

STUDY PACK 25

THE AFTERMATH OF WORLD WAR II

“The infective violence of the birth of the State of Israel has sharpened the difficulties of the Middle East ever since. I look with admiration on the work done there in building up a nation, _____ and receiving so many unfortunates from Jewish communities all over the world. But the outlook is somber. The position of the hundreds of thousands of Arabs driven from their homes and existing precariously in the no man’s land created around Israel’s frontiers is cruel and dangerous. The frontiers of Israel flicker with murder and armed raids and the Arab countries profess _____.”

~~ Winston Churchill, *Memoirs of the Second World War*, p. 1014-1015, written 1959 ~~

I. CAPITALISM VERSUS SOCIALISM

In the aftermath of World War II, a planet wide struggle began between the economic policies of _____ and _____. The socialist countries of Germany, Japan and Italy had been defeated by the capitalist giants, England and the United States. The socialist U.S.S.R. had originally been an ally of Germany, but joined the allies and had been rescued from destruction by the United States and England.

While the United States and Great Britain were spreading capitalism, the Soviet Union was devoted to spreading socialism through conquest and sponsoring violent revolutions. Studying the results of the influence of the two economic systems is very instructive.

II. HONG KONG

Hong Kong is a relatively small area of 400 square miles. It has virtually _____. It imports _____ and _____. Hong Kong even has to import water. It has the _____. It is 18 times more crowded as New York City – 425,000 people per square mile in the heart of the city. It is thousands of miles away from its main economic competitors. Just over 50 years ago _____.

Despite all these obstacles, Hong Kong has one of the best economies of any region in the world (some would say the *best* economy). With only one-tenth of one percent of the world’s population, Hong Kong is the world’s eighth-largest international trader and tenth-largest exporter of services.

Hong Kong’s per capita income is greater than that of Japan, Germany, or Britain. It is the fourth highest in the world. Only the United States, Luxembourg, and Switzerland (in that order) have a higher per capita income. How did Hong Kong gain such prosperity in spite of such obvious difficulties? This is a basic and important question that is unfortunately ignored by most professional economists.

While Britain was expanding its colonial empire during the Nineteenth Century (1842), Hong Kong was temporarily obtained from Imperial China as a royal colony. Britain desired a trading center for British commercial interests in Asia. The British often instituted enough government regulation

in their colonies to cripple the local economy (see the American War for Independence, for example). This was done in Hong Kong during the early days of British colonialism.

During World War II, the Japanese occupied Hong Kong and looted the city. After the war, the British sent John Cowperthwaite to Hong Kong to oversee the colony's economic recovery. Cowperthwaite was no ordinary government bureaucrat. He recognized that people make better economic decisions than governments do. He wrote:

"...in the long run, the aggregate of decisions of individual businessmen, exercising individual judgment in a free economy, even if often mistaken, _____; and certainly the harm is likely to be counteracted faster.

The economy in Hong Kong began to boom as the people were left to themselves. Cowperthwaite served from 1945 until 1971. Even though he is often given credit for the economic miracle in Hong Kong he said, "I did very little. All I did was to try and prevent some of the things that might undo it." He called this "_____."

Hong Kong had no minimum wage, no central economic planning, a stable currency, low taxes, and no restrictions on trade. In other words, the government got out of the way of the people. Tragically, on June 30, 1997, the British returned Hong Kong to the Communist government of mainland China. The Red Chinese have promised to maintain the capitalist system in Hong Kong. The "People's Republic" is obviously so hungry for foreign trade that it has allowed economic freedom to remain during the first few years of the takeover. It is hard to imagine them resisting the temptation to limit such freedoms for very long.

III. TAIWAN

The large island of Formosa (off the coast of China) was just another poor, undeveloped island in the Pacific in 1949, when the Communists seized control of the mainland of China. The Nationalist government under Chiang Kai Shek fled to Formosa. Millions of Chinese followed. The nation of Taiwan was created.

The government of Taiwan devoted itself to retaking mainland China. Its economy was dependent on foreign aid from the United States. Until 1960, the people remained in poverty. After 1960, the government began to devote itself _____. Foreign aid from the U.S. _____, and trade barriers were reduced. The government abolished almost all business restrictions. Millions of jobs were created. Per capita income rose over 5,000 percent. Unemployment became almost nonexistent. Taiwan experienced the most equitable distribution of income of any nation in the world. It accomplished this without one government program for the redistribution of wealth. Taiwan became a competitor with the United States, Japan, and Germany for the world's manufacturing market.

