

World Economy since 1900

For much of the nineteenth century Britain led the rest of the world in industrial production and trade. In the last quarter of the century Germany and the USA began to catch up, and by 1914 the USA was the world's leading industrial nation. The First and Second World Wars caused important changes in the world economy. The USA gained most economically from both wars, and it was the USA which became economically dominant as the world's richest nation. Meanwhile Britain's economy slowly declined and it was not improved by the fact that Britain stayed outside the European Community until 1973. In spite of slumps and depressions, the general trend was for the relatively wealthy industrialized countries to get wealthier, while the poorer nations of Africa and Asia (known as the Third World), most of which were once colonies of the European states, became even poorer. However; some Third World countries began to industrialize and get richer, and this caused a split in the Third World bloc.

Changes in the world economy: In one sense in 1900 there was already a single world economy. A few highly industrialized countries, mainly the USA, Britain and Germany, provided the world's manufactured goods, while the rest of the world provided raw materials and food (known as 'primary products'). The USA treated Latin America (especially Mexico) as an area of 'influence', in the same way that the European states treated their colonies in Africa and elsewhere. European nations usually decided what should be product in their colonies: the British made sure that Uganda and the Sudan grew cotton for their textile industry; the Portuguese did the same in

Mozambique. They fixed the prices at which colonial products were sold as low as possible, and also fixed the prices of manufactured goods exported to the colonies as high as possible. In other words, as historian Basil Davidson puts it: 'the Africans had to sell cheap and buy dear'. The twentieth century brought some important changes.

The USA became the dominant industrial power

As a result the rest of the world became more dependent on the USA. In 1880 Britain produced roughly twice as much coal and pig-iron as the USA, but by 1900 the roles had been reversed: the USA produced more coal than Britain and about twice as much pig-iron and steel. This growing domination continued right through the century: in 1945 for example, incomes in the USA were twice as high as in Britain and seven times higher than in the USSR; during the next thirty years American production almost doubled again. The causes of the American success were:

- ◆ **Post First World War:** The First World War and its aftermath gave a big boost to the American economy. Many countries which had bought goods from Europe during the war (such as China and the states of Latin America) were unable to get hold of supplies because the war disrupted trade. This caused them to buy goods from the USA (and also Japan) instead, and after the war they continued to do so. The USA was the economic winner of the First World War and became even richer thanks to the interest on the war loans they had made to Britain and her allies. Only the USA was rich enough to provide loans to encourage German recovery during the 1920s, but this had the unfortunate effect of linking Europe too closely with the USA financially and economically. When the USA suffered its great slump (1930-5), Europe and the rest of the world were also thrown into depression. In 1933, in the depth of the depression, about 25 million were out of work in the USA and as many as 50 million in the world as a whole.

- ◆ **Post Second World War:** The Second World War left the USA as the world's greatest

industrial (and military) power. The Americans entered the war relatively late and their industry did well out of supplying war materials for Britain and her allies. At the end of the war, with Europe almost at a standstill economically, the USA was producing 43 percent of the world's iron ore, 45 per cent of its crude steel, 60 per cent of its railway locomotives and 74 per cent of its motor vehicles. When the war was over, the industrial boom continued as industry switched to producing consumer goods which had been in short supply during the war. Once again, only the USA was rich enough to help Western Europe, which it did with Marshall Aid. It was not just that the Americans wanted to be kind to Europe. They had at least two other ulterior motives:

- A prosperous Western Europe would be able to buy American goods and thus keep the great American war time boom going;
- Prosperous Western Europe would be less likely to go communist. After 1945 the world split into capitalist and communist blocs
- The capitalist bloc consisted of the highly developed industrial nations the USA, Canada, Western Europe, Japan, Australia and New Zealand. They believed in private enterprise and private ownership of wealth, with profit as the great motivating influence and ideally, a minimum of state interference.
- The communist bloc consisted of the USSR, its satellite states in eastern Europe, and later, China, North Korea and North Vietnam. They believed in state controlled, centrally planned economies, which, they argued, would eliminate the worst aspects of capitalism- slumps, unemployment and the unequal distribution of wealth.

The next forty or so years seemed like a contest to find out which economic system was best. The collapse of communism in Eastern Europe at the end of the 1980s enabled the supporters of capitalism to claim the final victory. However, communism still continued in China, North Korea, Vietnam and Cuba. This big contest between the two rival economic and political systems was

known as the "Cold War; it had important economic consequences. It meant that both blocs spent enormous amounts of cash on building nuclear weapons and other armaments, and on even more expensive space programmes. Many people argued that much of this money could have been spent helping to solve the problems of the world's poorer nations.

