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**From Economic Convergence to Convergence in Affluence?  
Income Growth, Household Expenditure and the Rise of  
Mass Consumption in Britain and West Germany, 1950-  
1974**

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*“Proprius et principalis pecuniae usus est ipsius consumptio sive distractio”*

AQUINAS

## **1. Introduction**

### **1.1 Context**

The “Golden Age” of post-war European economic growth has witnessed extraordinary changes not only in the economic, but also in the social and cultural outlook of Western European societies. Eric Hobsbawm’s statement that “[h]istorians of the twentieth century in the third millennium will probably see the century’s major impact on history as the one made by and in this astonishing period”<sup>1</sup> is perhaps a little bit too enthusiastic; but it shows that the “Great Boom” has come to be regarded as a key period on the road to the present-day Western world. It has transformed the countries of the West and has at the same time made them more similar to each other. No matter what

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<sup>1</sup> Hobsbawm 1994, p. 8.

European societies were in 1950 by 1973, they were all, in Galbraith's famous

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However, it is by no means self-explanatory why this argument should hold for *all* countries. After all, European countries fared in macroeconomic terms as differently as e.g. Britain and West Germany. But even in apparently “failing” countries such as the UK the “coming of affluence”<sup>3</sup> clearly fell in the period of the 1950s and 1960s. To be sure, Britain had, in the inter-war period, already shown a considerable tendency to follow the American path to a fully-fledged consumer society,<sup>4</sup> and, of course, in 1950 it was by all economic measures way ahead of Germany. However, the war had interrupted what beginnings of mass consumption there were, and it is clear that Britain's age of affluence really only began with the end of post-war austerity in the mid-fifties - at a time when Britain first in terms of relative and later in terms of absolute performance began to fall behind the other European countries, and notably Germany.<sup>5</sup> But, no matter what the state of the economy at large was, across Europe, people had indeed “never had it so good”.<sup>6</sup>

However, while the macroeconomic framework of the Boom has, with recent growth theory and its focus on catch-up growth and convergence, been explained in largely convincing terms,<sup>7</sup> it is nevertheless unclear what the precise connection between economic convergence at large and the apparent similarity in the emergence of mass affluence was – beyond the statement of the obvious, namely that they somehow had something to do with each other.<sup>8</sup> This is not a trivial matter. The simultaneous transition of all Western European societies to the “age of high mass consumption”,<sup>9</sup> which was firmly rooted in

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<sup>2</sup> Galbraith 1987, title. The year 1973 is commonly regarded as the end of the Boom. 1974 has been included in chapter 4 for reasons of source material, but the paper will otherwise stick to the convention and use the year 1973 as a point of reference.

<sup>3</sup> Ryder/Silver 1985, p. 196.

<sup>4</sup> Cf. Bowden 1994, *passim*.

<sup>5</sup> Obelkevich 1994, p. 141.

<sup>6</sup> To say it with Harold Macmillan's (in)famous words, quoted from Marwick 1996, p. 111.

<sup>7</sup> Cf. chapter 2.

<sup>8</sup> Ambrosius/Kaelble 1992, pp. 20 ff., is in fact somewhat more detailed with regard to the social impact of the Boom but does not concentrate on the link between economic convergence and convergence in consumption. See also section 1.4 below.

<sup>9</sup> Rostow 1990, p. 8.

and intimately connected to the macroeconomics of the 'Great Boom', arguably also constituted the mainspring of social and cultural change during that period. In the "mass consumption societies"<sup>10</sup> that European countries were about to become during the period under review, social change and social identity typically "arose not out of the way in which people carried out an occupation and earned an income, *but out of the kind of life that income made possible* and the ways in which people chose to express their new standards of living".<sup>11</sup> But it is not necessarily to be taken for granted that the same income in different countries should have made possible the same kind of life; and even if two countries were about to converge with regard to GDP, it is not to be taken for granted that the great majority of the population should have anything to do with that. Nevertheless, precisely this seems to be hallmark of Western European societies, prosperity *was* indeed for *all*, as Ludwig Erhard famously proclaimed in 1957 ("*Wohlstand für alle!*"),<sup>12</sup> and (generally speaking) it was so in *all* countries. An understanding of this aspect of the apparent convergence of European countries requires more than a look at the figures for GDP per capita.

## 1.2 Key Problems

The aim of this paper is therefore to investigate in detail the link between macroeconomic convergence and the apparently similar way in which European societies were transformed into societies characterised by mass consumption - to understand why and how it came about that everywhere in Europe the overwhelming majority of people became able to consume goods which fundamentally transformed their everyday lives (consumer durables in particular). It would be too much to aim at linking macroeconomic convergence and "social convergence", because social convergence is admittedly difficult to define; but I intend to show how far economic convergence has or has not created the (economic) prerequisites for an "increasing standardisation of

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<sup>10</sup> Kaelble 1997, p. 192.

<sup>11</sup> Hays 1987, p. 4 (italics added).

<sup>12</sup> Erhard 1957, title.

lifestyles”<sup>13</sup> across European countries – assuming that convergence of patterns of private consumption was a major (if certainly not the only) element thereof.<sup>14</sup>

Though it would have been desirable, restrictions of time, space, and source material do not allow a wide examination of all the countries which have been involved in the post-war Boom. Instead, it was necessary to concentrate on just two of them. Britain and West Germany have been chosen because they started off from very different positions, stood at opposite ends of the macroeconomic performance during the Boom, and despite their initial differences came out of the Boom as fundamentally transformed, fully-fledged “mass consumption societies”.<sup>15</sup>

This paper will therefore aim at answering the question whether the macroeconomic convergence of Britain and West Germany during the “Great Boom” was matched by the convergence (and simultaneous transformation) of patterns of private consumption of the mass of the population, which are of key significance for the understanding of post-war social change and may well have implications for the broader question of a possible “social convergence”.

While relying on the theoretical framework of catch-up growth and convergence devised by growth theory, such an approach will have to go beyond the macroeconomic perspective which is usually adopted. To be sure, the question whether private consumption as viewed from the macro-level converged over time in the two countries will be of central importance to the paper. There is, however, the second problem that the peculiarity of the emerging “affluent societies” lay in the fact that affluence was turned into a mass phenomenon - in other words, the distribution of affluence is as important a consideration in the present context as its overall level. It will have to be seen how affluence spread across the two societies – how pervasive an impact that process had, whom it actually reached, and whether that had anything to do with macroeconomic convergence or not. With that background the question can then be addressed as to whether the economic prerequisites for social

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<sup>13</sup> Abelshauser 1983, p. 133.

