

1

75 Years of Global Growth and Development

In the 75 years since the end of World War II, there has been a surge of global economic development. But despite this, the world is living a tale of two realities.

On the one hand, we have rarely been as well off as we are today. We live in a time of relative peace and absolute wealth. Compared with previous generations, many of us live long and mostly healthy lives. Our children get to go to school, even often college, and computers, smartphones, and other tech devices connect us to the world. Even a generation or two ago, our parents and grandparents could only dream of the lifestyle many of us have today and the luxuries that come with abundant energy, advances in technology, and global trade.

On the other hand, our world and civil society are plagued by maddening inequality and dangerous unsustainability. The COVID-19 public health crisis is just one event that demonstrates that not everyone gets the same chances in life. Those with more money, better connections, or more impressive ZIP codes were affected by COVID at far lower rates; they were more likely to be able to work from home, leave densely populated areas, and get better medical care if they did get infected.

This is a continuation of a pattern that has become all too familiar in many societies. The poor are consistently affected by global crises, while the wealthy can easily weather the storm.

To understand how we got here—and how we can get out of this situation—we must go back in time, to the origins of our global economic system. We must play back the picture of post-war economic development and look at its milestones. The logical starting point for this is “Year Zero” for the modern world economy: 1945. And there is perhaps no better place from where to tell this story than Germany, for which that year was truly a new beginning.

Foundations of the Post-War Global Economic Order

Children like me, who started primary school in Germany in 1945, were too young to understand why the country they lived in had been at war before or why the next years would change so markedly. But we understood all too well that future conflict was to be avoided at all costs. As in the years following the First World War, “Nie Wieder Krieg,” or “Never Again War,” became a rallying cry all over Germany. People had had enough of conflict. They wanted to rebuild their lives in peace and work together toward a better quality of life.

This would not come easily, in Germany or elsewhere. As World War II came to an end, the country lay in ruins. Barely a fifth of the historic buildings in Germany’s main cities still stood. Millions of homes had been wiped out. Swabia, the region in southern Germany where I grew up, was no exception. In its most industrialized city, Friedrichshafen, almost every factory was razed to the ground. This included those of Maybach and Zeppelin, two legendary manufacturers of cars and aircraft whose production capacity had been used by the Nazi government for military purposes during the war.

It is one of my earliest memories, how on the roof of my parents’ house, just 18 kilometers away from Friedrichshafen, we watched the fires that led to Friedrichshafen’s destruction. We prayed that the raid would not also hit our hometown, and luckily it didn’t, but 700 people died in the last raid of Friedrichshafen alone. I remember how my parents cried when they heard the news, knowing many people personally in this neighboring city. By the war’s end, only a quarter of

the 28,000 original inhabitants of Friedrichshafen remained.¹ The rest had fled, disappeared, or died.

Ravensburg, where I lived, was one of the rare towns spared by Allied bombardment, a fate likely due to its lack of military-industrial capacity. But the consequences of war were all around us. By the end of the war, as the French Allied army moved in, Ravensburg had become a vast shelter for internal refugees, forced laborers, prisoners of war, and wounded soldiers.² The chaos in the city was complete. The only silver lining at midnight on May 8, 1945, was that the war had truly ended. In Germany, we came to mark this moment as the “Stunde Null,” or “Zero Hour.” Historians such as Ian Buruma later referred to the year that followed as “Year Zero.”³ Germany’s economy was a wasteland, and it could only hope to be allowed to begin again, with a clean slate.

The other Axis powers, Italy and Japan, faced similar challenges. The Axis nations’ productive capacity had been decimated. Turin, Milan, Genoa, and other Italian cities had suffered extensive bombings, and Hiroshima and Nagasaki saw unparalleled devastation by atomic bombs. Other European countries were also shell-shocked and went through an initial period of chaos. Further east, China and much of Southeast Asia were mired in internal conflicts. Economies in Africa, the Middle East, and South Asia were still shackled by colonial rule. The Soviet Union had suffered enormous losses during World War II. Only the economies of the Americas, led by the United States, had come through the war largely unscathed.

It was thus up to Washington and Moscow to lead the post-war era, each in its sphere of influence. In Swabia, then part of Allied-occupied Germany, the future depended in large part on the choices the United States would make.

