5.3.3 Production and Consumption in Contemporary History (ca. 1900–2000)

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Introduction

Summing up the performance of the European economies in terms of production and consumption between the First World War and the first general economic crisis of the twenty-first century (2007) is not an easy task. The nation-states of the continent have not followed a unified trend in terms of overall economic performance—especially GDP growth. Trends have varied considerably over certain periods, not least because after 1917 two economic systems coexisted in Europe, and between 1947 and 1991, the Soviet system was imposed on many countries. Most comparisons are done between national-states, but if we take regions as our unit of analysis instead, we see that the absolute distance between the poorest and the richest regions in Europe has increased over the twentieth century, although economic disparities have declined in relative terms.

However, as this chapter shows, there have also been many common traits in the history of production and consumption across the continent. Despite chronological disparities, productive cycles have followed similar trends. Sectoral organisation of different economies has followed common patterns with different rhythms: the decline in terms of output and the share of employment dedicated to the agricultural production, the gradual rise until the 1970s of industrial production, and the constant growth of the service sector, which, since the 1970s, has become the largest sector in most European countries.

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Consumption in terms of quantities and qualities has been very diverse across political and social frontiers, but both capitalist and socialist societies experienced large transformations that started in the 1950s in Northwestern and Central Europe, and in the 1960s in Southern and Eastern Europe. Moreover, as we will underline, the fall of the communist system has brought about a certain convergence in consumption and waste patterns in aggregate terms all over Europe, while the social structure of consumption has quite probably become more unequal.

Economic Growth

The twentieth century was a time of rapid growth in Europe. In fact, the difference in terms of income per capita between Europe and the poorest countries in the world was larger in 2000 than in 1900. On the other hand, there was a process of convergence in the second half of the century between European countries and the other rich economies (USA, Canada, Australia and New Zealand), which has been partially attenuated after 2000. In terms of the *Human Development Index*, since 1950, there has been a substantial decline in the gap between Europe and poor countries.

The high growth rates of European economies in the long twentieth century reflect both the availability of new sources of energy—especially oil and raw materials imported from other continents—and rapid technological progress. However, growth was not continuous. Three 'Kondratiev cycles' have been identified between the 1890s and the 1990s. (Kondratiev- or K-cycles are long-term cycles usually explained in terms of long waves of technological innovation.)

The first cycle started in the 1890s and had an upswing until the First World War, a period known in retrospect as the *Belle Époque*. The downswing of this first cycle coincided with the interwar period and can be divided into three stages: the post-war crisis, the 'roaring twenties' (not uniformly 'roaring' in economic terms in Europe), and the long crisis after 1929 (the Great Depression). European economies grew less in the interwar years than the USA, and the recovery from the crisis was in many places delayed until the late 1940s. Political and economic responses to the Great Depression refashioned economic policies and institutions in democratic countries, under the influence of heterodox economists like Keynes and the members of the Stockholm School. The crisis also triggered the application of the so-called fascist 'third way'. In the late 1930s and especially after the Second World War, European governments were deeply influenced both by the American New Deal and by the planning techniques applied in the USSR after 1928.

The second K-cycle—which began in the USA after 1939—became general with the end of the war. For Europe, the first decades following the Second World War, after the critical years of 1945–1947, stand out as a unique episode: they witnessed the most rapid economic growth of the twentieth century. Mass production and mass consumption, a combination sometimes called Fordist capitalism, spread throughout Western Europe. This long wave of economic expansion in Western Europe was initially fuelled by the Marshall Plan and took place under a new system of international economic relations established at the Bretton Woods Conference in 1944. In the context of the Cold War (1947–1991), states carried out very active interventions that directly affected economic performance on both sides of the Iron Curtain. In the Western European economies, full employment and stable growth became governmental aims. In the communist countries, states followed the Soviet modernisation model aiming at accelerated growth.

Between 1968 and 1973, the basic elements that had enabled the long post-war period of European growth were shaken by a confluence of different factors. On the one hand, economic relations between the USA and Western European countries changed, because of the industrial progress of the latter, and the Bretton Woods settlement was threatened. On the other hand, the ex-colonial countries denounced the status quo of international trade and attempted to transform it through cartels of producing countries. In 1973, coinciding with the Yom Kippur War, oil producers managed to fix higher prices. The oil crisis shook the economies of all petroleum-importing countries, particularly Europe. In Western Europe, the crisis hit societies where full employment had been achieved and the labour movement was strong, and where many sectors had oligopolistic traits: consequently, income redistribution produced by the oil-shock multiplied inflationary pressures, further enabled by lax monetary policies.

The downswing of the second K-cycle was followed after 1984–1991 by the beginning of a third cycle. The upswing in the 1990s took place in a new economic and political environment shaped by globalisation, the end of the Cold War, and the expansion of the European Economic Community (EEC, later the European Union, EU), all under the doctrinal hegemony of what was very often called 'neoliberalism'. The new crisis after 2007 shattered this predominance and might have opened a new phase in economic policies.