<sup>14</sup> Kaelble 1995, pp. 229 ff., argues similarly.

<sup>15</sup> The availability of adequate source material was another consideration.

change via consumption converged over time, or developed in similar fashion, or perhaps did nothing like that.

### **1.3 Method and Plan**

In order to analyse these problems, the paper will concentrate on a detailed examination of how, in a comparative perspective, the way people spent their money changed during the period from 1950 to 1973/74, and how these changes were connected to macroeconomic convergence. The structure is as follows.

Section 2 will give a brief outline of the main arguments of the literature on catch-up growth, and tease out the implications the theory has for the development of patterns of private consumption. Based on national accounts data, section 3 will then (after briefly relating Britain's and Germany's respective growth performance to the theoretical framework) investigate the link between economic growth and changes in consumption patterns and trace the development of the rise of mass consumption in the two countries during the Boom from the macroperspective.

Since "most consumption took place in a family setting"<sup>16</sup> – and this holds especially for the age of motor cars and refrigerators -, section 4 will then look into the crucial distributional issue by examining first trends in the distribution of household income and then changing patterns of household consumption in different income groups. This account will mainly draw on data derived from household expenditure surveys carried out by the statistical offices in the two countries and, for Germany, on data from the independent German Institute for Economic Research.

Section 5 will then place the changing expenditure pattern of a specific type of household – the two adult, two children household with middle income which can be regarded as being symbolically (if not statistically) representative for the period -, in the context derived from the previous sections. The everyday experiences reflected in the budgets of these households will serve as a guide to uncovering in which way convergence or non-convergence in expenditure



patterns is indicative of convergence or non-convergence of the economic prerequisites for social change and give some hints at the connection between economic change and social change in the context of mass consumption.

Finally, the conclusion will summarise the findings of the paper and give an assessment of the link between macroeconomic convergence and the parallel rise of mass consumption in Britain and Germany.

## **1.4 State of Research**

Interest in both economic convergence and in the social and cultural history of consumption has recently increased. Despite the fact that they are relatively “young” branches of research a good deal of literature already exists on these topics.

However, theorising about catch-up growth has hardly been concerned with the impact of growth on consumption or indeed the wider (social) repercussions of economic growth, despite the fact that both Abramovitz’ classic approach to the topic<sup>17</sup> and Williamson’s perspective on real wage convergence<sup>18</sup> both have massive implications for private consumption, as I will argue below.

The history of consumption, on the other hand, has mainly been concerned with social and cultural aspects and has left economic matters as “old-fashioned” aside. Still, the contributions of Wildt<sup>19</sup> and Andersen<sup>20</sup> provide invaluable insights into the history of consumption in post-war West Germany. For Britain, the brief introduction by Obelkevich<sup>21</sup> and the book by Benson<sup>22</sup> are of similar importance. There have also been some cross-country comparisons at this end of the field, though most of them are confined to certainly significant but still rather narrow aspects of the topic.<sup>23</sup>

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<sup>16</sup> Obelkevich 1996, p. 418.

<sup>17</sup> Abramovitz 1986 and Abramovitz/David 1993.

<sup>18</sup> Williamson 1995.

<sup>19</sup> Wildt 1994.

<sup>20</sup> Andersen 1997.

<sup>21</sup> Obelkevich 1994.

<sup>22</sup> Benson 1994.

<sup>23</sup> Cf. the various contributions to Siegrist/Kaelble/Kocka 1997.

The only systematic attempt to compare economic patterns of consumption in Europe for the period with which this paper is concerned is Deaton's article, which has provided much background for the present discussion.<sup>24</sup> It has, however, an (openly admitted) weakness which it shares with most other economically inspired accounts of structures of consumption, namely, its exclusive reliance on macroeconomic data. The alternative approach, the use of budget surveys of private households, has always suffered from the lack of suitable data, though in Germany it has developed into a considerable branch of research.<sup>25</sup> Wildt's book is based on the analysis of this sort of source material. Only one similar account exists for Britain but it concentrates on poverty rather than on affluence.<sup>26</sup>

Systematic comparisons between any two or more European countries have not yet been carried out for the post-war period, due to the difficulties of the source material (even with sufficient data, comparability is far from guaranteed<sup>27</sup>). Consequently, only a very limited part of the literature deals with the convergence of consumption patterns, though Kaelble has, without going into much further detail, put forward the hypothesis that this was one of the most important elements in the increasing similarity of Western European societies.<sup>28</sup>

In the following, I want to contribute to filling a gap both in the debate on convergence in the post-war period and in the comparative social history of the 1950s and 1960s, show how these two fields hang together, and demonstrate that each of them can benefit from a better appreciation of the other.

## **2. From Economic Convergence to Convergence in Consumption:**

### **Theoretical Arguments**

#### **2.1 Economic Convergence in the Post-War Period: The Theory**

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<sup>24</sup> Deaton 1976.

<sup>25</sup> For an overview, cf. Pierenkemper 1996.

<sup>26</sup> Fiegehen/Lansley/Smith 1977.

<sup>27</sup> The focus on current price budget shares, as it has been advocated by Conrad/Triebel 1985, can be utterly misleading. Some tests carried out during the research on this paper have shown that a leaving aside of price changes can and does significantly alter the results achieved. This is also a further weakness of Deaton 1976.

<sup>28</sup> Cf. Kaelble 1995 and Kaelble 1997.

The basic contention of the catch-up hypothesis, as Abramovitz has formulated it, is “that in comparisons across [otherwise similar] countries the growth rates of productivity in any long period tend to be inversely related to the initial levels of productivity”.<sup>29</sup> While this argument is by no means restricted to the post-war period,<sup>30</sup> the “Golden Age” stands out as the prime example of macroeconomic convergence due to the rapid reduction of technological gaps vis-à-vis the leader (the U.S.) via technology transfer.<sup>31</sup>

However, the catch-up hypothesis certainly does not make a case for a simple model of unconditional convergence.<sup>32</sup> Instead, convergence is regarded as conditional, i.e. the steady-state levels of capital and output around which an economy converges may differ across countries.<sup>33</sup> The appearance of catch-up growth is said to depend not only on a country’s potential (its initial backlog), but also on specific conditions influencing the “abilities to realise that potential”.<sup>34</sup> These consist of “technological congruence” - the adaptability of state-of-the art technology to the environment of the laggard’s economy - and of “social

<sup>35</sup> the adequacy of formal and informal social and political institutions. Note that “social capability could (...) be reflected in different steady state

<sup>36</sup> and that absolute convergence of economies is therefore highly contingent on social institutions. The scope this leaves for divergence may be important once it comes to an examination of private consumption and its social differentiation.