America faced a difficult balancing act. It was determined not to repeat the mistakes from the Treaty of Versailles, which ended World War I. Signed in 1919, the Treaty of Versailles saddled the defeated Central Powers (Germany, Austria-Hungary, the Ottoman Empire, and Bulgaria)

¹70 Jahre Kriegsende, Schwabische Zeitung, Anton Fuchsloch, May 2015, (in German) <http://stories.schwabische.de/kriegsende#10309>.

²Wie der Krieg in Ravensburg aufhort, Schwabische Zeitung, Anton Fuchsloch, May 2015, (in German) <http://stories.schwabische.de/kriegsende#11261>.

³*Year Zero, A History of 1945*, Ian Buruma, Penguin Press, 2013, <https://www.penguinrandomhouse.com/books/307956/year-zero-by-ian-buruma/>.

with an unbearable debt load. This curtailed their economic development and led to an erratic economic recovery, which planted the seeds for the Second World War.

After World War II, Washington took another approach. It wanted to revive the European economies that lay within its sphere of influence, including the parts of Germany under British, French, and American occupation. The United States wanted to promote trade, integration, and political cooperation. As early as 1944, America and its allies had created economic institutions such as the International Monetary Fund and the International Bank for Reconstruction and Development (now part of the World Bank).⁴ Over the decades that followed, they continued their efforts to develop a stable, growing economic system in West Germany and throughout Western Europe.

From 1948 onward, the United States and Canada also provided specific regional aid. Through the Marshall Plan, named after then-US Secretary of State George Marshall, the United States helped Western European countries purchase American goods and rebuild their industries, including Germany and Italy. Providing aid to former Axis powers was a contentious decision, but it was deemed necessary because without the German industrial motor, there could be no strong, industrial Europe. (The Organisation for European Economic Cooperation and Development (OEEC), the forerunner of the OECD, was an important administrator of the program.)

America did not limit its efforts to aid. It also encouraged trade by setting up European markets for coal, steel, and other commodities. That led to the creation of the European Coal and Steel Community, the embryonic form of what is now the European Union. In Asia, too, the United States provided aid and credit to countries including Japan, China, the Republic of Korea, and the Philippines. Elsewhere, the Soviet Union expanded its sphere of influence, promoting an economic model based on centralized planning and state ownership of production.

Local governments, industries, and workers also played a role in the reconstruction effort. For example, in 1947, the Zeppelin Foundation transferred almost all its assets to the city of Friedrichshafen⁵ in the hopes of reigniting a prosperous future for the Zeppelin companies and

⁴Organisation for Economic Co-operation and Development (OECD), Eurostat, <https://ec.europa.eu/eurostat/statistics-explained/pdfscache/1488.pdf>.

⁵Friedrichshafen, History of the Zeppelin Foundation, <https://en.friedrichshafen.de/citizen-city/zeppelin-foundation/history-of-the-zeppelin-foundation/>.

their workers. At the same time, Friedrichshafen's citizens worked long days to rebuild their homes. Women played a special role in this rebuilding and in much of the initial work of reconstruction. German magazine *Der Spiegel* later recalled: "With so many men killed in the war, the Allies relied on women to do the hard work of clean-up."⁶

Just as a jigsaw puzzle requires every piece to be placed correctly to create a complete picture, the work of reconstruction required every resource to be deployed and every human effort to be mobilized. It was a task that the entire society took to heart. One of the biggest, most successful manufacturers in Ravensburg was a family enterprise that eventually renamed itself Ravensburger.⁷ It resumed its production of puzzles and children's books, a business that continues to this day. And in Friedrichshafen, ZF, a subsidiary of the Zeppelin Foundation, re-emerged as a manufacturer of car parts. Companies like these, often from Germany's famous *Mittelstand*, i.e., the small and mid-sized businesses that form the backbone of the German economy, played a critical part in the post-war economic transformation.

The Glorious Thirty Years in the West

For many people living in Europe—myself included—the relief of the end of the war soon made way for the fear of another one. The free market approach in US-occupied West Germany and the rest of Western Europe clashed with the centrally planned economic model of the Soviet Union, which held sway over East Germany and the rest of Eastern Europe. Which would prevail? Was peaceful coexistence possible, or did things have to end in a head-on conflict? Only time would give us the answers.