IV. RED CHINA

In 1949, the Communist Chinese movement under the leadership of Mao-Tse-Tung took control of mainland China by force. Hundreds of millions of Chinese people were promised a workers' paradise. No longer would the rich exploit the poor. No longer would greedy, foreign capitalist nations take advantage of China. Prosperity was just around the corner for everyone. Of course, everyone had to surrender _____. Farms were collectivized.

Businesses were taken over by the government. Industries were nationalized. These steps were supposed to guarantee prosperity.

Of course, society also had to be remade. _____ who stood in the way of progress were “eliminated.” Evangelical Christians, foreign capitalists, business owners, and people educated outside of China were special targets for execution. Many foreign missionaries were killed (including Baptist missionary John Birch), and all others had to flee. Free speech, freedom of religion, and educational freedom were outlawed.

Socialism quickly took China from becoming a poor nation to _____. Millions who had previously complained about poverty, longed for the “good old days.” The people were constantly promised that economic prosperity would begin soon – perhaps even next year!

The state-controlled press was forced to hide economic reports about Hong Kong and Taiwan from the people. China’s _____ were not _____. Hundreds of millions of workers could not produce enough goods to meet basic human needs.

By the late 1970’s, the government of China was desperate. As the economies of Hong Kong and Taiwan soared, mainland China became poorer and poorer. While still denying political and religious freedoms, Chinese began to experiment with certain capitalist principles. While the government still owned the means of production, workers began to be paid based upon personal productivity. Hard workers prospered, while slackers lost benefits. Equality was no longer the main goal for the working class.

Mainland China began to experience economic growth. Foreign trade was welcomed. Other economic incentives were offered to the Chinese people. Some private business was allowed. The Chinese economy, though still falling behind Hong Kong and Taiwan, began to experience a relative boom. From 1981 through 1995, average economic growth averaged 8.2 percent a year.

While socialists in Western Europe and the United States still praised the model of Chinese socialism, the Chinese began to copy some _____. When the Chinese began to demand other freedoms, the government reacted harshly. However, it became possible for many Chinese to work their way out of poverty. Chinese history books still describe Mao-Tse-Tung as a great man, but they also record that in economics “He did too much.”

V. KOREA

During World War II, Korea was seized by the Japanese. In the aftermath of the war, the Soviet Union installed a Communist government in the northern half of Korea. A government sponsored and aided by the United States was established in the south. The country had been looted by the Japanese during World War II. After the north invaded the south in 1950, a three year war further devastated the southern part of Korea. Most of the nation’s industry was destroyed. In the early 1960’s, _____.

The South Korean government devoted itself to economic growth. _____, and foreign trade was promoted. Manufacturing boomed and unemployment dropped. Per capita income increased 3,000 percent. South Korea became one of the world’s most important manufacturing nations.

During the same period, strict socialism was practiced in North Korea. Despite the fact that the two countries have _____, _____, and _____, the results have been strikingly different. Year after year, the North Koreans have heard that prosperity will start soon. Year after year, poverty has gotten worse.

The economic condition of the average North Korean is worse than it was during the Japanese occupation or the Korean war. The shortage of basic food supplies is so great that there have been outbreaks of cannibalism. The North Korean per capita income is the lowest in the world.

VI. JAPAN

The incredible development of Japan as an economic power during the second half of the Twentieth Century is also instructive. Japan is remarkably devoid of natural resources. Its manufacturing industry is almost totally dependent upon foreign trade for new materials. The historic Japanese emphasis on hard work causes the Japanese to produce far more than they can consume themselves.

This dependence upon foreign trade convinced many of the Japanese that prosperity was dependent upon being an imperial power. This belief led the Japanese to devote themselves to conquering all of Asia in the 1930's and '40's.

After being defeated by the United States during World War II, Japan was poverty stricken. It had lost all of its colonies. No nation could be forced to send raw materials to Japan: many of Japan's factories had been destroyed by U.S. bombing. The economy was in shatters.