The ‘Golden Age’, then, “proved to be the period when - exceptionally - the three elements required for rapid growth by catching up came together. The elements were large technological gaps; enlarged social competence (...); and conditions favouring rapid realisation of potential”.<sup>37</sup> Between 1950 and 1973,

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<sup>29</sup> Abramovitz 1986, p. 386.

<sup>30</sup> Cf. Williamson 1996, *passim*, on the evidence for the pre-1914 period.

<sup>31</sup> Cf. Nelson/Wright 1992, pp. 1934 ff. For the pre-1914 period, factor price convergence rather than technology transfer has been identified as a crucial element, cf. Williamson 1996, *passim*.

<sup>32</sup> Cf. Broadberry 1996, pp. 327 f.

<sup>33</sup> Cf. Barro 1997, p. 2.

<sup>34</sup> Abramovitz/David 1992, p. 31.

<sup>35</sup> Ibid., pp. 32 f.

<sup>36</sup> Crafts 1995, p. 434.

<sup>37</sup> Abramovitz 1986, p. 395.

the inverse rank-order correlation described above was, for the OECD countries at least, almost perfect; there was, in other words, strong *b*-convergence.<sup>38</sup>

What is more, the evidence also points to a “narrowing dispersion of productivity

<sup>39</sup> i.e. to what has been labelled *s*-convergence. Importantly for present purposes, this also holds for the development of real incomes. Williamson’s paper on real wage convergence, while offering some qualifications to the timing and the extent of convergence, finds that at least locally (among the “convergence club” of the non-Latin European countries), there was, in the post-war years, an inverse rank order correlation of initial income levels and income growth rates, and also a narrowing dispersion of income levels.<sup>40</sup> In this respect as well, “[t]he period was one of unprecedentedly rapid catch-up by Europe of the USA and, among European countries, one which is characterised by both *b*- and *s*-convergence”.<sup>41</sup>

## **2.2 Economic Convergence and Convergence in Consumption: Theoretical Implications**

What, then, are the implications for the development of private consumption? The most significant impact of any macroeconomic convergence on private consumption is obviously to be expected from its impact on incomes. Convergence of some measure of income – be it GDP, be it real wages – constitutes the very definition of economic convergence both in Abramovitz’ and in Williamson’s approach. Since disposable incomes and relative prices are the most important determining factors of consumption patterns,<sup>42</sup> and since, in theory, price movements in the post-war period were intimately connected to the development of incomes,<sup>43</sup> Abramovitz’ statement that “as followers’ levels of per capita income converge on the leader’s, so do their structures of

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<sup>38</sup> Cf. Abramovitz/David 1992, p. 30.

<sup>39</sup> Broadberry 1996, p. 329.

<sup>40</sup> Cf. Williamson 1995, pp. 159 f. and calculated from p. 182.

<sup>41</sup> Crafts/Toniolo 1996, p. 20.

<sup>42</sup> Cf. Deaton 1976, pp. 89 ff.

<sup>43</sup> Because (i) rising incomes originated from rising levels of productivity, which had an impact on prices and (ii) because of the economies of scale in producing for the higher levels of demand higher real incomes implied, cf. Denison 1967, p. 236.

consumption and prices”<sup>44</sup> seems fully justified, though the convergence of GDP levels does not necessarily exactly mirror the development of disposable incomes which will therefore have to be considered in detail below.

What is more, the supply and the distribution especially of those goods which were so characteristic for the “breakthrough” to mass consumption – manufactures, and consumer durables in particular<sup>45</sup> – hinged crucially on the spread of best-practice technology, which made the (cheap) production of these goods possible in the first place (and consequently had an impact on price structures) and on one of the factors which have been identified as an important element of the “social capability” for catch-up growth, namely the liberalisation of international trade (itself also a prerequisite of the first point).<sup>46</sup> Consequently, the historical circumstances of the appearance of catch-up growth in the post-war period also provided for the cheap and universal availability of (a greater choice of) goods which were of special economic and above all symbolic significance for the emerging “affluent societies”.

So far, the development of private consumption is nothing more than a reflection of the overall growth performance. In fact, this view can draw on strong support by the findings of Kravis et al., who argue the case for an inverse rank order correlation between initial levels and subsequent growth of consumption in post-war Europe.<sup>47</sup>

However, Kravis also notes that even with an equal level of real incomes, equal relative prices and equal tastes, “differences in the countries’ distribution of income would lead to different per capita quantity selections”.<sup>48</sup> This is important in the present context. The question is whether catch-up growth also offers an explanation for the crucial fact that the Boom apparently had a socially pervasive impact on the transformation of the structure of private demand.

There is at least one theoretical link between catch-up growth and the stratification of private consumption. If, as a result of closing productivity gaps, a

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<sup>44</sup> Abramovitz 1986, p. 369.

<sup>45</sup> “Were we to seek one defining characteristic of the period 1945-60 we might well find it in the astonishing increase in the manufacture, exchange and ownership of objects”, Milward 1992, p. 129.

<sup>46</sup> Cf. Crafts 1995, p. 441.

<sup>47</sup> Kravis et al. 1975, p. 269.

large part of the labour force is shifted from agriculture to industry,<sup>49</sup> this implies a shift in the income distribution, the regional stratification of the population, and the sizes of households. These factors, if they converged across countries, will certainly have favoured convergence towards an ever more similar pattern of household expenditure across a large section of the society and across countries.<sup>50</sup>

On the other hand, it could well be the case that rapid growth simply pushed both Britain and Germany (and the rest of Europe) as a whole – without significantly altering the income distribution – above a level where only few people were excluded from a pattern of consumption which was characterised by spending on consumer durables.<sup>51</sup> This would imply that while countries may have converged at an aggregate level, and while an increasing number of the population gained command over an increasing range of goods and services, there were still persistent differences in the social impact that convergence made in different countries. It would, in this case, be desirable to learn more about these differences and about their significance for social change in the societies involved. Maybe a detailed examination of the German and the British cases can help to clarify this problem.