USA economic crises in 1970s and 1980s

- ◆ Defence costs and the war in Vietnam (1961-75) were a constant drain on the economy and the treasury.
- ◆ There was a budget deficit every year in the late 1960s. This means that the government was spending more money than it was collecting in taxes, and the difference had to be covered by selling gold reserves. By 1971 the dollar, which was once considered to be as good as gold, was weakening in value.
- ◆ President Nixon was forced to devalue the dollar by about 12 per cent and to put a 10 percent duty on most imports (1971).
- ◆ Rising oil prices worsened America's balance of payments deficit, and led to the development of more nuclear power.
- ◆ President Reagan (1981-9) refused to cut defence spending and tried new economic policies recommended by the American economist, Milton Friedman. He argued that governments should abandon all attempts to plan their economies and concentrate on monetarism : this meant exercising a tight control on the money supply by keeping interest rates high. His theory was that this would force businesses to be more efficient. These were policies which Margaret Thatcher was already trying in Britain. At first the new ideas seemed to be working -in the mid-1980s unemployment fell and America was prosperous again. But the basic problem of the US economy -the huge budget deficit -refused to go away, mainly because of high defence spending. The Americans were even reduced to borrowing from Japan, whose economy was extremely successful at that time. The drain on

American gold reserves weakened the dollar, and also weakened confidence in the economy. There was a sudden and dramatic fall in share prices (1987) which was followed by similar falls all over the world. In the late 1980s much of the world was suffering from a trade recession.

Japan's success: Japan became economically one of the world's most successful states. At the end of the Second World War Japan was defeated and her economy was in ruins. She soon began to recover, and during the 1970s and 1980s, Japanese economic expansion was dramatic.

North-South divide

During the 1950s the term Third World began to be used to describe countries which were not part of the First World (the industrialized capitalist nations) or the Second World (the industrialized communist states). The Third World states grew rapidly in number during the 1950s and 1960s as the European empires broke up and newly independent states emerged. By 1970 the Third World consisted of Africa, Asia (except the USSR and China), India, Pakistan, Bangladesh, Latin America and the Middle East. They were almost all once colonies or mandates of European powers, and were left in an undeveloped or underdeveloped state when they achieved independence.

The Third World and non-alignment: The Third World states were in favour of non-alignment, which means that they did not want to get involved with either the capitalist or the communist bloc, and they were very suspicious of the motives of both of them. Prime Minister Nehru of India (1947-64) saw himself as a sort of unofficial leader of the Third World, which he thought could be a powerful force for world peace. Third World countries deeply resented the fact that both blocs continued to interfere in their internal affairs (neo-colonialism). The USA, for example, interfered unashamedly in the affairs of Central and South America, helping to overthrow governments which they did not approve of; this happened in Guatemala (1954), the Dominican Republic

(1965) and Chile (1973). Britain, France and the USSR interfered in the Middle East. Frequent meetings of Third World leaders were held, and in 1979, ninety-two nations were represented at a 'non-aligned' conference in Havana (Cuba). By this time the Third World contained roughly 70 per cent of the world's population.

Third World poverty: Economically the Third World was extremely poor. For example, although they contained 70 percent of the world's population, Third World countries only consumed 30 per cent of the world's food, while the USA, with 10 percent of the world's population, ate 40 per cent of the world's food. Third World people were often short of proteins and vitamins, and this caused poor health and a high death rate. In 1980 an international group of politicians under the chairmanship of Willi Brandt (who had been Chancellor of West Germany from 1967 until 1974), and including Edward Heath (Prime Minister of Britain 1970-4), produced a report (the Brandt Report) about the problems of the Third World. It said that the world could be roughly divided into two parts.

The North-the developed industrial nations of North America, Europe, the USSR, and Japan, plus Australia and New Zealand.

The South - most of the Third World countries.

The Report came to the conclusion that the North was getting richer and the South was getting poorer. This gap between the North and South is well illustrated by the statistics of calorie intake, and by the comparison of Gross National Product (GNP) of some typical North and South countries, or 'developed' and 'low and middle' economies.

Reason for South poor: The South was and still is economically dependent on the North because of neocolonialism. The North expected the South to continue providing food and raw materials for them, and expected them to buy manufactured goods from the North. They did not encourage the South to develop their own industries.