Capitalist Production

The broadest structural changes in production in the capitalist countries during the twentieth century were: first, an enormous increase in both agricultural and industrial production; and, second, a shift in the workforce from agriculture towards the industry and, later, services. These changes had their roots in the nineteenth century but gained new speed after the First World War.

When it comes to agricultural production, wheat production in particular rose greatly from the mid-1920s onward, because of an increasing demand from the industry, but also because Russia as the largest grain exporter had disappeared from the market. As a result, other, mostly eastern European countries increased their wheat output, while the USA exported large amounts of wheat to Europe as well. This trend of increasing production in agriculture while employment shares dropped continued after the Second World War. The sharp decline in the agricultural workforce (from more than sixty-six million in the whole of Europe in 1950 to 17.6 million in 2000) was both cause and effect of technologisation processes like irrigation, tractors, hybrid seeds, fertilisers, and pesticides. Supported by considerable state protection and investment (like the Common Agricultural Policy of the EEC), agricultural production reached its peak in Western Europe in the 1980s.

Over the course of the twentieth century, the share of people working in the secondary and tertiary sectors increased throughout Europe. During the 1920s, industrial production in Northwestern and Southern Europe quickly surpassed pre-war levels. This was as true for coal, which remained the most important primary energy source in the first half of the twentieth century, as it was for steel. This period saw the rise of the motor industry and electrical engineering as important new sectors of industry. Meanwhile, the Germans kept dominating the chemical industry and strengthened their position by merging the leading companies into IG Farben in 1925. The United Kingdom countered by undertaking similar action with Imperial Chemical Industries. These two national conglomerates controlled the global trade in chemicals throughout this period. In the 1930s, the Great Depression hit industrial production in Europe hard. Germany was among the countries that suffered most severely from the economic crisis, because—among other reasons—countries suddenly stopped providing them credit, with unemployment exploding as a consequence.

After the devastations of the Second World War, industrial supply and demand started to boom, culminating in the 'golden age' of the 1950s and 1960s. Household appliances like refrigerators and microwaves, televisions and automobiles, together with processed food and leisure products, were both driving and responding to new markets and societal changes. 'Efficiency' and 'productivity' became the magic words of these decades for manufacturing, resulting in new modes of mass production, technological innovation, and specialisation, which made these products affordable for the masses. Production and consumption were bound in an upward cycle: falling prices led to an increase in demand that, in turn, made possible economies of scale thus enabling further reductions in costs for the industry and prices for consumers.

The energy crises of the 1970s brought an end to the production boom, a boom which came from sectors relying on cheap energy. Industry was forced to become more adaptive to changes, but this only increased the outflow of labour from the secondary to the tertiary sector. With the steady decline of industry's share of total employment, the potential for production growth diminished as well. The ever-stronger internal market of the EEC and EU concentrated high-tech industry within Europe, while outsourcing low-skill assembly industries to other regions (mainly East Asia). The growing production of high-tech electronic and office machinery was one small exception to this rule.

Socialist Production

By the 1920s, the revolutionary upheavals which had followed the First World War across Europe had subsided, and the Soviet Union began the great experiment, the construction of 'socialism in one country'. Within a short time, the Soviet Union wanted to turn their underdeveloped rural country into a modern, industrial economy. This attempt at modernisation built on state ownership and a planned economy instead of private ownership and a market economy. Accordingly, land was nationalised, and the factories became state-owned. Production was not driven by any supply-and-demand business plan, but by calculations and estimates presented by the central planning office, which created economic plans from estimates for specific periods (mostly for five years). These were then passed along to the production plants through compulsory plan directives. For example, the Central Planning Office calculated how many pairs of shoes industry would produce for the Soviet population each year. Prices and anticipated earnings were also regulated centrally. The interests of heavy industry always overshadowed the production of consumer goods. Therefore, the supply of goods was always kept below the actual market needs, and the demand for goods was guaranteed. The same strategy was applicable to foreign trade, which was carried out by state-owned enterprises. In order to find buyers from free market countries, producers designated to produce goods for export had two production lines: superior standard ones for export and inferior ones for the local market.

In the five-year plans, the development of heavy industry and military industry was given priority, and agriculture became an 'inner colony', from which income and labour could be reallocated to industry.

This economic model was exported by the Soviet Union to the territories that came under its influence after the Second World War. As a result of nationalisations and collectivisation campaigns, private enterprise was almost completely eliminated. Priority was given to the development of heavy and military industry due to the tensions of the Cold War. However, the planned economy soon proved that the state-owned enterprises only fulfilled the plans imposed on them quantitatively, without enough attention to quality.

All socialist countries experienced these problems of the planned economy, and the Council for Mutual Economic Assistance (Comecon) did not help. However, when social tensions became critical due to supply problems, the party leaderships made concessions to private craft, retail and towards a so-called 'second economy'. Participation in the second economy, necessary in the socialist era to procure products in short supply, became, for many, a matter of survival.