### **3. From Income Convergence to Convergence in Consumption: The Macro-Level**

#### **3.1 Britain, West Germany, and Convergence at the Macro-Level: The Record**

Britain's and West Germany's respective performance during the "Golden Age" gives strong support to the hypothesis of an inverse rank-order correlation

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<sup>48</sup> Ibid., p. 269, fn. 8.

<sup>49</sup> Cf. Abramovitz/David 1992, p. 58.

<sup>50</sup> Cf. Ambrosius 1992, pp. 145 ff.

<sup>51</sup> A hypothesis put forward by Ulrich Beck's simplistic but popular label of the "*Fahrstuhl-Effekt*" ("elevator effect"), Beck 1986, p. 122.

between initial levels of productivity and the ensuing speed of economic growth.<sup>52</sup>

Britain started into the period as one of the world's richest nations - "second only to the United States in measures of economic superiority such as income and consumption per head of population, or output per worker".<sup>53</sup> Her GDP/capita level (in 1990 dollars) in 1950 was around \$6850, and she managed to grow by an average of 2.4% per annum in the ensuing years, ending up with a GDP/capita level of around \$11930 in 1973.<sup>54</sup>

While compared to the US and to Britain's own historical record this was quite an achievement,<sup>55</sup> the rest of Europe fared much better still. Among its larger nations, West Germany stood out with regard to its prosperity. Starting off with a GDP/capita level of only \$4300, an average annual growth rate of 5.0% propelled it, by 1973, to more than triple that amount (\$13150). Growth was fastest during the 1950s and only slightly retarded in the following decade, and in 1961/2 the Federal Republic overtook Britain in terms of GDP per head while continuing to grow at a faster rate.

This last aspect points to the fact that both countries deviated somewhat from the growth path the catch-up hypothesis would suggest. Germany performed better still than theory expects,<sup>56</sup> while Britain did not manage to fully realise even its limited potential.<sup>57</sup> This might be interpreted in terms of different "social capabilities", and there is indeed ample evidence that institutional factors played a decisive role in the persistent disparities at the macro-level.<sup>58</sup>

But in spite of these differences it can safely be stated that during the 1950s and the 1960s the German and the British economy had, in absolute terms, become substantially more alike at the macro-level while at the same time expanding at considerable speed. The hypothesis of a process of rapid

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<sup>52</sup> Crafts/Bean 1996 relate the British experience to this theoretical framework. Lindlar 1997 is a comprehensive account of the West German "economic miracle" in the light of the catch-up hypothesis.

<sup>53</sup> Feinstein 1994, p. 96.

<sup>54</sup> Data and growth rates are from Maddison 1995 and from Crafts/Toniolo 1996, p. 6.

<sup>55</sup> Cf. Howlett 1994, p. 320.

<sup>56</sup> Cf. Carlin 1996, p. 456.

<sup>57</sup> Cf. Feinstein 1994, pp. 118 ff. and Bean/Crafts 1996, pp. 145 ff.

<sup>58</sup> Cf. Crafts 1995, p. 434.

catching up on the leading (American) economy provides a valid explanation for this phenomenon.

### **3.2 From Macroeconomic Convergence to Income Convergence**

Generally speaking, the enormous increase in productivity the two countries experienced during the Boom was reflected in an equally dramatic rise in disposable incomes, although some qualifications apply.

In Britain, nominal personal incomes per capita grew more than fivefold over the period from £222 in 1950 to £1131 in 1973. Due to increased tax demands and social security contributions, disposable income did not quite keep up with that rise and its share of gross income fell slowly, but continuously from around 87% in 1950 to 80% in 1970. Taking inflation into account, real disposable incomes nevertheless doubled over the period and increased 1.8-fold per capita; the average annual growth rate was 2.5%.<sup>59</sup>

In West Germany, where tax burdens and social security contributions took up a share which was very nearly equal to that in Britain,<sup>60</sup> real disposable income per capita grew much faster - at 5.8% per annum, thus increasing 3.6-fold within 23 years, faster even than GDP.<sup>61</sup> It should be noted that while disposable income growth rates were highest in the 1950s, they were typically somewhat below GDP growth rates, thus reflecting the “social pact (...) aimed at increasing productivity, whereby workers exercised wage moderation on the understanding that capitalists would plough back their profits into the productive process”.<sup>62</sup> However, in the sixties and, especially from 1968 onwards, disposable income growth considerably exceeded GDP growth. This was due to the “wage explosions” in 1968 and labour’s increasing share of national income,<sup>63</sup> a trend which was much stronger in Germany than in Britain. While

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<sup>59</sup> All calculated from Economic Trends 1996. Population deflator from Maddison 1995.

<sup>60</sup> With some minor divergence between 1965 and 1969. Tax and other effects on disposable income will be considered in more detail in section 4.2.

<sup>61</sup> Calculated from Statistisches Bundesamt 1985. All German data, here and in the following, are affected by the exclusion of Berlin and the Saarland from official statistics up to 1959. The population deflator has been adjusted accordingly.

<sup>62</sup> Crafts/Toniolo 1996, p. 22.

<sup>63</sup> Cf. Woodward 1999, p. 64.



constituting around 70% of GDP in Britain throughout the period, the share of income from employment in Germany rose from only 58% of GDP in 1950 slowly to 65% in 1967 and then rapidly to above 70% in 1973.<sup>64</sup>

These differential developments were not without effect on the extent and the timing of the convergence of absolute levels of real disposable income. For a direct comparison, the German constant price data have been converted to pound sterling with the help of the consumer price parities (*Verbrauchergeldparitäten*) calculated by the German Federal Statistical Office.<sup>65</sup> These are also used in the following sections. A detailed treatment of the methods employed for the comparisons of absolute levels of income and expenditure throughout this paper and of the scope and limits of the data presented here (which are many) can be found in appendix I.

Figure 3.1 (p. 80) compares absolute levels of personal disposable income per capita in Britain and West Germany. It suggests that the development of personal disposable income “exaggerated” the development of GDP in either direction. In 1950, German real disposable incomes per capita were as little as 40% of the British level (the figure for GDP is 63%). Germany then caught up extremely rapidly in the early 1950s and at lesser speed throughout the rest of the 1950s and 1960s. The British level was finally reached in 1967/68, six years after GDP/capita levels had been equal.

From then on – due to the rapidly rising share of income from employment in Germany and also to more rapid inflation of consumer prices in the UK – Germany’s disposable incomes relative to the UK rose faster than its GDP relative to the UK, and the ensuing divergence was consequently more underlined than the divergence with regard to GDP. The gap in 1972 was 31% for disposable incomes but only 13% for GDP; the Heath-Barber-Boom reduced these gaps to 25% and 10% in 1973 but did not break the trend which persisted well into the late 70s.

