

Lecture 20: Dealing with the Imperial West II/Reconstruction

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Argentina

Mexico

China

India

The Marshall Plan and European Reconstruction

The Growing Economic Gulf

(1) Before 1870, steam technology could not really be profitably applied except in places where coal was really, really cheap—where coal was expensive and human labor power cheap, muscles were still cheaper than engines.

(2) Between 1870 and 1910 or so, steam power and other modern technologies *could* be profitably employed outside the North Atlantic, but the integrated global economy was still in its infancy: lots and lots of things had to go right for the complex of institutions, labor, capital, technology, and resources to lead to large-scale economic development.

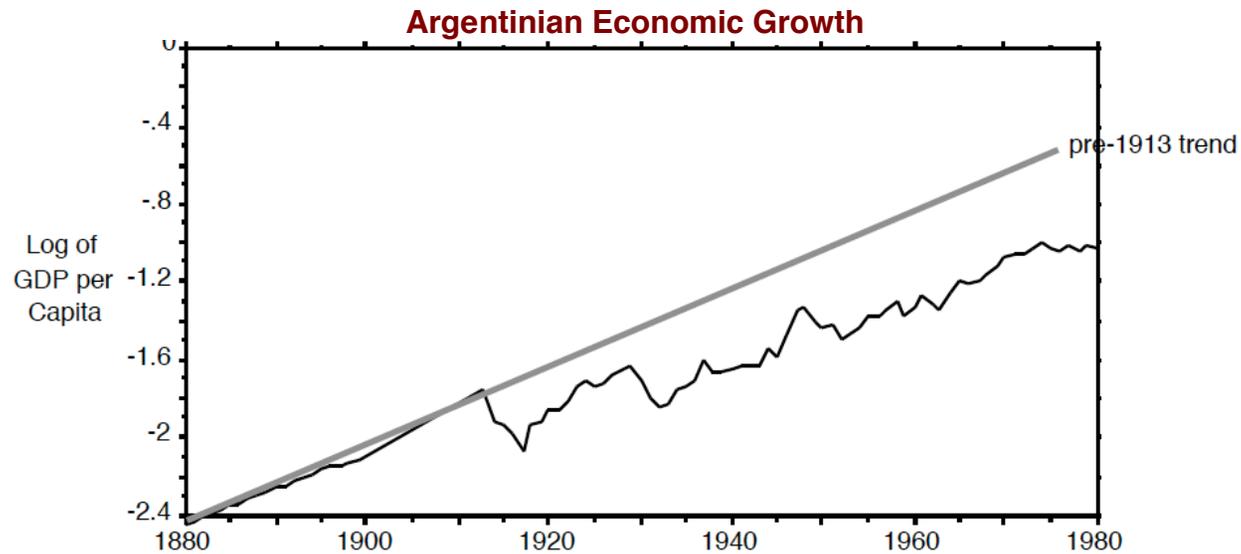
(3) Nevertheless, a lot of progress: plantations, mines, railroads, ports, etc.—but not that much in the way of industrial development. And virtually nothing in the way of higher real wages at the periphery.

(4) 1910-1953 *ought* to have seen substantial convergence. It didn't, as a result of (a) political turmoil, (b) the retreat of world trade especially in the Great Depression, and (c) bad political economy out on the periphery.

There is not enough time and space to cover what happened in all the corners of the world between 1914 and 1953.. It is most useful, I think, to focus our attention on five pieces of the puzzle: Argentina, Mexico, China, India—postpone Ghana and Zambia to a later time...

Argentina

In its pattern of settlement, Argentina looks like Canada. In 1913 Buenos Aires was among the top 20 cities of the world in telephones per capita. In 1929 Argentina had been perhaps fourth in density of motor vehicles per capita. Argentina from 1870–1913 was a resource-rich temperate country of recent European settlement like the others.



Source: Angus Maddison, *Phases of Capitalist Development*; Robert Summers and Alan Heston, *Penn World Table V*; Carlos Díaz Alejandro, *Essays on the Economic History of the Argentine Republic*.