At the time, the results were not clear to us or anyone else. This was a battle of ideologies, economic systems, and geopolitical hegemony. For decades, both powers entrenched their positions and their competing systems. Asia, Africa, and Latin America saw the same ideological battle between capitalism and communism play out.

With the benefit of hindsight, we know that the economic institutions the United States created, based on capitalism and free markets,

⁶Der Spiegel, A Century-Long Project, October 2010, <https://www.spiegel.de/fotostrecke/photo-gallery-a-century-long-project-fotostrecke-56372-5.html>.

⁷The company was founded as the Otto Maier Verlag and later changed its name to Ravensburger.

were building blocks for an era of unparalleled shared economic prosperity. Combined with the will of many people to rebuild, they laid the groundwork for decades of economic progress and economic dominance of the West over the “rest.” The Soviet model of centralized planning initially bore fruit, too, allowing it to prosper at first, but it would later collapse.

Beyond the economic shifts, other factors shaped our modern era. Many parts of the world, including the United States and Europe, had a baby boom. Workers were drawn away from the nihilistic demands of wartime production to the socially productive work during peacetime. Education and industrial activity expanded. The leadership provided by heads of government, such as Konrad Adenauer in Germany or Yoshida Shigeru in Japan, was a crucial piece of the puzzle too. They committed themselves and their governments to reconstructing their economies and societies in an inclusive way and to developing strong relations with the Allies aimed at a sustained peace, rather than give in to the quest for revenge that had dominated after the First World War. Given the national focus on community and economic reconstruction, there was an increase in societal cohesion (which is more deeply discussed in Chapter 4).

Between 1945 and the early 1970s, these factors came together to drive a *Wirtschaftswunder*, or economic miracle, in Germany and the rest of Europe. A similar boom got underway in the United States, Japan, and South Korea (and, initially, in the Soviet Union). The West entered its golden age of capitalism, and the innovations of the Second Industrial Revolution were widely implemented: highways for car and truck transport were built en masse, the age of commercial flying arrived, and container ships filled the sea lanes of the world.

In Swabia, too, new technologies were implemented on the back of this economic miracle. At Ravensburger, for example, sales tripled in the 1950s, kicking off the phase of mass industrial production that began in 1962. Family board games like *Rheinreise* (which literally translates as “Journey on the Rhine”) became extremely popular⁸ as the children of the baby boom came of age. Ravensburger expanded further in the 1960s,⁹ when the company introduced puzzles to its product line. (The brand’s logo, a blue triangle on the corner of its boxes, became iconic.) Around the same time, ZF Friedrichshafen resurfaced in the 1950s as a

⁸Company interview with Heinrich Huentelmann and Tristan Schwennsen, August 2019.

⁹Ravensburger, About Ravensburger, <https://www.ravensburger-gruppe.de/en/about-ravensburger/company-history/index.html#1952-1979>.

manufacturer for automotive transmissions, complementing its assortment with automatic transmissions by the mid-1960s.¹⁰ It helped propel German car manufacturers such as BMW, Audi, Mercedes, and Porsche to the top, at a time when the European car industry was booming. (ZF's success lasts until this day, as the company in 2019 posted global revenues in excess of \$40 billion, had almost 150,000 employees worldwide, and operations in over 40 countries around the world.)

Looking at economic indicators in the leading economies of the world, it seemed as though everyone was winning. Annual economic growth averaged up to 5, 6, and even 7 percent. Gross domestic product (GDP) is the monetary value of the goods and services produced in a given economy. Often used to measure economic activity in a country, it doubled, tripled, and even quadrupled in some western economies over the next decade or two. More people went to high school and into middle-class jobs, and many baby boomers became the first in their families to go to college and climb up the socioeconomic ladder.