Relating this finding to consumption, one would, as far as consumption patterns hinge on disposable income, expect to find initially very different

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<sup>64</sup> Cf. Pollard 1992, p. 266 and Abelshauser 1983, pp. 134 ff.

<sup>65</sup> Preise Löhne Wirtschaftsrechnungen R. 10.

patterns, a strong tendency for both relative and absolute convergence up to the late sixties, and some divergence during the last couple of years under review. The latter aspect should, however, not obscure the “big picture” - namely the fact that with regard to disposable incomes Britain and Germany were, by the early 70s, players in the same league, which had not been the case twenty years before.

### **3.3 From Macroeconomic Convergence to Price Convergence?**

Structures of private consumption hinge not only on levels of disposable income, but also on a host of other factors among which the movement of relative prices is of prime importance. From a very broad perspective, both Britain and Germany had quite similar experiences in the post-war period. As for all European countries, the 1950s and 60s were years of persistent “creeping” inflation of retail prices, which stood in marked contrast to the inter-war period.<sup>66</sup> Also, some important basic characteristics of movements in the price structure were quite similar in both countries – notably the fact that due to technological change and the liberalisation of international trade the prices of consumer durables rose least or even fell despite generally rising prices, which, of course, constituted an important element in determining changes in the expenditure patterns.<sup>67</sup> It is unfortunate that detailed price indices do not cover the entire period for either country, so that it remains impossible to estimate precisely how important this drop in the relative prices of durables was. Fragmentary evidence suggests that the decline in prices was, in both countries, most marked with regard to electrical household appliances and TVs,<sup>68</sup> while the prices for motorcars showed a slight tendency to rise (the rates

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<sup>66</sup> Cf. Hirsch/Oppenheimer 1976, p. 679.

<sup>67</sup> Cf. Deaton 1976, p. 90.

<sup>68</sup> In Britain, the index for “electrical appliances and audio-visual equipment” increased by only 0.25% p.a. between 1956 and 1973. The German data suggest an annual *fall* in the price of TVs by

were of the order of 0.5% p.a. in Germany between 1962 and 1968 and only slightly higher in Britain). However, considering the massive scale of the expansion of expenditure on these categories reported in section 3.4, Deaton's statement that that while "[r]elative prices of durable goods have fallen considerably in Western Europe, (...) the average fall of some 12% is insufficient to explain more than a small proportion of the observed increases in the budget share"<sup>69</sup> seems plausible for Britain and Germany, although precise figures are not available.

However, these general points about the broader historical context and about some significant individual items aside, a closer look at the price structure as a whole reveals that there were also persistent differences between Britain and in West Germany, and there is evidence that generally speaking relative prices in the two countries did not converge on each other.

*Table 3.1: Average annual rates of inflation, %, retail prices and component categories, 1950-1973*

	UK	FRG
All items	4,5	2,7
Food	5,2	2,7
Alcohol and tobacco	2,8	0,5
Rents and rates	5,6	4,8
Fuel, light, power	5,8	3,4
Clothing and footwear	3,0	2,1
Household goods and services	3,3 <sup>a</sup>	1,3
Education, recreation, leisure and health and beauty care	3,9 <sup>a</sup>	3,0
Travel, transport and communications	3,9 <sup>a</sup>	3,1

<sup>a</sup> 1953-1973.

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3.2% between 1962 and 1968 and virtually no change at all between 1968 and 1973; the numbers for electrical household appliances are similar, although there was a pronounced rise in prices after 1970.

<sup>69</sup> Deaton 1976, pp. 120 f. Deaton also does not have data on durable goods in Germany (as the table on p. 103 shows), so this calculation excludes the Federal Republic.

**Source: Calculated from CSO 1991 and Preise Löhne Wirtschaftsrechnungen R. 6.**

Table 3.1 reports rates of inflation for the retail price index as a whole and also for its component categories as they are used in the German national accounts. This German system of classification has been used throughout the paper and the British data have been reclassified accordingly; details can be found in appendix II.

The differences in relative price movements recorded in these figures may not seem very dramatic, but a direct comparison of prices makes the point quite clearly. Figure 3.2 (p. 81) plots the development of the consumer price parities for the same categories as in the above table. It indicates how many German marks were needed in Germany to buy the same amount of goods in the respective category as one pound would buy in Britain (but see the caveats formulated in appendix I). The line for fuel, light, and power had to be omitted because it hardly fits the scale – it declines rather continuously from £1 = DM 22.05 in 1950 to £1 = DM 13.06 in 1973.

The first point which is notable is the persistent fall of the parities, which is, of course, the consequence of the lower rates of inflation in Germany. Secondly, however, it can be seen that there were persistent and relatively stable differences in the relative price structure of the two countries which, if anything, tended to increase rather than decrease during the period. If relative prices were equal in the two countries, then the parities of the individual groups would be equal to the parity for all items together; but this is obviously not the case.

The parity for foodstuffs for example remained above the average parity for all but the last two years of the period, indicating that, relative to the average, more money had to be spent on food in Germany than in Britain - even though the difference was not as great as one might assume in view of the differences in agricultural protection regimes. (However, the difference would be a good deal greater if the price parity was expressed as a percentage of the mean *excluding* foodstuffs). Alcohol and tobacco fell from about average in the first half of the period to well below it in the second half, while rents and rates took the opposite course. The most marked difference was with regard to the

position of energy within the relative price structure; though falling from the mid-fifties onwards, it nevertheless stayed considerably above average in the Federal Republic. The other changes are apparent from the figure.

To draw these results together, the budget-share weighted coefficient of variation of the component price parities around the average price parity has been calculated. Throughout the period, it rose slowly, but continuously from .11 in 1953 to .15 in 1973 and .17 in 1974.<sup>70</sup> Hence, there is little doubt that the structure of relative prices did not show any convergence at all, but was characterised by persistent differences. The explanation for this is at least partly to be found in the political rather than in the economic sphere. Foodstuffs, for example, were for most of the period subject to the CAP in Germany, but not in Britain;<sup>71</sup> different attitudes to state control kept rents lower in Britain than in Germany.<sup>72</sup> Taxation made part of the difference with regard to energy (the *Kohlepfennig*) and also with regard to household goods which were subject to a 60% purchase tax in Britain in the 1950s while Germany seriously discussed a partial exemption of labour-saving devices for households even from the 10% which were deducted at purchase.<sup>73</sup> Economic convergence, in other words, was not at its most potent in shaping the price structures of the two countries, and we will see the implications for consumption patterns.