Many states found it difficult to break away from the one-product economies left behind from

colonial days, because governments lacked the cash needed to diversify. Ghana (cocoa) and Zambia (copper) found themselves with this problem. In states like Ghana, which depended for its income on exporting crops, it meant that too little food would be left for the population. Governments then had to spend their scarce money on importing expensive food. A fall in the world price of their main product would be a major disaster. In the 1970s there was a dramatic fall in the world price of such products as cocoa, copper, coffee and cotton. The disastrous effects on the incomes, and therefore the buying power of countries such as Ghana and Cameroon (cocoa), Zambia, Chile and Peru (copper), Mozambique, Egypt and the Sudan (cotton), and Ivory Coast, Zaire and Ethiopia (coffee).

At the same time, prices of manufactured goods continued to increase. The South had to import these from the North. In spite of the efforts of the United Nations Conference on Trade and Development (UNCTAD), which tried to negotiate fairer prices for the Third World, no real improvement was achieved.

Although a great deal of financial aid was given by the North to the South, much of it was on a business basis the countries of the South had to pay interest. Sometimes a condition of the deal was that countries of the South had to spend aid on goods from the country which was making the loan. Some countries borrowed directly from banks in the USA and Western Europe, and by 1980 Third World countries owed the equivalent of 500 billion dollars; even the annual interest payable was about 50 billion dollars. Some countries were forced to borrow more cash just to pay the interest on the original loan.

- ◆ Another problem for Third World countries was that their populations were increasing much faster than those in the North. In 1975 the total world population stood at about 4000 million, and it was expected to reach 6000 million by 1997.

population of the South was growing so much faster, a larger proportion of the world's

population than ever before would be poor.

- ◆ Many Third World countries had suffered long and crippling wars and civil wars which ravaged crops and ruined economies. Some of the worst wars were in Ethiopia, Nicaragua, Guatemala, Lebanon, the Congo/Zaire, Sudan, Somalia, Liberia, Mozambique and Angola.
- ◆ Drought was sometimes a serious problem in Africa. Niger in West Africa was badly affected: in 1974 it produced only half the food crops grown in 1970 (mainly millet and sorghum), and about 40 per cent of the cattle died.

The Brandt Report: For example, it pointed out that it was in the North's interests to help the South to become more prosperous, because that would enable the South to buy more goods from the North. This would help to avoid unemployment and recession in the North. If just a fraction of the North's spending on armaments was switched to helping the South, vast improvements could be made. For example, for the price of one jet fighter' (about 20 million dollars), 40000 village pharmacies could be set up. The Report went on to make some important recommendations which, if carried out, would at least eliminate hunger from the world:

- ◆ The rich nations of the North should aim to be giving 0.7 percent of their national income to poorer countries by 1985 and 1.0 per cent by the year 2000;
- ◆ A new World Development Fund should be set up in which decision-making would be more evenly shared between lenders and borrowers (not like the International Monetary Fund and the World Bank, which were dominated by the USA);
- ◆ An international energy plan should be drawn up;
- ◆ There should be a campaign to improve agricultural techniques in the South, and an international food programme should be drawn up
- ◆ Did the Brandt Report change anything? Sadly there was no immediate improvement in the general economic situation of the South. By

1985 very few countries had reached the suggested 0.7 per cent giving target. Those that did were Norway, Sweden, Denmark, Netherlands and France; however, the USA-gave only 0.24 per cent and Britain 0.11 per cent. There was a terrible famine in Africa, especially in Ethiopia and the Sudan in the mid-1980s, and the crisis in the poorer parts of the Third World seemed to be worsening.

Third World economy

During the 1970s some Third World states began to become more prosperous.

Oil: Some Third World states were lucky enough to have oil resources. In 1973 the members of the Organization of Petroleum Exporting Countries (OPEC), partly in an attempt to conserve oil supplies, began to charge more for their oil. The Middle East oil-producing states made huge profits, as did Nigeria and Libya. This did not necessarily mean that their governments spent the money wisely or for the benefit of their populations. One African success story, however, was provided by Libya, the richest country in Africa, thanks to her oil resources and the shrewd policies of her leader, Colonel Gaddafi (who took power in 1969). He used much of the profits from oil on agricultural and industrial development, and to set up a welfare state. This was one country where ordinary people benefited from oil profits; with a GNP of £5460 in 1989, Libya could claim to be almost as economically successful as Greece and Portugal, the poorest members of the European Community.

Industrialization: Some Third World states industrialized rapidly and with great success. These included Singapore, Taiwan, South Korea and Hong Kong (known as the four 'Pacific tiger' economies), and, among others, Thailand, Malaysia, Brazil and Mexico.