For women, climbing up that ladder had an extra dimension. At first slowly, then steadily, emancipation advanced in the West. More women went to college, entered and stayed in the workforce, and made more conscious decisions about their work-life balance. The booming economy had plenty of room for them, but they were also supported by advancements in medical contraception, the increased accessibility of household appliances, and, of course, the emancipation movement. In the United States, for example, female labor-force participation jumped by 15 percent between 1950 and 1970, from about 28 to 43 percent.¹¹ In Germany, the percent of female students at university rose from 12 percent in 1948 to 32 percent in 1972.¹²

At the Ravensburger company, women came to the forefront, too. Starting in 1952, Dorothee Hess-Maier, a granddaughter of the company's founder, became the first woman at the helm of the company, alongside her cousin Otto Julius. It was exemplary of a broader trend. Women's liberation in Western societies continued for the remainder of the century and into the 21st. Anno 2021, there are more women than

¹⁰Heritage, ZF, https://www.zf.com/mobile/en/company/heritage_zf/heritage.html.

¹¹Our World in Data, Working women: Key facts and trends in female labour force participation, <https://ourworldindata.org/female-labor-force-participation-key-facts>.

¹²Kompetenzzentrum Frauen in Wissenschaft und Forschung, Entwicklung des Studentinnenanteils in Deutschland seit 1908, <https://www.gesis.org/cews/unser-angebot/informationsangebote/statistiken/thematische-suche/detailanzeige/article/entwicklung-des-studentinnenanteils-in-deutschland-seit-1908/>.

men enrolled in university in many countries around the world, including the US and Saudi Arabia¹³(!), and women form close to half of the workforce in many countries. Despite this, inequalities related to pay and other factors remain.¹⁴

Over the course of those early post-war decades, many countries used their economic windfall to build the foundations of a social market economy. In Western Europe, notably, the state offered unemployment benefits, child and education support, universal health care, and pensions. In the United States, pro-social policies were less *en vogue* than in Europe, but thanks to the rapid economic growth, more people than ever did ascend to the middle class, and social security programs did grow both in the number of beneficiaries and the overall funds allocated to them, especially in the two decades between 1950 and 1970.¹⁵ Median wages rose sharply, and poverty fell.

France, Germany, the Benelux countries, and the Scandinavian countries also promoted collective bargaining. In most German companies, for example, the Works Council Act of 1952 determined that one-third of the members of the supervisory board had to be selected by workers. An exception was made for family-owned companies, as ties between the community and management there were typically strong, and social conflict was rarer.

As I grew up in that golden era, I developed a keen appreciation for the enlightened role the United States had played in my country and the rest of Europe. I became convinced that economic cooperation and political integration were key to building peaceful and prosperous societies. I studied in both Germany and Switzerland and came to believe the borders between European nations would one day disappear. In the 1960s, I even had the opportunity to study one year in the United States and learn more about its economic and management models. It was a foundational experience.

Like so many of my generation, I was also a beneficiary of the middle-class, solidarity society European countries had developed. Early on, I became very intrigued by the complementary roles business and

¹³School Enrollment, Tertiary, Saudi Arabia, World Bank, 2018, <https://data.worldbank.org/indicator/SE.TER.ENRRR?locations=SA>.

¹⁴Global Gender Gap report 2018, <http://reports.weforum.org/global-gender-gap-report-2018/key-findings/>.

¹⁵“Historical Background and Development Of Social Security,” Social Security Administration, <https://www.ssa.gov/history/briefhistory3.html>.

government played in shaping the future of a country. For this reason, it was natural to write one of my theses about the right balance between private and public investments. Having worked during more than a year on the shop floor of companies, experiencing real blue-collar work, I also developed a special respect for the contribution of workers in developing economic wealth. My belief was that business, like other stakeholders in society, had a role to play in creating and sustaining shared prosperity. The best way to do so, I came to think, was for companies to adopt a stakeholder model, in which they served society in addition to their shareholders.

I decided to turn that idea into action by organizing a management forum where business leaders, government representatives, and academics could meet. Davos, a Swiss mountain town that in Victorian times had become famous for its sanatorium treatment of tuberculosis (before antibiotics such as isoniazid and rifampin¹⁶ were invented), offered an optimal setting for a sort of global village,¹⁷ I thought. High up in the mountains, in this picturesque town known for its clean air, participants could exchange best practices and new ideas and inform each other of pressing global social, economic, and environmental issues. And so, in 1971, I organized the first meeting of the European Management Forum (the forerunner of the World Economic Forum) there, with guests such as Harvard Business School Dean George Pierce Baker, Columbia University Professor Barbara Ward, IBM President Jacques Maisonrouge, and several members of the European Commission.¹⁸

The Tumultuous 1970s and 1980s

But just then, in the beginning of the 1970s, it became clear the economic miracle wasn't to last. As we gathered in Davos, cracks in the system had already come to the surface. The post-war boom had plateaued, and social, economic, and environmental issues were emerging. My hope though, was that by more actively learning about successful American management practices, European businesspeople, politicians, and academics could continue to spur prosperity on the continent.