### **3.4 From Macroeconomic Convergence to Convergence in Consumption?**

These findings provide important background for the discussion of changes in private consumption. The following account is mainly based on a comparison of constant priced and price-parity-adjusted per capita expenditure on the groups of goods and services named in the previous chapter. A direct measurement of changes in the quantity structure of consumption, however, had to be restricted to a very limited number of significant consumer durables.

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<sup>70</sup> German budget shares. Using UK budget shares as weights yields .09, .16 and .18 as results.

<sup>71</sup> Cf. Milward 1992, pp. 224 ff, also for the impact on prices.

<sup>72</sup> Rent control was gradually abandoned in Germany in the late 1950s but maintained in Britain, cf. Kleßmann 1988, pp. 50 f. and Page 1991, pp. 456 ff.

<sup>73</sup> Tax rates from Alford et al. 1970, p. 11, and Statistisches Jahrbuch, various issues (also on alcohol and tobacco); cf. Andersen 1997, p. 95 on the German discussion about the taxation of household goods.

This is unfortunate because consumption is not necessarily the same as expenditure,<sup>74</sup> and a treatment in monetary terms reveals little about the qualitative changes during the period which could at least partly be grasped from a look at the spread of certain goods. On the other hand only this approach allows a comprehensive comparison, especially with regard to the aspect of distribution (section 4) because there are almost no comparable data relating to the quantities consumed by different income groups. The few exceptions to this rule are incorporated in section 5.

For the direct comparisons presented below the very detailed British data<sup>75</sup> have been re-grouped according to the German system which comprises the categories mentioned already (food, alcohol and tobacco had to be combined).<sup>76</sup> The results have been deflated using the population data and the price indices. German data<sup>77</sup> have been converted to pounds sterling with the help of the *Verbrauchergeldparitäten* described in appendix I and the data have then been indexed at UK 1961 = 100. Also, in figure 3.3 (p. 82), the expenditure levels for Germany are shown as a percentage of British expenditure levels.

The first notable development is that the rise of total consumers' expenditure per capita corresponded almost exactly to the rise of disposable incomes (cf. table 3.2). Germany's per capita expenditure was just below 40% of the British level in 1950, but rose 3.2-fold until 1973; the increase in Britain was only 1.65-fold during the same period. However, Germany's savings ratio (higher than Britain's already in 1950 - 3.2% vs. 2%), rose considerably faster than in the UK and so overtaking with regard to expenditure took a year longer than with regard to disposable incomes. Growth rates of consumers' expenditure in Germany were highest in the early 1950s and fell consistently with only one major exception, namely the two years after the recession in

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<sup>74</sup> Cf. Fiegehen/Lansley/Smith 1977, p. 71.

<sup>75</sup> From National Income and Expenditure, 1946 ff.

<sup>76</sup> For a very small category, namely for the disentangling of "accommodation" and "meals out" in Britain after 1955, has it been necessary to extrapolate data by using the shares from the years before 1955, when the two categories were still separate in the British accounts (the results therefore differ slightly from those available elsewhere). Apart from this, no other data had to be estimated.

<sup>77</sup> Statistisches Bundesamt 1985.

1966/67, when the ground lost during the recession was regained with higher-than-average growth rates.<sup>78</sup>

In Britain, the picture was just the other way around, and so the two countries converged both with regard to growth rates and to levels of consumers' expenditure – until 1968. However, since the German savings ratio continued to rise at a faster rate than Britain's (to 17.1% and 12.9% respectively in 1974), the divergence of consumers' expenditure levels after 1968 was not as marked as the divergence of disposable income levels. The gap reached a high of 22.5 percentage points in 1972 with a slight decline in the two following years.

**Table 3.2:** Consumers' expenditure in Britain and West Germany, 1950-1973: Constant price budget shares and comparative levels of total expenditure

% of total expenditure (constant prices)	1950		1955		1960		1965		1970		1973	
	UK	FRG	UK	FRG	UK	FRG	UK	FRG	UK	FRG	UK	FRG
Food, alcohol, tobacco	41,3	40,6	42,3	40,0	40,7	36,6	38,2	34,5	35,6	31,5	33,9	30,1
Clothing and footwear	9,7	12,6	9,2	12,5	10,0	11,5	10,0	11,3	10,2	11,3	10,2	10,6
Rents and Rates	7,9	8,3	8,2	8,7	8,3	10,5	8,9	9,8	9,5	10,0	9,4	9,4
Energy	4,9	2,8	4,9	3,2	4,7	3,0	4,7	3,4	4,5	3,9	4,1	4,1
Household goods and services	n/a	10,6	7,8	12,2	8,1	12,9	8,5	13,5	8,3	14,1	9,2	15,3
Education, recreation, leisure, health and beauty	n/a	10,6	12,8	11,6	13,1	12,2	13,4	11,7	13,5	11,0	14,9	11,6

<sup>78</sup> For a detailed treatment of the connection between the recession and private consumption cf. Stodieck 1970, pp. 114 ff.

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Transport, travel, communications	n/a	7,5	9,2	7,5	10,5	9,2	12,2	12,0	14,3	14,6	15,7	13,9	
Total expenditure/ capita, UK 1961 = 100	85	34	89	59	98	81	109	101	120	136	135	161	

**Source:** Calculated from National Income and Expenditure; Statistisches Bundesamt 1984; for price indices and total expenditure see appendices I and II. Percentages do not add up because the category “miscellaneous” is omitted.

While it is therefore fair to say that there was a great deal of convergence going on with regard to the overall level of consumption, the picture which emerges from an examination of the structure of consumers' expenditure is less clear-cut. To be sure, some fundamental developments were quite similar in both countries. Engel's law, for example, which predicts that rising incomes are accompanied by a fall in the budget share devoted to food,<sup>79</sup> has been found to apply in both countries, thus setting free important resources for the consumption of other goods. Measured in constant 1961 prices, the budget share devoted to foodstuffs fell from 35% in Germany in 1950 to 25.4% in 1967, while the fall was less pronounced in Britain – from 28.3% to 22.5% during the same period.<sup>80</sup>

An unusual development can be detected in Britain between 1952 and 1955, when, despite rising incomes, the current price budget shares for food rose from 23% to 28% and prices shot up by 17% in a single year (1951/2). Inflation was rapid generally in that year due to the Korean War, but the rise of food prices was also a reflection of massively increased consumer demand in

<sup>79</sup> Cf. Houthakker 1958, p. 532.

