Unit X

the Cameron Heggi
Period 1
4/17/03

Using specific examples from Eastern and Western Europe, discuss economic development during the period 1945 to the present, focusing on ONE of the following:

a) Economic recovery and integration (1998, #2)
b) Development of the welfare state and its subsequent decline
(AP Examination Nineteen Ninety-Eight, Question Number Two)

The death and physical destruction caused by the second World War left both Eastern and Western Europe in a worse condition than it had been in after the Great War. The strategic bombing raids, which had been carried out by both the Axis and the Allies, destroyed factories and other facilities crucial to production. Sunken ships blocked the entrances to harbors; almost all bridges had been destroyed. The destruction of Europe's industrial structure and transportation network was quickly followed by the collapse of its economy. The war did not end with the same feeling of optimism as WWI. "What is Europe now? A rubble heap, a charnel house, a breeding ground of pestilence and hate," said former British Prime Minister Winston Churchill. The economic reconstruction can be divided into two distinct zones: Western Europe and Eastern Europe. Western Europe, with financial aid from the United States, undertook various economic cooperation/integration programs. These programs revived the economies of Western Europe with great success. Eastern Europe was greatly influenced by the Soviet Union; political parties were forcibly pushed aside, and communists stepped in. The Soviet Union used these "satellites" mainly to improve its own welfare. Nikita S. Krushchev undertook a program of "de-Stalinization," giving incentives to factory managers for efficiency and profitability. The heavy emphasis placed on industry in the USSR deprived the people and concealed deep flaws in the system itself.

I. Background

A. Deaths as a result of WWII
1. At least 37 million killed in fighting
2. The amount of people who died in WWII was four times greater than the number who died in "the war to end all wars."
3. Military casualties: French 200,000, American 300,000, British/Commonwealth 400,000, Polish 700,000, Japanese 1.3 million, Chinese 2.2 million, German 3.5 million, and Soviet 6 million.
4. Total casualties (military and civilian): France lost 620,000; Britain lost 260,000; the Soviet Union has since estimated that they lost around 25 million; Germany lost 5 million, 20% of all Poles were killed as well as 20% of the population of Yugoslavia.

B. Physical damage
1. Most damage was caused by systematic air raids carried by both Axis and Allied powers. The physical damage was much greater than the damage

caused by WWI. Industrial centers were destroyed by strategic bombing; Western Europeans were cut-off from their markets.

2. 1,700 cities and 70,000 villages were completely destroyed.
3. German *Luftwafhe* completely destroyed parts of London, Coventry, Leningrad, Kiev, and the Dutch port city of Rotterdam. Also, the German army completely destroyed the city of Warsaw because of an insurrection staged in that city.

II. Western Europe

A. Bretton Woods [ID term #9]

1. International Conference convened in 1944 in Bretton Woods, New Hampshire.
   a. Attended by forty-four countries.
   b. The objective was to reduce trade barriers and stabilizes currencies.
2. General Agreement on Tariffs and Trade (GATT)
   a. initially included 23 member countries. This number had grown to ninety-seven by the year 1990.
   b. GATT laid down rules to stop discrimination in international trade and set up procedures for handling complaints.
   c. Lengthy discussion sessions lead to the lowering of tariff barriers.
   d. Contributed to the great expansion of world trade in the 1950's and 60's.
3. Stability of Currency
   a. Bretton Woods conference wanted to return to the prewar gold standard.
   b. Many problems were encountered in stabilizing currency.
      i. Because of British financial weaknesses, the sterling could not be as reserve for gold.
      ii. American trade and dollar surpluses made it difficult for countries with dollar shortages to convert their currencies at fixed rates.
      iii. The dollar was set at 35$/oz. of gold.
   c. In the period from approximately 1958-1971, the American dollar was accepted as the equivalent of gold. Each nation's currency had a value in gold and in dollars. This was called the "gold-dollar s standard."
   d. International Monetary Fund (IMF) was created to give loans to help to reduce the need for the devaluation of currency.
   e. The International Bank for Reconstruction and Development (World Bank) made long-term loans with the goal of economic development.

B. The Marshall Plan [ID term #5]

1. After WWII, the countries of Western Europe began to rebuild their economies. Within two years, their production levels nearly equaled their prewar production levels.
2. However, the economic re-establishment seemed to be at risk in the spring of 1947.
   a. The harvest in that year was the worst in centuries.

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    a. The harvest in that year was the worst in centuries.

b. Communist parties in France and Italy caused trouble by carrying out strikes.

3. American Secretary of State George C. Marshall invited European countries to convene and decide upon a broad system of reconstruction, for which the US would provide financial support.
    a. The USSR denied the invitation, denouncing it as "a new venture in American imperialism."
4. The Marshall Plan, also called the European Recovery Program, worked closely with the Office for European Economic Cooperation (OEEC) to identify projects, coordinate in planning, and to allocate the required funds.
5. Results of the Marshall Plan
    a. Profound psychological and economic effect; exceeded even the highest of anticipations. The plan accelerated the recovery which had already started, made recovery smoother, and encouraged cooperation between countries.
    b. Western Europeans improved transportation facilities, modernized their infrastructure, vastly expanded upon their production capabilities, reduced tariff barriers, and facilitated trade by starting payment unions.
    c. The Americans also profited by helping their competitors; they created a new overseas markets for American-made goods.
    d. The Marshall Plan further divided the West from the Soviets.