¹⁶Tuberculosis Treatment, Mayo Clinic, <https://www.mayoclinic.org/diseases-conditions/tuberculosis/diagnosis-treatment/drc-20351256>.

¹⁷The term "global village" was coined by Canadian thinker Marshall McLuhan in the 1960s.

¹⁸"The World Economic Forum, a Partner in Shaping History, 1971–2020," p.16 http://www3.weforum.org/docs/WEF_A_Partner_in_Shaping_History.pdf.

Many European companies did in fact make the step toward neighboring international markets. The European Coal and Steel Community (ECSC), which as the name implied focused on a common market for a few key resources, had in the preceding years evolved to become the more all-encompassing European Economic Community (EEC). It allowed for a freer trade of goods and services across the continent. Many *Mittelstand* companies used that opening to set up subsidiaries and start sales in neighboring EEC countries. It was thanks in part to this increase in intra-regional trade that growth could continue in the 1970s.

But some economic variables with a critical effect on growth, employment, and inflation, such as the price of energy, were not favorable. Oil, which alongside coal had fueled the post-war boom, brought a first shock to the system. The price of the world's most important energy source rose fourfold in 1973 and then doubled in 1979, as the major oil-producing and -exporting countries (OPEC)—many of them former Middle Eastern and Arabian colonies of the European powers—flexed their muscles. Controlling the vast majority of the global oil supply at the time, the OPEC countries decided to implement an oil embargo in response to the Yom Kippur War. During that war, many of OPEC's Arab members opposed Israel, which during and after the armed conflict expanded its territory in the region. The embargo, targeted mainly against Israel's western allies including the US and the UK, was very effective.

It was no wonder perhaps, that the OPEC countries used their newly gained market power. In the preceding two decades, many of its members—often former European colonies in Asia, the Middle East, and Africa—had finally gained their independence. But unlike most Western countries in that era, these developing countries were often consumed by political and social turmoil. The economic boom in Europe and the United States remained out of reach for many newly independent countries in Asia, the Middle East, and Africa. The OPEC nations were among the few exceptions, as their most important resource, oil, fueled the world economy.

As economic and industrial progress had been so great in the West over the three previous decades, some people also warned that the expansion was unsustainable and that a new economic system would be needed that is more sustainable for the planet, its limited natural resources, and eventually, humans themselves. Among these voices were European scientists and industrialists of the Club of Rome, who had come to believe that the state of the world, and notably the environmental degradation

of the planet, was a major problem for human society. Indeed there were great warning signs for anyone who would take heed, and at the Forum's meetings in Davos, we paid close attention. In 1973, Aurelio Peccei, the club's president, gave a keynote speech at Davos about his organization's findings, warning of an impending end to growth.

Still, after surviving multiple recessions and introducing some energy-saving measures such as daylight savings time and car-free Sundays, the world eventually returned to its familiar growth path in the 1980s. The days of 5 and 6 percent GDP growth were over (at least in the West), but growth levels of 3 to 4 percent there were not at all out of the ordinary. Other economies, including the Asian Tigers (South Korea, Taiwan, Hong Kong, and Singapore) helped to make up for the shortfall.

But beginning in the 1980s, a fundamental change in perspective started to emerge about what had enabled post-war economic growth. During the immediate post-war years, it was believed that increased economic prosperity was something that everyone had contributed to, and so it had to be shared by all. It was an industrial model of progress built on partnership between company owners and their workforces. By contrast, the growth phase of the 1980s was based more on market fundamentalism and individualism and less on state intervention or the building of a social contract.