<sup>80</sup> The data for food in the German accounts are not separated from the data for alcohol and tobacco, which – as in table 3.2 – gives a slightly misleading impression of Germany's position vis-à-vis Britain, since in Britain a considerably higher share of the budget was devoted to alcohol and tobacco. This is clear from a comparison with the more detailed calculations of the German data given in Rau 1971, from which the separate figures for food and alcohol and tobacco used in the text have been calculated. Unfortunately, this more detailed account ends in 1967 and is not entirely consistent over time.



), but it has been pointed out that this label is hardly justified if the actual quantities consumed are taken into account,<sup>83</sup> and this also holds with regard to growth rates. In fact it took until 1969 that German levels of expenditure on food equalled Britain's.

Germany's movement relative to Britain in regard to clothing was far more noticeable. In Britain these items had been decontrolled in 1948/49<sup>84</sup> and, after some months of rapid growth, demand suffered a serious setback in 1952. However, in the Federal Republic, the extreme post-war shortage, especially of shoes<sup>85</sup>, came to a definitive end at exactly the same time, reflected in a 12% price drop between 1951 and 1953. A taste factor, namely, the considerable symbolic significance of proper clothes in a country where everybody had been wearing rags for the past couple of years, ensured persistent demand throughout the 1950s.<sup>86</sup> Hence, the remarkable jump in Germany's relative position with regard to equivalent expenditure on clothing which is apparent in figure 3.3 (p. 82).

Apart from these two aspects and the role of household goods and services in Germany (see below), the development of the structures of consumption at the macro-level contains few surprises, if the remarks about

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<sup>81</sup> Cf. Cairncross 1991, pp. 35 f.

<sup>82</sup> Basics on the topic of rationing are included in Hall 1960, pp. 429 ff. and Zweininger-Bargielowska 1994, especially pp. 176 ff., but the topic is still desperately under-researched.

<sup>83</sup> Cf. Wildt 1994, pp. 72 f.

<sup>84</sup> Cf. Hall 1960, p. 439.

<sup>85</sup> Cf. Kleßmann 1991, p. 376.

<sup>86</sup> Cf. Andersen 1997, p. 25 f., for some elaboration on the importance of clothing in early post-war Germany.

relative prices are kept in mind. The difference in domestic energy consumption can be explained by much lower prices in Britain and perhaps also by a less efficient use than in Germany.<sup>87</sup> It should be noted that both countries experienced a switch from coal to petrol and electricity as their main sources of energy which was an important characteristic of the emerging mass consumption societies.<sup>88</sup>

The rapid relative rise of expenditure on rent in Germany also makes a lot of sense, since, as in the case of shoes, it reflects the fact that the catching-up effect in Germany was most marked and happened earliest with regard to those necessities which had been in especially short supply immediately after the war. The apparent end of this process in 1960 corresponds well with what is commonly regarded as the end of a phase of exceptionally strong building activity.<sup>89</sup>

The remaining categories comprise those items which come to most people's minds when the word "affluence" is spelt out, and both in Britain and in Germany they saw a disproportionately high expansion during the period (cf. table 3.3). It was here that the additional money which did not have to be spent on food went. In order to appreciate the significance of this phenomenon, one should have a look at the absolute numbers of consumer durables shown in table 3.4 as well. The rise of TV and car ownership between 1950 and 1973 gives a much better flavour of the revolutionary impact of the period than the budget shares.

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<sup>87</sup> This may have been due to the far more widespread use of open fires in British households and also the comparatively slow spread of central heating and double-glazed windows in Britain, where far fewer dwellings had to be newly built in the 1950s than in Germany, cf. Obelkevich 1994, pp. 146 f. and section 5 of this paper.

<sup>88</sup> Cf. Pfister 1995, *passim*.

<sup>89</sup> Cf. Kleßmann 1991, pp. 244 ff., and Kleßmann 1988, p. 51.

*Table 3.4: Spread of motor vehicles and TV licenses, 1950-1973*

	Motor vehicles in use, per 1000 inhabitants		TV licenses, per 1000 inhabitants	
	UK	FRG	UK	FRG
1950	67	17	7	0
1955	96	44	91	2
1960	137	94	205	84
1965	201	173	251	194
1970	244	247	294	275
1973	284	298	324	283

**Source: Calculated from Mitchell 1998.**

These two goods, however, represent only part of the expenditure on recreation and leisure and travel and transport, respectively. It is notable that with regard to overall expenditure on these groups Germany's catching-up was a good deal below average for the entire period, and that the divergence which should have been expected after 1968 was less marked here. Germany did catch up quite impressively, but rather less than one might assume from the income data. Prices seem to have played a role here because the goods and services in both these groups were – relative to other goods – more expensive in Germany than in Britain (see figure 3.2).

The more important aspect, though, is the fact that the price differential with regard to the third group which comprises consumer durables, namely household goods and services, was massively in favour of German consumers. These goods were relatively cheaper in Germany than in the UK already in 1953, and the differential widened continuously throughout the 1950s and 1960s.

While the differences in prices were not quite as wide as the differences the graph suggests for expenditure, they can nevertheless lead the way to an adequate explanation for the fact that German expenditure on this group was slightly above the British level already in 1953, and that it rose to about 265% of the British figure by 1970. Some caution is clearly in order because the necessary amount of reclassification and combination of price indices in this group was considerable and British expenditure might be understated.<sup>90</sup> However, the differences in emphasis concerning expenditure on these groups are reflected in the ownership figures for durables. Refrigerators have apparently aroused less excitement than motorcars and so comparable data are not easily found. It should be noted that the British figures in the first column of table 3.5 refer to 1964 and that the one-and-a-half year difference clearly matters.

*Table 3.5: Percentage of households owning durable goods, 1962/63-1973*

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<sup>90</sup> However, the current price budget shares suggest a similar course. Furthermore, all but one of the five British indices combined to yield an index comparable to the German one developed in very close neighbourhood to each other, so that picking or dropping one or the other has no significant effect on the picture of price movements (the exception is the index for electrical appliances). After all, the benchmark estimate of the Federal Statistical Office for 1961 also shows that while the parity for total expenditure was £1 = DM 11,76, for this group it was £1 = DM 10,40 (= 88.4%), cf. appendix I.