The first changes in this direction took place in 1953 after Stalin's death. Then after the 1956 Polish and Hungarian crises, new reforms were undertaken, and more changes followed in the mid-1960s. Of these new policies, the Hungarian New Economic Mechanism was the most radical, as it wanted to combine the market economy with the planned economy. However, these reforms were halted after the 1968 invasion of Prague. Later, due to the growing indebtedness of socialist countries, another series of reforms was launched in the first half of the 1980s.

Consumption

Patterns of consumption differed greatly in the early twentieth century throughout Europe, not just between countries but also within regions. While European metropoles and the upper and upper-middle classes experienced the beginning of a modern consumer society, including the use of an automobile and electricity at home, rural patterns of consumption changed less rapidly. Although consumption overall increased in the first half of the twentieth century, it was not a linear process. Economic crises such as the Great Depression had disastrous effects. Even in most advanced consumer societies such as Great Britain many could not afford even basic consumer goods. The two World Wars and totalitarian regimes brought food shortages and rationing in most countries as well.

Mass consumer societies, therefore, only fully emerged in the second half of the century. In line with economic growth, an increase in production, and the expansion of the welfare state, household expenditure income in Western Europe significantly increased. As a result, larger sections of society were able to afford durable and expensive consumer goods such as telephones, televisions, and cars. The decades following the Second World War also saw shifts in expenditure from basic commodities such as food and clothing to non-essential goods like leisure expenditure, travel, and transport.

In the initial period of socialist systems in Eastern Europe, industrial development gave priority to heavy industry, with an emphasis on military industry. This precedence decreased the relative importance of all remaining sectors (agriculture, light industry, services). As a result, there appeared a gradual shortage of food and consumer goods. In order to build a socialist system, the party leaderships expected socialist citizens to limit or postpone their consumption desires. Constant queuing, empty shelves, and chronic shortages of basic products became part of everyday life. The first major economic adjustment began after Stalin's death. Gradually, the Iron Curtain became more permeable, and the perception of the West began to change. Khrushchev proclaimed the twenty-year programme to catch up and overtake advanced capitalist countries (1960–1980). The competition between the socialist and capitalist systems also extended to consumption. From the 1960s, there was a rapid growth in mass consumption, giving households access to goods such as washing machines, vacuum cleaners, and televisions. Additionally, in the socialist countries there was a wider supply of collective goods, at least in comparison to similar income countries elsewhere: for example, education facilities, cultural events, and sports facilities were very often in higher supply than in certain capitalist countries.

While Great Britain had a clear leading role as a consumer society in Europe between 1930 and 1990, the years between 1970 and 1990 also saw a great expansion of consumer goods in most Eastern and Western European countries. However, the prices of coveted consumer goods in the East were set at such high levels that the possibility to buy them was limited.

The expansion in consumer goods did not come to an end in the 1970s like the boom in economic growth and production did. Less well-off sections of society especially have only been able to fully participate in mass consumer society since the 1970s and 1980s. As a result, differences between the haves and the have-nots diminished. Therefore, 'taste' became the dominant form of distinction, according to French sociologist Pierre Bourdieu. Since many people now owned cars, brand, size, and features became important to highlight one's status. As in the West, privately-owned vehicles became the symbol of the family's well-being and sophistication in Eastern Europe. However, the socialist automotive industry could not produce enough to meet demand, so those people who could afford a car had to wait years for them to arrive. It is worth noting that within Soviet-bloc countries state-owned banks were offering loans and credits only for designated products (e.g. construction of a house). The policy stands in sharp opposition to the market-driven scheme of financing offered to customers in different product and service categories.

Conclusion

In spite of all the regional and chronological differences, all parts of Europe witnessed the same structural economic changes throughout the twentieth century: the rise of industry and services at the expense of agriculture, the birth of mass production, the shift from consumptive shortages to abundance, as well as the interdependence between Europe and the rest of the world. However, while the Western European countries focused on the economic development of light industry, dedicated to supply growing community needs, the Soviet-bloc countries prioritised development of heavy industry to secure their defence (military) needs. It is worth noting that the market potential which appeared in Eastern Europe after the regime change in 1989–1990 brought unprecedented sale and investment opportunities, as there was an acute shortage in practically every sphere of the consumer segment.

The collapse of socialist economy left consumers without any distribution and retail network. This gap was immediately filled with global players whose expertise and international supply network were unreachable for any domestic competition. This move turned out to be of advantage to consumers as they could enjoy competitive prices. At the same time, it put producers in an inferior position in negotiating sale prices of their goods. In some cases, the financial success of some distributors was greater abroad than in their own country of origin.

At present European producers have chosen a model of market growth based upon seeking regions with lower production costs, which is why China became an important production centre for the European market giants. The global market was no invention of the twentieth century but, particularly since the end of the Second World War, globalisation impacted economies worldwide on an unprecedented scale.

Discussion questions

1. What were the most important differences between capitalist and socialist production?
2. Why did 'taste' become so important in consumer societies in the twentieth century?
3. In which ways did the production and consumption regimes of the twentieth century still shape European society?

Suggested reading

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