I think this was a mistake. The stakeholder model requires businesses to think beyond their direct, primary interests and to include the concerns of employees and their communities in their decision-making. In the early years of our Davos gathering, participants had even committed to this in a "Davos Manifesto":¹⁹

THE 1973 DAVOS MANIFESTO

- A. The purpose of professional management is to serve clients, shareholders, workers and employees, as well as societies, and to harmonize the different interests of the stakeholders.*
- B. 1. The management has to serve its clients. It has to satisfy its clients' needs and give them the best value. Competition among companies is the usual and accepted way of ensuring that clients receive the best value choice. The management's aim is to translate new ideas and technological progress into commercial products and services.*
- 2. The management has to serve its investors by providing a return on its investments, higher than the return on government bonds. This higher*

¹⁹The Davos Manifesto, 1973, World Economic Forum, <https://www.weforum.org/agenda/2019/12/davos-manifesto-1973-a-code-of-ethics-for-business-leaders/>.

return is necessary to integrate a risk premium into capital costs. The management is the shareholders' trustee.

3. *The management has to serve its employees because in a free society leadership must integrate the interests of those who are led. In particular, the management has to ensure the continuity of employees, the improvement of real income and the humanization of the work place.*
 4. *The management has to serve society. It must assume the role of a trustee of the material universe for future generations. It has to use the immaterial and material resources at its disposal in an optimal way. It has to continuously expand the frontiers of knowledge in management and technology. It has to guarantee that its enterprise pays appropriate taxes to the community in order to allow the community to fulfil its objectives. The management also has to make its own knowledge and experience available to the community.*
- C. *The management can achieve the above objectives through the economic enterprise for which it is responsible. For this reason, it is important to ensure the long-term existence of the enterprise. The long-term existence cannot be ensured without sufficient profitability. Thus, profitability is the necessary means to enable the management to serve its clients, shareholders, employees and society.*

But despite the initial enthusiasm for the Davos Manifesto and the stakeholder-centered approach it advocated, a narrower shareholder-centric paradigm prevailed, particularly in the United States. It was the one put forth by University of Chicago economist and Nobel Prize winner Milton Friedman starting in 1970. He held that the “only social responsibility of business is to increase its profits”²⁰ and that free markets are what matters above all else. (This is discussed further in Chapter 8.)

The result was unbalanced growth. Economic growth returned in the 1980s, but an ever smaller part of the population benefited from it, and even more harm was done to the planet to achieve it. Union membership started to decline, and collective bargaining became less common (though much of continental Europe, including Germany, France, and Italy clung to it until the 2000s, and some, like Belgium, still do today). Economic policies in two of the West's leading economies—the United Kingdom and the United States—were largely geared toward deregulation, liberalization, and privatization, and a belief that an invisible hand would lead markets to their optimal state. Many other Western

²⁰“A Friedman Doctrine—The Social Responsibility of Business Is to Increase Its Profits,” Milton Friedman, *The New York Times*, September 1970, <https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html>.

economies later followed their path, in some cases after more left-leaning governments failed to jumpstart economic growth. On a more positive note, new technologies also made their contribution, leading to a Third Industrial Revolution. The personal computer was invented and would become one of the key components of every organization.

Die Wende

These trends did not happen in isolation. As the 1980s progressed, the economies of Eastern Europe started to collapse. Their failure at this industrial transition point showed that the state-led economic model put forth by the Soviet Union was less resilient than the market-based one promoted by the West. In China, the government of new leader Deng Xiaoping started its own Reform and Opening-Up in 1979, gradually introducing capitalist and market-based policies (see Chapter 3).

In 1989, Germany experienced a moment of euphoria, as the Berlin Wall, which separated East from West, fell. Shortly thereafter, political reunification of Germany was at last established. And by 1991, the Soviet Union had officially disintegrated. Many economies that lay in its sphere of influence, including those of East Germany, the Baltics, Poland, Hungary, and Romania, turned toward the West and its capitalist, free-market model. “The end of history,” as Francis Fukuyama would call it later,²¹ had arrived, it seemed. Europe got another boost, this time leading to even deeper political and economic integration and the establishment of a common market and a monetary union, with the euro currency as its apex.

At Davos, we felt the winds of change as well. Whereas initially the European Management Forum had been primarily a meeting place between European and American academics, policymakers, and businesspeople, over the course of the 1980s it had become global. The 1980s saw the inclusion of representatives from China, India, the Middle East, and other regions and a shared, global agenda. By 1987, a name change had become necessary. We were thenceforth known as the World Economic Forum. It was fitting for the era of globalization that followed.