How Argentina Went Wrong

Income Inequality

Poor Human-Capital Accumulation

Great Depression—and Its Memory

Weak Democracy

Political Turmoil

“Populism”—Peronism

Díaz Alejandro (1970) provides a standard analysis of Argentina’s post-World War II economic stagnation.... [T]he collapse of world trade in the Great Depression was a disaster of the first magnitude for an Argentina tightly integrated into the world division of labor. The experience of the Depression justifiably undermined the nation’s commitment to free trade. In this environment Juan Domingo Perón gained mass political support. Taxes were increased, agricultural marketing boards created, unions supported, urban real wages boosted, international trade regulated. Perón sought to generate rapid growth and to twist terms of trade against rural agriculture and redistribute wealth to urban workers who did not receive their fair share. The redistribution to urban workers and to firms that had to pay their newly increased wages required a redistribution away from exporters, agricultural oligarchs, foreigners, and entrepreneurs.

The Perónist program was not prima facie unreasonable, and it produced almost half a decade of very rapid growth. Then exports fell sharply as a result of the international business cycle as the consequences of the enforced reduction in real prices of rural exportables made themselves felt. Agricultural production fell because of low prices offered by government marketing agencies. Domestic consumption rose. The rural sector found itself short of fertilizer and tractors. Squeezed between declining production and rising domestic consumption, Argentinian exports fell. By the first half of the 1950’s the real value of Argentine exports was only 60 percent of the depressed levels of the late 1930’s, and only 40 percent of 1920’s levels.

The consequent foreign exchange shortage presented Perón with unattractive options... balance foreign payments by devaluing to bring imports and exports back into balance in the long run and in the short run by borrowing... raising the real price of imported goods and therefore cutting living standards of the urban ... [and] a betrayal of his strong nationalist position. Second, he could contract the economy... a reversal of the distributional shifts that had been the central aim of his administration.

The remaining option was one of controlling and rationing imports. As a result, the early 1950's saw a huge rise in the price of capital goods. Each percentage point of total product saved led to less than half a percentage point's worth of investment. Unable to invest, the Argentine economy stagnated.

In 1929 Argentina had appeared as rich as any large country in continental Europe. It was still as rich in 1950, when Western Europe had for the most part reattained pre-World War II levels of national product. But by 1960 Argentina was poorer than Italy and had less than two-thirds of the GDP per capita of France or West Germany. One way to think about post-World War II Argentina is that its mixed economy was poorly oriented: the government allocated goods, especially imports, among alternative uses; the controlled market redistributed income. Thus neither the private nor the public sector was used to its comparative advantage...

Mexico

“¡Pobre México! ¡Tan lejos de Dios y tan cerca de los Estados Unidos!” –Porfirio Diaz

Unequal income Distribution

Low Human-Capital Accumulation Corruption

The Great Depression

The Revolution

The Porfiriato:

- Porfirio Diaz, 1830-1915; president 1876-1911
- Rising living standards; (slowly) developing industry
- Massive corruption

The Revolt Against the Old Order

- Francisco Madero: “free suffrage and no reelection” plus agrarian reform
- “Plan de Ayala” of Emiliano Zapata

The Multi-Sided Civil War

- Victoriana Huerta’s coup
- Pascual Orozco, Abraham Gonzalez, Victoriano Huerta, Pancho Villa, Venustiano Carranza, Emiliano Zapata, Alvaro Obregon
- Constitution of 1917
- PRI from 1929
- Lazar Cardenas, 1934-1940/peaceful orchestrated transfer of power to Manuel Avila Camacho
- Total “demographic cost” of revolution: 2 million??

China

The story of China is one of:

- Continued rapid population growth—hence Malthusian pressures...
- Continued—albeit slow—mercantile and industrial growth at the seacoast edge...
- Political turmoil from above:
 - Yuan Shihkai
 - Sun Yatsen
 - “Warlords”
 - Whampoa Military Academy
 - Chaing Kaishek
 - Northern Expedition
 - Manchukuo
 - Marco Polo Bridge
 - World War II in Asia
- Political turmoil from below:
 - Peasant revolts
 - Of which the nineteenth century Heavenly Kingdom of Great Peace, and earlier movements like the early seventeenth-century revolt against the Ming form a pattern...
 - Informed by ideology
 - Urban Communist Party of China
 - Rural Communist Party of China
 - Mao Zedong
 - The Base Areas
 - The Long March
 - Yen-an

India

The Congress Party

“Freedom at Midnight”

Partition

Counter-Example to Adam Smith

Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things...