General Douglas MacArthur served as the Commander of the United States military forces occupying Japan. The power of the Japanese warlords was broken. The theocratic socialism of the Buddhist leaders was replaced by an American military administration. General MacArthur placed very few economic restrictions on Japanese business. Free from _____.

The Japanese began to attract raw materials from other countries by offering the best prices for them. Japanese business was free from trade restrictions. The Japanese began to produce products that other nations around the world wanted to buy. Thirty years after their total defeat in World War II, the Japanese had become the second strongest economy in the world. Japan was firmly established as a world economic power. It was also firmly established as a capitalist nation. As such, Japan was no longer the threat to its neighbors that it had been as a socialist nation.

In the 1990's, the economy of Japan suffered. Progressively, the government increased its involvement in the Japanese economy. This involvement had caused the Japanese economy to falter at times. But because government control is not total, the Japanese keep finding ways around government interference.

VII. OTHER EXAMPLES

There are many other examples which demonstrate the universal failure of socialism and the success of capitalism and freedom:

- Contrast _____ under capitalism with _____.
- Contrast the extreme poverty of Cuba under Castro and Communism with the relative prosperity of Jamaica, the Bahamas, and Barbados.

- Examine what socialism has done to the emerging nations of Africa.

VIII. THE KEY TO ECONOMIC SUCCESS

People, left to themselves, learn through trial and error what benefits them economically and what does not. Most people are willing to work hard if there is the potential of a reward commensurate to their labors. If people are protected from coercion by the state, their own need will cause them to generate economic growth.

The key to economic success is economic freedom.

IX. THE UNITED NATIONS

Franklin Delano Roosevelt and several other western leaders had revived faith in _____
_____. The failure of the League of Nations to prevent World War II was blamed on the lack of United States involvement.

On April 25, 1945, representatives of 50 nations met to organize the United Nations. This time there was not the same level of popular opposition to the idea of an international organization. The United States was the first nation to join the United Nations. The Senate ratified the treaty by a vote of 89 to 2.

Liberalism's faith in peace guaranteed by a supranational organization was again seen in full force. The Federal Council of Churches issued the following recommendation of the United Nations:

“The charter offers mankind means of the achievement of just and durable peace...The churches have long held that nations can better serve God's purpose for the world as they are brought into _____ for the common weal. The charter signed at San Francisco marks a genuine advance toward this end...We believe that it is clear duty of our government promptly to ratify the charter and thus to assure cooperation by the United States in the task of making the organization an effective agency for the maintenance of international peace and security.”

Senator Scott Lucas of Illinois said:

“I am convinced that there is the beginning of _____. And if my prophecy proves to be correct, the Charter will rank among the great documents of history.”

Senator McClelland of Arkansas offered this hope during the debate in the Senate:

“It is the ultimate goal, sincere hope, and the highest purpose of the signatory powers and the people they represent to eliminate and forever remove mankind's worst enemy, the scourge of war, from the face of the earth, and thus attain the fulfillment of one of the highest aspirations of all civilized peoples of the world.”

X. THE MARSHALL PLAN

Europe faced a tremendous challenge in recovering from the effects of World War II. Huge numbers of _____, _____, and _____ needed food and shelter. The _____ and _____ of many nations had been devastated.

Truman's Secretary of State, George C. Marshall, devised a plan for rebuilding Europe's economy. Over the next few years, the United States would _____. The United States provided food, rebuilt infrastructure, made loans to governments, and aided military development. The U.S. aided both and _____. Aid was provided to free nations trying to rebuild their economy and to nations that had just established Communist governments. In Eastern European nations, the people were often told the aid came from Russia. This aid program is often called the Marshall Plan.

XI. THE ESTABLISHMENT OF ISRAEL

In the aftermath of World War II, many Jews moved to the area of Palestine. The United Nations called for a Jewish nation-state in Palestine. The United States and Britain cooperated and the nation of Israel was declared in May, 1948.

Immediately, several Arab nations attacked the new nation. Israel stunned the world with its ability to defend itself. The U.S. aided Israel and became _____. Many Palestinians had been displaced during the creation of Israel. These Palestinians and their Arab and Moslem allies considered the United States the enemy. Israel successfully resisted Arab attacks in _____, _____, and _____. Each time, Israel received American support. Palestinians began a _____.