²¹*The New York Times Magazine*, “What Is Fukuyama Saying? And to Whom Is He Saying It?”, James Atlas, October 1989, <https://www.nytimes.com/1989/10/22/magazine/what-is-fukuyama-saying-and-to-whom-is-he-saying-it.html>.

Globalization in the 1990s and 2000s

Indeed, following the Soviet Union's collapse, for more than a decade the world's economies became more intertwined. Countries all over the world started to set up free-trade agreements, and the motors of global growth were more varied than ever. The relative importance of Europe declined, and so-called emerging markets, such as South Korea and Singapore but also larger ones such as Brazil, Russia, India, South Africa, and, of course, China, came to the forefront. (There is no formal definition of emerging markets, as it's a classification made by particular private financial institutions, but one common trait that they share is that they are non-Western economies that often have or had higher-than-average growth rates for a number of years, which could help them gain or regain developed-economy status over time.)

In this way, globalization—a process of growing interdependence between the world's economies, signaled by increasing flows of goods, services, people, and capital—became a dominant economic force. Trade globalization, measured by international trade as a percentage of global GDP, reached its highest level ever—15 percent—in 2001, up from 4 percent at its nadir in the Year Zero of 1945.

Swabia's prominent companies surfed this wave of globalization, too. "China was at the top of ZF's agenda," Siegfried Goll, then a prominent ZF manager, testified in the company's written history.²² "The development of our business relations began already in the 1980s, initially by means of license contracts. When I retired in 2006, we had no fewer than 20 production locations in China." According to the company's own records, "The first joint venture was established in 1993," and by 1998, "ZF's position in China was so firmly entrenched that the first-ever founding of a fully owned Chinese subsidiary was possible: ZF Drivetechnik Co. Ltd. in Suzhou."

For some, though, this globalization was too much, too quickly. In 1997, several Asian emerging economies experienced a severe financial crisis, caused in large part by unchecked financial globalization, or the flow of hot money, international investor money that flows easily from one country to another, chasing returns, relaxed capital controls, and bond speculation. At the same time, in the West, an anti-globalization movement took hold, as multinational companies started to have more control over national economies.

²²"Pioneers in China," 1993, ZF Heritage, zf.com/mobile/en/company/heritage_zf/heritage.html.

Even Ravensburger didn't escape the backlash. In 1997, the company management announced that it wished to "introduce a 'pact for the safeguarding of production sites,' as a 'preventive initiative for the maintenance of national and international competitiveness,'" the European Observatory of Working Life wrote in a later case study on the matter.²³ The result was the so-called Ravensburger Pact, in which the company offered its employees job security in exchange for concessions.

Although the pact was accepted by most workers, it also led to a deterioration in employee-employer relations. The industry union argued it went against collective bargaining agreements for the sector and that it was unnecessary, as the company had good economic performance. In the end, the hotly contested pact made all parties reconsider their relationship to each other. The union, which had typically been weak in the family-owned enterprise, grew stronger, and management took on a more constructive approach to its Works Council going forward.

In Germany, similar societal and corporate stresses around economic growth, employment, and the integration of the former East German states ultimately led to a new social pact in the early 2000s, with new laws on co-determination, "mini jobs," and unemployment benefits. But the new equilibrium was for some less beneficial than before, and even though Germany afterward returned to a period of high economic growth, the situation soon got more precarious for many other advanced economies.

A first warning sign came from the dot-com crash in late 2000 and early 2001, when America's technology stocks came crashing down. But the greater shock to US society and the international economic system came later in 2001. In September of that year, the US faced the greatest attack on its soil since the attack on Pearl Harbor in World War II: the 9/11 terrorist attacks. Buildings representing both the economic and the military hearts of America were hit: the Twin Towers in Manhattan and the Pentagon in Washington, DC.

I was in New York that day on a work visit to the UN, and like everyone there, I was devastated. Thousands of people died. The United States came to a standstill. As a sign of solidarity, the following January we organized our Annual Meeting of the World Economic Forum in New York—the first

²³Eurofound, "Pacts for Employment and Competitiveness: Ravensburger AG," Thorsten Schulten, Hartmut Seifert, and Stefan Zagelmeyer, April 2015, <https://www.eurofound.europa.eu/es/observatories/eurwork/case-studies/pecs/pacts-for-employment-and-competitiveness-ravensburger-ag-0>.

it was held outside Davos. After the dot-com crash and 9/11, the Western economies entered a recession. For a while, the path of economic growth through trade and technology advances hung in the balance.