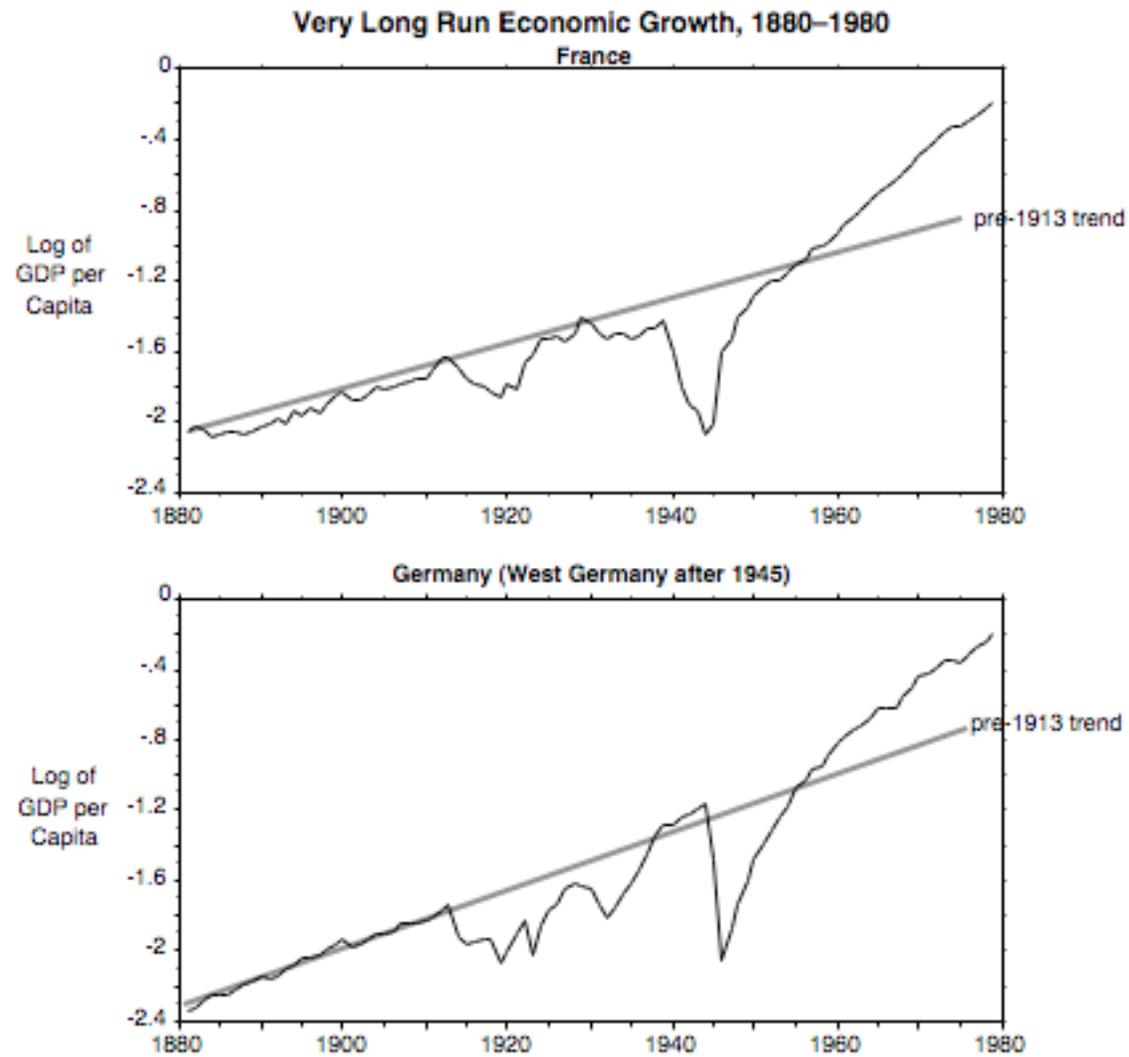
Counterexample to Karl Marx

I know that the English millocracy intend to endow India with railways with the exclusive view of extracting at diminished expenses the cotton and other raw materials for their manufactures. But when you have once introduced machinery into the locomotion of a country, which possesses iron and coals, you are unable to withhold it from its fabrication. You cannot maintain a net of railways over an immense country without introducing all those industrial processes necessary to meet the immediate and current wants of railway locomotion, and out of which there must grow the application of machinery to those branches of industry not immediately connected with railways. The railway-system will therefore become, in India, truly the forerunner of modern industry. This is the more certain as the Hindoos are allowed by British authorities themselves to possess particular aptitude. for accommodating themselves to entirely new labor, and acquiring the requisite knowledge of machinery. Ample proof of this fact is afforded by the capacities and expertness of the native engineers in the Calcutta mint, where they have been for years employed in working the steam machinery, by the natives attached to the several steam engines in the Burdwan coal districts, and by other instances...