The GNPs of the four 'tiger' economies compared favourably with those of many European Community countries. The success of the newly industrialized countries in world export markets was made possible partly because they were able to attract firms from the North who were keen to

take advantage of the much cheaper labour available in the Third World. Some firms even shifted all their production to newly industrialized countries, where low production costs enabled them to sell their goods at lower prices than goods produced in the North. This posed serious problems for the industrialized nations of the North, which were all suffering high unemployment during the 1990s. It seemed that the golden days of Western prosperity might have gone, at least for the foreseeable future, unless their workers were prepared to accept lower wages, or unless companies were prepared to make do with lower profits.

In the mid-1990s the world economy was moving into the next stage in which the Asian 'tigers' found themselves losing jobs to workers in countries such as Malaysia and the Philippines. Other Third World states in the process of industrializing were Indonesia and China, where wages were even lower and hours of work longer. Jacques Chirac, the French President, expressed the fears and concerns of many when he pointed out (April 1996) that developing countries should not compete with Europe by allowing miserable wages and working conditions; he called for a recognition that there are certain basic human rights which need to be encouraged and enforced:

- ◆ Freedom to join trade unions and the freedom for these unions to bargain collectively, for the protection of workers against exploitation;
- ◆ Abolition of forced labour and child labour. In fact most developing countries accepted this when they joined the International Labour Organization (ILO), but accepting conditions and keeping to them are two different things.

The world economy and its effects on the environment

As the twentieth century wore on, and the North became more and more obsessed with industrialization, new methods and techniques were invented to help increase production and efficiency. The main motive was the creation of wealth and profit, and very little attention was paid to the side-effects all this was having. During the 1970s people

became increasingly aware that all was not well with their environment. There were two main types of problem:

- ◆ Industrialization was beginning to exhaust the world's resources of raw materials and fuel (oil, coal and gas);
- ◆ Industrialization was causing massive pollution of the environment, and if this continued, it was likely to severely damage the ecosystem. This is the system by which living creatures, trees and plants function within the environment and are all interconnected. 'Ecology' is the study of the ecosystem.

Exhaustion of the world's resources

- ◆ Fossil fuels - coal, oil and natural gas are the remains of plants and living creatures which died hundreds of millions of years ago. They cannot be replaced, and so are rapidly being used up. There is probably plenty of coal left, but nobody is quite sure just how much natural gas and oil are left. Oil production increased enormously during the century. Some experts believe that all the oil reserves will be used up early in the twenty-first century. This was one of the reasons why OPEC tried to conserve oil during the 1970s. The British responded by successfully drilling for oil in the North Sea, which made them less dependent on oil imports. Another response was to develop alternative sources of power, especially nuclear power.
- ◆ Other raw materials to be seriously depleted were tin, lead, copper, zinc and mercury. Experts think these may all be used up early in the twenty-first century, and again it is the Third World which is being stripped of the resources it needs to help it escape from poverty.
- ◆ Too much timber was being used. About half the world's tropical rain forest had been lost by 1987, and it was calculated that about 80000 square kilometres, an area roughly the size of Austria, was being lost every year. A side-effect of this as the loss of many animal and insect species which had lived in the forests. Too many fish were being caught and too many whales killed.

- ◆ The supply of phosphates (used for fertilizers) was being rapidly used up. The more fertilizers farmers used to increase agricultural yields in an attempt to keep pace with the rising population, the more phosphate rock was quarried (an increase of 4 per cent a year since 1950). Supplies are expected to be exhausted by the middle of the twenty-first century.
- ◆ There was a danger that supplies of fresh water might soon run out. Most of the fresh water on the planet is tied up in the polar icecaps and glaciers, or deep in the ground. All living organisms humans, animals, trees and plants - rely on rain to survive. With the world's population growing by 90 million a year, scientists at Stanford University (California) found that in 1995 humans and their farm animals, crops and forestry plantations were already using up one-fourth of all the water taken up by plants. This leaves less moisture to evaporate and therefore a likelihood of less rainfall.
- ◆ The amount of land available for agriculture was dwindling.
- ◆ This was partly because of spreading industrialization and the growth of cities, but also because of wasteful use of farmland. Badly designed irrigation schemes increased salt levels in the soil. Sometimes irrigation took too much water from lakes and rivers, and whole areas were turned into deserts. Soil erosion was another problem: scientists calculated that every year about 75 billion tons of soil were washed away by rain and floods or blown away by winds. Soil loss depends on how good farming practices are: in Western Europe and the USA (where methods were good), farmers lost on average 17 tons of topsoil every year from each hectare. In Africa, Asia and South America, the loss was 40 tons a year. On steep slopes in countries like Nigeria, 220 tons a year were being lost, while in some parts of Jamaica the figure reached 400 tons a year. An encouraging sign was the setting up of the World Conservation Strategy (1980), which aimed to alert the world to all these

problems.

