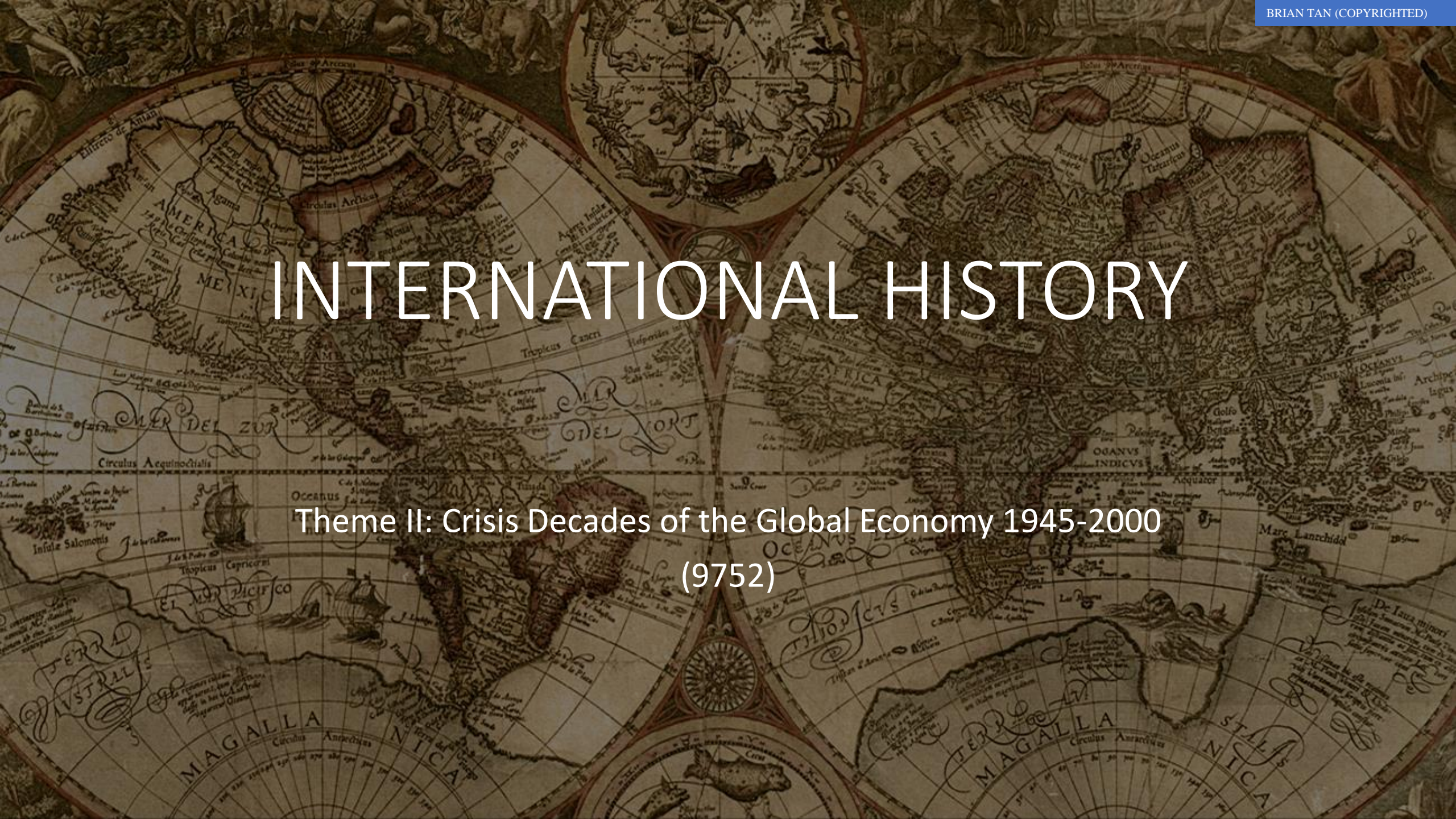


INTERNATIONAL HISTORY

Theme II: Crisis Decades of the Global Economy 1945-2000
(9752)



CHAPTER ANALYSIS



MASTERY

- What are the fundamental questions I must be able to answer?
- Memorization of critical statistics and key events
- Reasons for decline of the global economy (1945 – 1970s)
- Timelines in the crisis decades
- Structure VS Agency: What caused the downfall?