C. Berlin Blockade [ID term #3]

1. In 1948 the powers occupying Western Germany revoked the worthless mark and reissued a new Deutsche mark.
    a. new mark was at a one-to-ten ratio with the old mark.
    b. Soviet Union was not consulted about this plan.
2. The Soviets rejected this idea, saying that it violated the wartime agreement to treat occupied Germany as a single, undivided economic state.
3. The Soviets then cut off all road and railroad access to Berlin, which was one hundred miles inside the Soviet zone of occupation.
    a. This tested the will of the Western powers (mainly the US, UK, and France)
    b. If they gave up West Berlin, they would open the door for communism.
    c. The United States and other countries airlifted thousands of tons of food and supplies to western occupying forces and the citizens of West Berlin.
    d. In May of 1949, the Soviets dropped the blockade.

D. *Wirstchaftswunder* [ID term #8]

1. German word for "economic miracle"
2. Caused by the currency reform of 1948.
3. After the Federal Republic of Germany was formed, they joined the OEEC and then embarked on an economic boom.
    a. Benefited from Korean War by supplying US with goods it could not supply itself.

b. By 1950 the Federal Republic of Germany had reached prewar German production levels; it was the top industrial country in Western Europe.

E. Economic Theories

1. The competitive free-market and private-enterprise system was accompanied by economic planning and government intervention.
2. The economic theories of J.M. Keynes were put to use extensively at this time.
    a. Governments kept a close eye on their economies.
    b. Promoted investment, production, employment and tried to control inflation.
    c. Took "countercyclical" measures to keep economy flowing.
    d. Economic growth became a major goal for Western European governments.

F. "Benelux"

1. Customs union created by Belgium, the Netherlands, and Luxembourg. This provided each country with profits resulting from the sizable free-trade zone.

G. European Coal and Steel Community (ECSC)

1. Founded by the French economist Jean Monnet, this organization originally consisted of France, West Germany, Italy, and the Benelux countries.
2. Designed to relieve anxiety caused by the revival of German machines and factories. Eventually member countries allowed their production to be run under a High Authority with extensive powers.
3. Integrated West European heavy industry, modernized production, and allowed for further economic integration that in the future would consist of more countries.

H. Treaty of Rome [ID term #10]

1. Signed by the six nations of the ECSC on March 25, 1957.
2. Created a large free trade area or customs union, the European Economic Community (EEC), or Common Market.
3. Goals of the treaty included the elimination of tariff barriers between member states, the adoption of a common tariff to the "outside," the harmonization of social and economic policies, and the free movement of capital and labor.
    a. The last tariff between the states of the EEC was dropped in 1968.
    b. Trade between the states grew twice as fast as trade between non-member states.

I. European Community

1. In 1967 the ECSC, the EEC, and the European Atomic Energy Community (Euratom) merged into a new organization called the European Community.
    a. The high commissions of each now joined to form the European Parliament; this body had no real power.
    b. The actual decision making was still done by a council of ministers representing each nation.

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2. Great Britain at first refused to join the EEC for several reasons.
   a. Britain had economic ties to its Commonwealth.
   b. Britain was dependent on low-cost food imports
   c. Britain was unwilling to be ruled by a supranational authority.
3. European Free Trade Association (EFTA)
   a. Started by Britain in 1960.
   b. Consisted of Britain, Norway, Sweden, Denmark, Austria, Switzerland, and Portugal.
   c. For a short time the EFTA was a rival to the EEC, but soon the tensions eased and Britain sought membership in the EEC.
      i. Britain was twice vetoed by President de Gaulle of France, who did not like Britain's special relationship with the US. Also, de Gaulle saw Britain as a rival for leadership on the Continent.
      ii. Britain was admitted into the EEC in 1969 after de Gaulle was no longer prominent in politics.
4. The Treaty of Maastricht [ID term #26]
   a. Signed in Dutch town of Maastricht in 1992 by Belgium, France, West Germany, Italy, Luxembourg, the Netherlands, Great Britain, Denmark, Ireland, Greece, Spain, Portugal, Austria, Iceland, Leichtenstein, Sweden, Finland, and Switzerland.
   b. provided for the elimination of national barriers to the movement of capital and goods between member countries.
   c. In 1993, the European Community was changed to the European Union.
      i. Anticipated the creation of a common currency.
5. The European Community/Union greatly contributed to the economic and political strength of the Western European states and helped to restore it to a larger role in the world.