But the seeds of yet another economic boost had already been planted. As exemplified by ZF's increased presence there, China, the world's largest country by population, had become one of the fastest-growing economies after 20 years of Reform and Opening-Up, and in 2001, it entered the World Trade Organization. What other countries had lost in economic momentum, China gained and surpassed. The country became the "factory of the world," lifted hundreds of millions of its own citizens out of poverty, and at its peak became responsible for more than a third of global economic growth. In its path, commodity producers from Latin America to the Middle East and Africa benefitted as well, as did Western consumers.

Meanwhile, on the ruins of the dot-com crash, surviving and new technology firms started to lay the beginnings of a Fourth Industrial Revolution. Technologies such as the Internet of Things came to the forefront, and machine learning—now dubbed "artificial intelligence"—had a revival and rapidly gained traction. Trade and technology, in other words, were once more back as twin engines of global economic growth. By 2007, globalization and global GDP had reached new peaks. But it was globalization's last hurrah.

The Collapse of a System

From 2007 onward, the global economy started to change for the worse. The world's major economies saw their growth motors sputter. The US went first, with a housing and financial crisis turning into a Great Recession that lasted several quarters. Europe followed next, with a debt crisis that started in 2009 and lasted several years. Most other global economies were caught in the middle, with a global recession in 2009 and real economic growth that hovered around between 2 and 3 percent in the following decade. (Specifically, between a low of 2.5 percent in both 2011 and 2019 and a high of 3.3 percent in 2017, according to the World Bank.²⁴)

Slow growth now seems the new normal, as the motor of all economic growth, productivity gains, is lacking. Many people in the West

²⁴GDP Growth, Annual (%), 1961–2019, The World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

are stuck in low-paying, insecure jobs, with no outlook for progress. Moreover, the IMF had already noted well before the COVID crisis that the world had reached unsustainable debt levels.²⁵ Anno 2020, public debt, which had previously reached a high in the 1970s crises, was again at or near record levels too in many countries. According to the IMF's 2020 fiscal monitor, public debt in advanced economies reached more than 120 percent of GDP in the wake of the COVID crisis, an increase of over 15 percent in a single year, and in emerging economies shot up to over 60 percent of GDP (from just over 50 percent in 2019).²⁶

Finally, more and more people are questioning even how useful it is to pursue growth as an indicator of progress. According to the Global Footprint Network,²⁷ 1969 was the last time the global economy didn't "overspend" nature's resources for the planet. Fifty years on, our ecological footprint is greater than ever, as we use up more than 1.75 times the resources the world can replenish.

All these macroeconomic, social, and environmental trends are mirrored in the incremental effects of decisions taken by individuals, companies, and governments, both local and national. And it confronts those same societies, which have come so far from the era of wars, poverty, and destruction, with an unpleasant new reality: they grew rich but at the expense of inequality and unsustainability.



Swabia in the 21st century, is in many ways as wealthy as it has ever been, with high wages, low unemployment, and many leisurely activities. The beautiful city centers of Ravensburg and Friedrichshafen in no way resemble the sorry state they were in in 1945. Ravensburg still provides a welcome for refugees, but this time the wars are further afield. Even the city's puzzle game manufacturer has adapted to a world of global supply chains and jigsaws disrupted by digital gaming.

²⁵International Monetary Fund, New Data on Global Debt, <https://blogs.imf.org/2019/01/02/new-data-on-global-debt/>.

²⁶Gross debt position, Fiscal Monitor, April 2020, International Monetary Fund, <https://www.imf.org/external/datamapper/datasets/FM>.

²⁷Global Footprint Network, <https://www.footprintnetwork.org/2019/06/26/press-release-june-2019-earth-overshoot-day/>.

But the puzzle the people of this region, its drivetrain and jigsaw manufacturers, and other societal stakeholders here and in other parts of the world have to solve is not an easy one. It is a global one, with many complex and interdependent pieces. So before we attempt to solve it, we need to list those pieces. It is this assignment that we will take on in the next chapter. And to guide us, we will get the help of a famous economist.