EXAM

- Managing your time well in the examination
- Key agents of growth during early global economic boom
- Evaluate the effects of decisions made by key agents and institutions during this time period



WEIGHTAGE

- Constitute to exactly 30% of final paper grade
- 50 mins per essay

TIMELINE OF GLOBAL ECONOMY: 1945 – 1980S

STRUCTURAL PROBLEMS OF GE

REASONS FOR SUSTAINED DECLINE

KEY AGENTS OF THIS DECLINE





Characteristics of the Crisis Decades

1. Sustained and severe stagflation throughout the 1970s and 1980s
2. Earliest years: Oil crises in 1973 & 1979
3. Intermediate years: Third World Debt crisis in the 1980s financed by petrodollar recycling

The Crisis Decades was a period of sustained and spectacular decline in the global economy. It is characterized by a sustained stagflation (stagnation + inflation) of the Global Economy throughout the 1970s to 1980s.

It has two distinct phases. The first being the oil crises in the 1970s and the second being the third world debt crises in the 1980s.

While the first crises impacted all economies, it impacted some more than others (Southern economies). The second crises had a more disproportionate impact on Third World economies because of the nature of financing economic growth.





Key Questions for Global Economy: Crisis Decades

1. Assessing the key reasons for the sustained and spectacular nature of decline.
2. What was the most important reason that led to the decline of the GE?
3. Which were the countries most affected by this decline?

What makes a factor the most important?

- Sustained nature of its impact
- **Scope and extent of impact**
- **Fundamentality in determining the extent of its impact**

Potential Angles of Analysis

- Long-term/Short-term
- **Cause of the scale of impacts**
- **Context/Trigger**





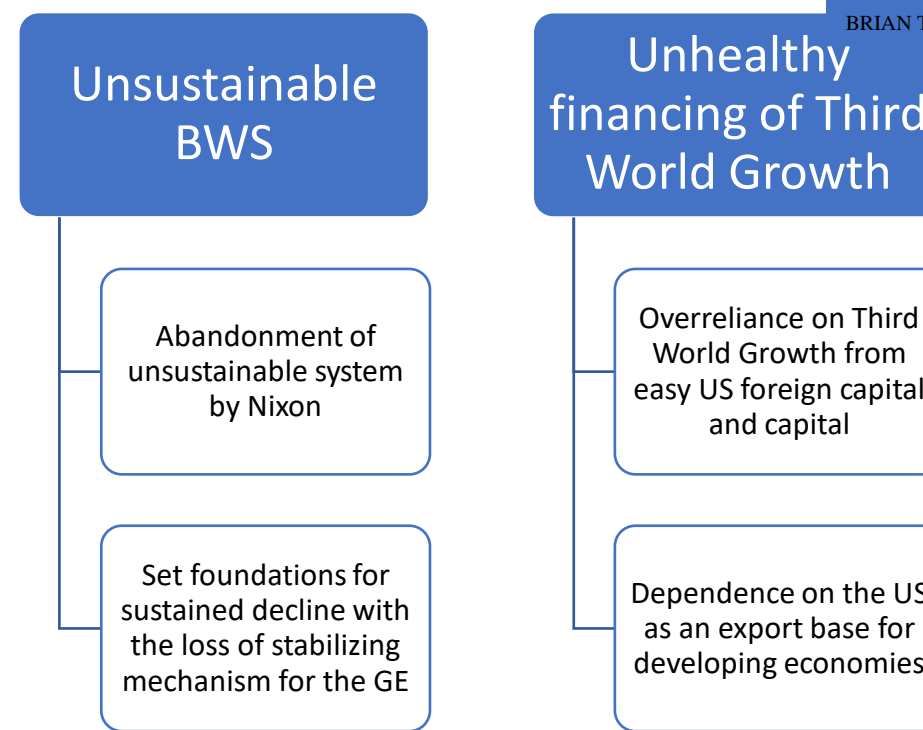
Structural Problems of the GE (1950s - 1970s)

PROBLEMS

Unsustainable Bretton Woods System and Institutions

Unhealthy financing of Third World developing economies

Heavy dependence of Southern economies on Oil in developmental stage



Southern Dependence on Oil

Due to their stage of development, the Southern developing economies could not decouple their growth from oil

This exacerbated the impacts of the oil crisis on the southern economies.