III. Eastern Europe *(USSR & Satellites)*

A. "Iron Curtain"
   1. The Red Army, in its advance to Berlin, occupied most of Eastern Europe.
   2. Winston Churchill recognized that the USSR now controlled these countries, which had been formed into communist satellites.
   3. This "iron curtain" extended "from Stettin in the Baltic to Trieste in the Adriatic."
   4. Consisted of 11 states and 100 million people.
   5. The USSR and the rest of the countries behind the "iron curtain" did not participate in the Marshall Plan.

B. The Reforms of Khrushchev
   1. Decentralization
      a. Also called "de-Stalinization" and the "thaw"
      b. Attempted to loosen the strict government controls by creating regional economic councils.
      c. Gave factory managers autonomy and gave them incentives to earn profit and to be efficient.

d. Secret Police relaxed some control and censorship was lightened.

2. Agriculture

a. Agriculture was the weakest sector of the economy since Stalin's collectivization.

b. Khrushchev decided to cultivate the "virgin lands" in Soviet Central Asia. The crops failed and the experiment was ended.

3. Few of his reforms were excepted; hardly any actually worked.

a. Party bureaucrats, *apparattchki*, saw their privileged positions threatened.

b. Mustered opposition to Krushchev's "hare-brained" plans.

C. Fourth Five Year Plan (1946-1950)

1. Wartime damages were repaired and the economy grew impressively.

2. The gross national product grew at a respectable rate.

a. In 1950, the GNP of the USSR was 30% of that of the US

b. In 1975, the GNP of the USSR was 60% of that of the US

3. By the 1970's, the USSR was the leading producer of coal, steel, cement, pig iron, cotton, natural gas, and oil.

4. Stuck to Stalin's plan of collectivized agriculture

5. Nothing but a major failure.

D. Troubles with the economic reconstruction

1. The USSR lagged behind other countries in industrial technology.

a. After WWII, the Soviets had rebuilt all of their factories and transportation networks, but with outdated technology.

b. At this time, the West and Japan were suing computers, electronics, and automation.

2. Although the USSR was a military giant and nuclear superpower, the living standards in the USSR were very low.

a. The average citizen of the Soviet Union could buy only 2/5 the amount of goods that were available to US citizens at that time.

b. Housing was poor and in short supply.

c. Consumer goods were of shoddy craftsmanship.

E. Agriculture [ID term #12]

1. Agriculture was the weakest part of the Soviet economy.

2. The creation of an artificial fertilizer industry did not increase output.

3. The mechanization of the collective farms proved to be a myth; spare parts were unavailable and roads were very poor.

4. 15 million farm workers left the farms looking for better lives in the cities.

5. Grain was much-needed, but harvests were poor.

a. The need for grain tripled between 1960 and 1980

b. The production of grain was so far below governments quotas, they stopped printing numbers for six years.

c. The government's decision to increase meat production further strained the situation.

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d. The USSR came to rely upon grain imports, chiefly form the United States.

6. Heavy investments in agriculture in the 1970's did not increase output.-

F. Council for Mutual Economic Assistance (COMECON)

1. Established in 1949, COMECON was an economic relationship with East Europe.

2. Mainly benefited the Soviet Union.

G. The Warsaw Pact

1. Signed by the USSR and her Eastern European satellites in 1955.

2. Similar to NATO in guarantees promised to member nations.

3. Formalized mutual defense pacts with USSR.

H. Gorbachev and the downfall of communism

1. Unorthodox leader; 54 when he came into power 1985.

2. Made public the problems of the Soviet Union.

a. described poverty, corruption, crime, alcoholism, and drugs

b. announced shortcomings in healthcare and housing. As much as one-fifth of the country lived in poverty.

c. The country ranked 50th in the world in infant mortality rate.

i. 26 deaths per 1,000 births.

ii. For every 2 births, there were 3 abortions.

3. Gorbachev's reforms were slow and did not extend far enough. He did not change the failing agrarian system and a market-based economic system did not develop. The economy of the Soviet Union was in a downfall in the 1980's. The economic structure still did not change.

4. Open elections were held and communism ended in Poland in 1989; Hungary had a bloodless revolution in 1988 and the communist party was dissolved. On November 9, 1989, the East German government opened the Berlin Wall, symbolizing the freedoms ahead. In 1989, Czechoslavakia's communist party resigned and free elections were promised. The police states was also destroyed in Bulgaria and Romania in 1989. By 1991 the USSR had been dissolved; the Russian flag replaced the Soviet hammer and sickle at the Kremlin.

IV. Conclusion

The economic reforms enacted by Western Europe, with help from the United States, succeeded in rebuilding its economy. Western Europe soon after the end of the war had surpassed its prewar production levels and continued to expand its economy. The free-market and competition-based economic structure of the West triumphed over the centralized, planned economies of the East. Although industrial production was strengthened in the USSR, its people lived in poverty. The agrarian system and the collectivization of agriculture claimed millions of lives and failed to increase output. Not until the fall of communism in 1988-91 did the economies and the lives of the citizens of Eastern Europe improve.

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