confronted by future generations lead them to adopt world-wide reactions? At present we partly practice this with what are known as multi-lateral negotiations. These also occur in Europe but as we all know the EU finds it very difficult to agree on a policy that is acceptable to all member countries. Politicians make such decisions mindful of electorates and re-election. As such, decisions tend to be influenced by what the least progressive will accept. This forces on others a compromise which they probably know will not result in the best case scenario they had hoped for. So, will some world forum be developed that makes certain decisions as to the allocation of resources? Or will we once again rely on Adam Smith's 'regard for their own self interest'?

To an economist one essential part of the jigsaw remains unanswered, namely how will society react as we increase the level of externalities being internalised within the economic structure? A considerable proportion of what was publicly owned has been transferred back to the private sector. In some politically sensitive areas of our economic life the consumer now has to pay part and possibly all of the benefits accruing to them. A case that tends to cause emotions to run high is that of higher education, where the contribution paid by the student towards both tuition and maintenance fees continues to increase.

One way in which economists have sought to combat the eternal problem that 'publicly owned' assets tend to deteriorate faster than those owned by private individuals and corporations is to hypothecate revenue earned from their use and spend such sums on correcting any alleged damage caused by the assets. This may work well with domestic assets but what of the global impact of our actions? Will we accept a global environment tax being imposed by some pseudo world police force? Or what of a tax on air transport that is only used to correct the 'externalities' caused by this form of transport? Such ideas may seem straightforward to propose but who will check they are being applied and who will decide what to spend and where? When considering such radical change we also have to address a fundamental of government, namely that those elected might not wish to relinquish part of their power and then the risk exists for widely differing forms of controls and their applications.

To conclude it is perhaps appropriate to return to Malthus and whether mankind will eventually exceed the planets' ability to supply resources. Already our quest for constantly rising GDP has led to global changes in climate, rising water levels in oceans, expanding deserts, vanishing forests and deeper divisions between those who have the resources and those who seek to control them. Malthus did forecast that even with periods of apparent victory over our inability to provide subsistence for the masses, we would eventually reach a point of diminishing returns and then the real opportunity cost would be brought into clear focus. Whatever mans desire to sweat for his daily bread will there be enough grain and land for each to undertake such toil?

If we accepted less would this help our survival? Alas, the progress for opulence does not stop with subsistence. The provision of the 'good things' in life, such as education, museums and fine wine does not deter the greed factor in man. Critics of this statement point to the 'new economy', where the liberal traditions of sound money and tight fiscal control have led to macro environments that seemed unreachable in my youth. Today we do look at low levels of inflation, reduced business cycles and an end to the boom bust economies of the early post war years. If we add to this the free movement of capital a picture emerges where growth surpluses will flow to the poorer nations and they will be able to share in the technological miracles of the age. If this is to be the economic model of the future then thinkers, and they may include economists, will have to wrestle with developing the machinery to allow free enterprise to create the ideas but within a framework that safeguards the common man from over exploitation.

As we strive to confront these new challenges we need to look back at how previous peoples have tackled adversity. By doing this we can note what is both possible and impossible. In Roman times the nation reigned supreme but today even the one superpower we possess i.e. the USA cannot force others to accept all that it deems to be correct. You might like to monitor the attempts by the new president of the US to accommodate foreign policy into his learning curve. Other ages used military might or naval supremacy, or in more recent times the power of trade, to enforce on others the style of life central to their supposedly superior culture. Alas, it remains a fact that people are not entirely free to live and work wherever they want to. Both the European Union and the USA have distinct dislikes of 'migrants' and no other cause is destined to weld public opinion into a forum of naked xenophobia quicker than 'others taking our jobs'. In the days immediately after World War 2 there was the possibility that the UN would make laws that others would follow but the Cold War left the organisation open to the power of the veto and little was achieved. Even after the fall of the Soviet Union the reactions of the UN to crises around the world has been subject to prolonged negotiation whilst national issues are resolved. An age of true 'internationalism' is yet to dawn. To be fair the blue berets are seen to be effective when a humanitarian crisis appears on our television screens but within a few weeks of the disaster the pressure is on the UN force to withdraw or be reduced in number. To-date the concept of a world order that accepts certain fundamental principles of human co-existence is not a part of international diplomatic principles.

This may seem to be a review based more on sociology than economics but nothing fans destruction and subsequent economic chaos faster than wars, disagreements and ethnic tensions. The twenty-first century looks certain to be dominated by religious fundamentalism, ethnic rivalry and intolerance of others. Against such a background the pace of economic development will be difficult to maintain. Alas, we seem to be on the eve of creating untold levels of economic wealth yet also cultivating increased hatred amongst those who are perceived to 'have' and those who consider they have little or nothing. One look at the current situation in West Africa is a ghastly reminder that weapons and the uses they can be put to easily promote barbarism.

So, let's move to an end with some signs of me being more positive. What have we achieved since 1945? Well, we have:

- harnessed more of our collective brain power than at anytime in recorded history
- achieved higher levels of material wealth for many of the worlds' population than was thought possible at the end of war against the Axis forces
- begun the process of moving the majority into the technological age and have embarked on a revolution every bit as momentous as its predecessors in agriculture and industry
- managed to live with conflicting ideologies and not react with a war that would literally have ended all wars
- created wealth that requires government to provide a secure framework within which individuals can work

Alas, there have been 'downs' as well as 'ups' and amongst these are:

- the arrival at an awareness that finite resources cannot be exploited without some acceptance that their excessive use might actually damage the environment in which we live
- the continued struggles of those who feel they have been left out to rectify this belief. With each new conflict comes even more grotesque examples of mans inhumanity to man

- the continued trend of business to like the advantages offered by monopolies and the need for governments to be aware of how corporations work to exert control over markets

As economists of the future you have to develop the subject against the background that regardless of digital miracles we all have to live somewhere and in an instant we know exactly who has what and where they are. Perhaps one day we will all achieve what many Europeans see as 'the American dream'. As such people will live out their existence free from economic fears but if this is to be achieved then future generations will have to placate the desire in man to live with inward looking political and social systems. My last note is one of warning, for if future generations cannot resolve the fundamental problems of resource allocation and the wealth that goes with it, then those who feel they have none or too little might take matters into their own hands.

In the first three sections of this short economic history of the post war world I hope I allowed you to appreciate just where the environment in which you grown up came from. In the fourth and concluding section I tried to pose some questions and problems that you and your children might face. I can only hope that between the two parts of the same exercise I have both informed and encouraged you to look deeper at what shapes the world in which we live.