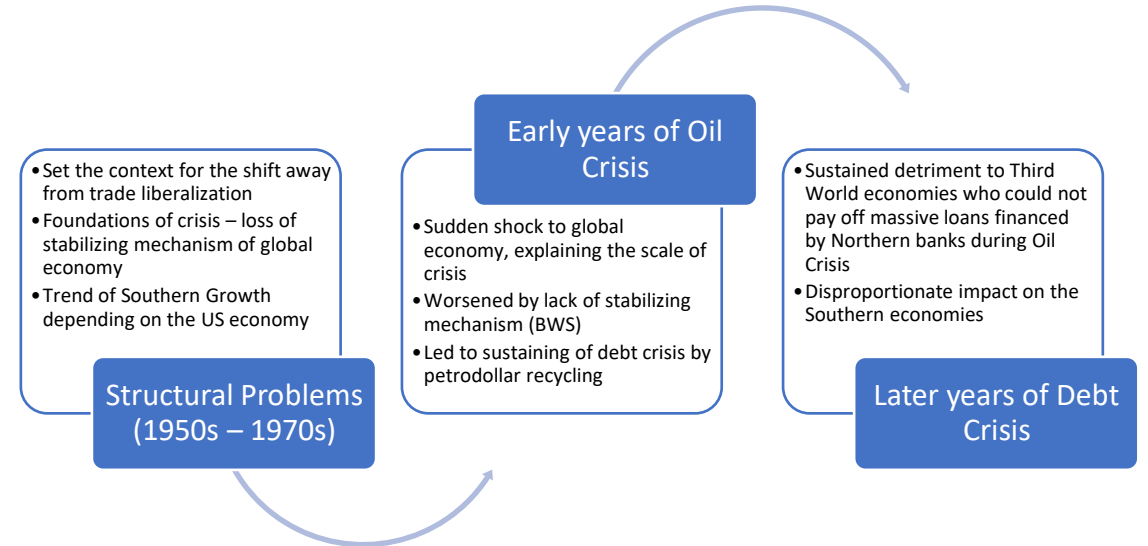
Timeline for Crisis Decades (1945 – 1980s)

TIME PERIODS

Structural problems from the Golden Years (1950s to 1970)

Earlier years of crisis decades – Oil Crisis (1973 - 1979)

Later years of crisis decades – Third World Debt Crisis (late 1970s to 1980s)





Oil Crises of 1973 and 1979

- Impact of Oil Crises unpacked into two phases: **Early shock to the global economy** and **Sustained role in directly contributing to worsening of the Debt Crisis in the 1980s**
- Note different frameworks of analysis used to show impact of the oil crisis
- In earliest years, scale of crisis was directly influenced by the Oil Crises
- In intermediate years, oil crises were responsible for sustaining the stagflation of the crisis decades

Example: Earlier years of Crisis Decades

Oil Crises were a **key catalyst that caused the extent** of steep economic problems. In 1973, OPEC quadrupled oil prices from 2.85 to almost 12 dollars. In the context of a global economy where Japan and Europe imported almost 70% of its oil, this effectively illustrates that the characteristic extent of stagflation during the crisis decades was a direct result of the oil supply shock.

Example: Sustaining the Crisis Decades

The oil crisis set the context for the **sustained nature of the crisis decades**. Essentially, the oil crisis enabled Northern banks to be flushed with cash which was then used to finance overly optimistic prospects of Third World Nations.

Exemplified by the fact that by 1983, two-thirds of American banks were exposed to more than 347% of their primary capital in bad third world loans, with Mexico owing Citibank and Bank of America \$3 billion USD each. The Third World's inability to pay off these easily available loans is what resulted in the Debt Crisis.





The United States of America

- Role of US understood in 2 ways: **Abandonment of the BWS** and **Dictating the trend of Third World growth financed by foreign aid**
- Note direct and indirect role of the US and its continued influence over the Global Economy.
- In earliest years, US decision to abandon BWS set the context of global economic instability
- In intermediate years, US dictating the trend of Third World foreign aid indirectly contributed to the debt crises.



Example: Early context of global economic instability

US decision to abandon the Bretton Woods System in 1971 **set the foundations for global economic instability**. This had a destabilizing impact on the global economy, since the US-backed BWS was representative of a strong liberal trading environment, where the US could always be used as an export hub.