So Why Wasn't India in 1950 Rich?—or at Least Richer?

Convergence as the Exception—Rather than the Rule...

Post-WWII Europe



The Marshall Plan: Image and Reality

The Image: American Aid Rebuilt Western Europe After World War II

Problem: Not Enough American Aid to Do So

Isolationism in the United States

Attractions of Central Planning

The Reality

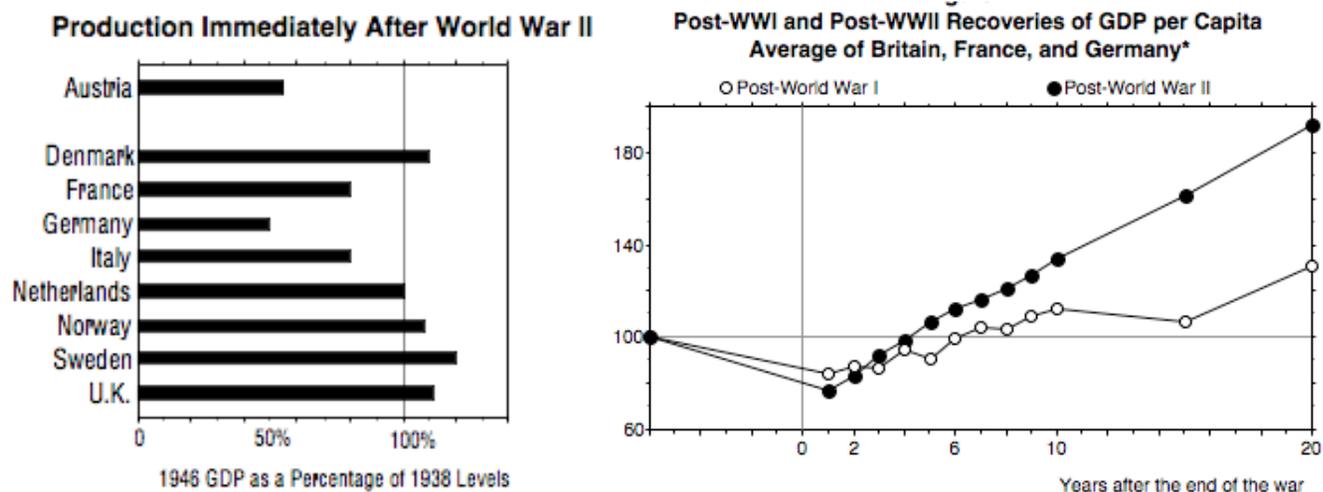
World War II More Destructive than World War I

Economic Recovery After World War II Faster than After World War I

Not a “Rubber Band” Effect

Nor Simply a Favorable International Environment

Wartime Destruction and Recovery



To a large extent the slow post-World War I recovery was inflicted by Europeans on themselves. The major factors hindering a rapid post-World War I recovery were not strictly economic but social and political. One interpretation is that post-World War I Europe saw the recovery of output repeatedly interrupted by political and economic “wars of attrition,” in the language of Alesina and Drazen (1991), that produced instability in European finance, politics, and labor relations. In the aftermath of World War I, the distribution of wealth both within and between nations, the question of who would bear the burden of postwar adjustment, and the degree to which government would act to secure the property of the rentier were all unresolved issues...

How the Marshall Plan Mattered

The elimination of bottlenecks more than three years after the end of the war as a result of Marshall aid is unlikely to have been a significant factor driving the rapid Western European recovery, at least if the counterfactual is one in which the market is doing its job of adjustment and reallocation.

But would the market economy have been allowed to do its job? The 1930's had seen not chronic bottlenecks but chronic deficiencies of aggregate demand. Production had fallen far below normal for the entire decade; market forces had failed to restore demand to normal levels. Circumstances during the Great Depression had been exceptional, but circumstances in the aftermath of World War II were exceptional as well. Many feared the return of the Depression. Thus a live possibility in the absence of the Marshall Plan was that governments would not stand aside and allow the market system to do its job. In the wake of the Great Depression, many still recalled the disastrous outcome of the *laissez-faire* policies then in effect. Politicians were predisposed toward intervention and regulation: no matter how damaging "government failure" might be to the economy, it had to be better than the "market failure" of the Depression.

Europe in the Argentine Mirror