Pollution of the environment

- ◆ Discharges from heavy industry polluted the atmosphere, rivers, lakes and the sea. In 1975 all five Great Lakes of North America were described as 'dead', meaning that they were so heavily polluted that no fish could live in them. About 10 per cent of the lakes in Sweden were in the same condition. Acid rain (rain polluted with sulphuric acid) caused extensive damage to trees in central Europe, especially in Germany and -Czechoslovakia; Britain was blamed for producing the majority of the pollution causing the acid rain. The USSR and the communist states of Eastern Europe were guilty of the dirtiest industrialization: the whole region was badly polluted by years of poisonous emissions.

From about 1970 scientists were worried about what they called the 'greenhouse: effect'; this was the uncontrollable warming of the earth's atmosphere (global warming) caused by the large amounts of human-produced gases emitted from industry. These acted like the glass roof of a greenhouse, trapping and magnifying the sun's heat. Opinions differed about exactly what its effects would be; one theory was that the ice-caps at the poles would melt, causing the level of the sea to rise, flooding large areas of land. Africa and large parts of Asia could become too hot for people to live in, and there could be violent storms and prolonged drought."

- ◆ Getting rid of sewage from the world's great cities was a problem. Some countries simply dumped sewage untreated or only partially treated straight into the sea. The sea around New York is badly polluted, and the Mediterranean is heavily polluted, mainly by human sewage.
- ◆ Farmers in the richer countries contributed to pollution by using artificial fertilizers and pesticides which drained off the land into streams and rivers.
- ◆ Chemicals known as chlorofluorocarbons (CFCs), used in aerosol sprays,

refrigerators and fire-extinguishers, were found to be harmful to the ozone layer which protects the earth from the sun's harmful ultra-violet radiation. In 1979 scientists discovered that there was a large hole in the ozone layer over the Antarctic; by 1989 the hole was much larger and another hole had been discovered over the Arctic. This meant that people were more likely to develop skin cancers because of the unfiltered radiation from the sun. Some progress was made towards dealing with this problem, and many countries banned the use of CFCs.

- ◆ Nuclear power causes pollution when radioactivity leaks into the environment. It is now known that this can cause cancer, particularly leukemia. It was shown that of all the people who worked at the Sellafield nuclear plant in Cumbria between 1947 and 1975, a quarter of those who have since died, died of cancer. There was a constant risk of major accidents like the explosion at Three Mile Island in the USA in 1979, which contaminated a vast area around the power station. When leaks and accidents occurred, the authorities always assured the public that nobody had suffered harmful effects; however, nobody really knew how many people would die later from cancer caused by radiation.

The worst ever nuclear accident happened in 1986 at Chernobyl in the Ukraine (then part of the USSR). A nuclear reactor exploded, killing possibly hundreds of people and releasing a huge radioactive cloud which drifted across most of Europe. Ten years later it was reported that hundreds of cases of thyroid cancer were appearing in areas near Chernobyl. Even in Britain, a thousand miles away, hundreds of square miles of sheep pasture in Wales, Cumbria and Scotland were still contaminated and subject to restrictions. 300 000 sheep were affected and had to be checked for excessive radioactivity before they could be eaten.

Concern about the safety of nuclear power has led many countries to look towards alternative sources of power which were safer, particularly

solar, wind and tide power.

One of the main difficulties to be faced is that it would cost vast sums of money to put all these problems right. Industrialists argue that to 'clean up' their factories and eliminate pollution would make their products more expensive. Governments and local authorities would have to spend extra cash to build better sewage works and to clean up rivers and beaches. In 1996 there were still twenty-seven power station reactors in operation in Eastern Europe of similar elderly design to the one which exploded at Chernobyl. These were all threatening further nuclear disasters, but governments claimed they could afford neither safety improvements nor closure. The following description of Chernobyl gives some idea of the seriousness of the problems involved.

At Chernobyl, the scene of the April 1986 explosion, just a few miles north of the Ukrainian capital Kiev, the prospect is bleak. Two of the station's remaining reactors are still in operation, surrounded by miles of heavily contaminated countryside. Radioactive elements slowly leach into the ground water -and hence into Kiev's drinking supply -from more than 800 pits where the most dangerous debris was buried ten year ago.