It heralded an era of uncertainty which laid the context for further global economic problems to compound on.

Example: Intermediate years

Throughout the Golden Years, Third World growth was financed by US Foreign Aid. The US dictated the trend of Third World Nations being overly reliant on foreign capital for growth. This **indirectly contributed to the sustained nature of the Crisis Decades.**

Exemplified by the fact that when US Foreign Aid fell from the 1969 to 1971, the difference was made up from private loans to Third World governments from Northern banks. This set the trend for the borrowing of unhealthy loans from bank from the Third World to finance growth, leading to the explosion of the debt crisis in the 1980s.



Debt Crisis and its Impacts

- Understanding the Debt Crisis is crucial to explaining the Crisis Decades – It explains the **sustained** and **disproportionate nature** of its impacts.
- Note the reasons for the extent of the crisis and the biggest losers of the debt crisis.
- Hint: Context vs Trigger of the Debt Crisis

Example: Context leading to Debt Crisis

The US dictated the trend of Third World Nations being overly reliant on foreign capital for growth. This **set the context for Third World nations** to look towards foreign funding to finance growth.

Example: Trigger leading to extent of Debt Crisis

Oil crisis is the trigger that catalyzed the extent of the Debt Crisis. Northern banks being flushed with cash from the oil crisis led to the free lending of easy loans to Third World countries for economic development.

Access to large, easily available loans that the countries had no means of repaying was what characterized the extent of the Third World Debt Crisis.





Understanding the Crisis Decades

- Understanding the different impacts of countries is crucial to understanding the Crisis Decades.
- In the earliest years, all countries were equally hard hit. But in the 2nd Oil Crisis, developed Northern economies were able to bounce back more quickly.
- In the later years, it was mainly the undeveloped Southern economies that suffered from unfair repayment terms set by multilateral institutions in resolving the Debt Crisis.

Example: Impact of Oil Crisis


Initially, all economies were hard hit by the Oil Crisis. However, the **context of the country's development is important**. For rapidly developing economies like Western Europe, Japan and all Southern economies, oil was a crucial import for development. This made them more susceptible to impacts of the crisis.

Yet in the 2nd Oil Crisis of 1979, most developed Northern economies were able to recover much more quickly. Their more developed state meant that they no longer were as reliant on oil for economic progress.

Example: Impact of Debt Crisis

While the Debt Crisis impacted all economies, it was mainly the Southern economies that suffered the most. The context of systemic prejudice against Southern economies in multilateral financial institutions meant that Southern economies bore the brunt of the absorption of the debt.

Context of different developmental stage between North and South economies meant that richer Northern countries had more clout in multilateral institutions. I.E Having a more dominant role in the IMF and the World Bank, particularly the US. Allows them to prioritize their own interests over the interests of the Third World in the resolution of this crisis.





Sample Essay Question

Assess the reasons for the sustained decline of the Global Economy during the crisis years.

What does this question require? -> An analysis of the most important reasons for the **sustained nature** of the Crisis Decades

Potential angles of analysis

1. Context/Trigger
2. **Extent/Scope of impact**
3. **Root cause analysis**

Sample Introduction

Identifying evaluative handles

This questions requires an assessment of the reasons that led to the sustained decline of the global economy from 1970 to 1980s. The sustained decline in this context can be unpacked as countries' inability to recover from the crises over a long period of time and the persistent stagflation faced by many countries. **In the earlier years**, US abandonment of the Bretton Woods System **laid the foundations** for a weakened global economic order, creating conditions favourable for a deep economic crisis. Yet, it is crucial to note that it was the **trigger of the oil crisis that sparked the extent** of the decline, as well as the sustenance of the decline in the Third World **through the debt crisis**. However, **at the root cause**, we see that the decline of the global economy was dictated by a permanent shift in US attitudes. This is further attested by the fact that we see US interests directly dictating the **scope of impact** the various crises had on different countries based on their own domestic interests. As such, this essay posits that while external factors such as the unsustainability of the BWS, the oil crisis and debt crisis were important in explaining the reasons for the crisis decades, the most important reason for the sustained decline of the global economy is the permanent shift in US attitudes to focus on their own domestic interest which underpinned all the critical issues during the crisis decades.

Single thesis statement that directly addresses what question is asking

Awareness of timeline that characterize crisis decades



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