	1962/63 <sup>a</sup>		1969		1973	
	UK	FRG	UK	FRG	UK	FRG
Washing machine	52,5	33,4	62,7	60,9	66,6	74,8
Refrigerator	33,7	51,8	60,3	83,6	77,6	92,5
TV	80,4	34,4	91,2	72,7	93,4	87,2

<sup>a</sup> UK: 1964

**Source:** Calculated from Family Expenditure Survey and Preise Löhne Wirtschaftsrechnungen R. 18.

The data for washing machines may not prove the point, but then washing machines are clearly the most expensive item in that group and the differences in disposable income levels were still marked in 1962/3. Anyway, the figures for TVs (which are presented here again on a comparable basis) and refrigerators are instructive. What seems to have happened is that, because motorcars and TVs were still way too expensive for most ordinary Germans in the 1950s, the newly acquired affluence was to a large degree diverted towards domestic equipment (and furniture) – a point which corresponds well with the often described “retreat” of German families into their home.<sup>91</sup>

While this latter trend was certainly not absent in Britain, there still resulted a marked difference in tastes which compounded the differences in prices (or maybe was a consequence thereof). Opinion polls show that, in 1955, German women and men agreed that the most important items for an “appropriate standard of living” were (in this rank order) a refrigerator, a washing machine, and a vacuum cleaner. TVs were an equal third among men but only 11<sup>th</sup> among women; cars were only 8<sup>th</sup> and 17<sup>th</sup>, respectively.<sup>92</sup> Compare this to Zweig’s finding that among the British workers whose attitudes he investigated comprehensively in 1957 “the standard joke of older men who

<sup>91</sup> Cf. Schildt 1997, p. 337 (also for the point about furniture).

<sup>92</sup> Cf. Andersen 1997, p. 92.

had no washing machine was ‘I don’t need one, my wife is my washing

<sup>93</sup> while at the same time “[e]ven the poorest home had a T.V. set”.<sup>94</sup>

It is no coincidence that Erhard’s famous 1953 article was entitled “A *refrigerator* for every household”. The (filled) fridge, not the TV, was the symbol of the beginnings of mass consumption in Germany.<sup>95</sup> In Britain, it was the other way around.<sup>96</sup>

So what about the overall pattern of convergence or divergence of structures of private consumption? Finding a summary measure for answering this question is no easy task. The index which has been employed below is an adaptation of the so-called “index of speed of structural change” which has been used by Knorring<sup>97</sup> and Schmidt,<sup>98</sup> but is based on actual expenditure rather than on budget shares.<sup>99</sup> It is made up by adding up the absolute values of the differences in pound sterling of expenditure for every group in every single year.<sup>100</sup> These absolute pound values were weighted by the average of the disposable income in the two countries in the respective year. The results were then indexed at 1953 = 100 and presented in figure 3.4 (p.83) where a similarly derived index for the divergence of real disposable incomes is also shown. The implication is that absolute convergence in the amount of real pound sterling equivalent expenditure on each group would lead to an index value of 0, (almost) demonstrated by the case of real disposable incomes in 1967/8. This index clearly has its limitations. It does not, for example, show the direction of change. Nor does it allow for offsetting effects which could appear if there was a rapid switch-over in one country from one group of goods to another, and it should therefore be read in conjunction with figure 3.3 (p.82).

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<sup>93</sup> Zweig 1961, p. 9.

<sup>94</sup> Ibid. Zweig also quotes further relevant evidence.

<sup>95</sup> Cf. Wildt 1994, pp. 9 ff. and 143 ff.

<sup>96</sup> Zweig 1961, pp. 108 ff. Due to the system of classification used in both countries’ national accounts it is unfortunately impossible to give a precise account of another important group, namely spending on holidays.

<sup>97</sup> Knorring 1971, p. 183.

<sup>98</sup> Schmidt 1976, p. 33.

<sup>99</sup> Basing it on budget shares would, however, not significantly alter the results.

<sup>100</sup> If, for example, in 1953 Britons spent £119 per capita on food (in constant 1961 prices) and Germans spent the equivalent of £64, the absolute value of the difference was taken and added to the absolute values of the differences in the other groups.

The reason why it has been included here is because it neatly summarises the pattern of convergence and divergence in one line.

The graph shows that while between 1953 and 1968 real disposable income did converge in absolute terms, the convergence with regard to consumption patterns was less marked, though still apparent. Two phases in that period are quite distinct. Up to 1958/59, both income convergence and convergence with regard to consumption were very marked, mainly due to the rapid economic expansion in Germany. Between 1959 and 1969, convergence especially with regard to consumption patterns was somewhat slower. Divergence reached its low point in 1969 with an index number of 33. From 1968/9 onwards, then, Germany's overtaking with regard to disposable income was mirrored in a similar, though less marked development concerning consumer spending and expenditure patterns tended to diverge again.

In sum, there is clear evidence that total consumers' expenditure closely followed real disposable income levels and that there was convergence both in relative and in absolute terms between Britain and Germany up to 1968 and some divergence afterwards. With regard to the structure of consumption the picture is less clear-cut. While developments were similar for most items, there were nevertheless some persistent differences. These have been shown to relate both to prices and to differences in taste. Economic convergence still played a considerable role, and this is confirmed by the absolute numbers of consumer durables per capita. However, its impact on prices was rather limited, and its impact on tastes is beyond the reach of empirical testing.

#### **4. From Macroeconomic Convergence to the Convergence of Distributions?**

##### **4.1 The Distribution of Income and Expenditure: Datasets**

The results derived from the macrolevel could be misleading as an indicator for the social impact of rising levels of consumption. It has been argued already that characteristically for the period, in both countries prosperity was perceived to be for all, and that this perception was largely based on the (apparent) fact that consumption was for all.

Research into this topic is not helped by the lack of source material. Germany's Federal Statistical Office has a reputation for the inadequacy of its related publications,<sup>101</sup> and, although the situation is slightly better for Britain, especially the period of the 1950s is scarcely documented.<sup>102</sup> This is reflected in the literature where even prominent historians have shied away from the topic or made a mess of it.<sup>103</sup>

Consequently, no account of trends in the distribution of income and expenditure can claim to be complete or free from mistakes, and this includes the following comparison of these trends in Britain and Germany. It concentrates on households clustered according to income, although some data on different occupational groups of the heads of these households are also included. Other important criteria which arguably influence income and expenditure, notably household size and age, had to be left out for want of data (but see section 5).

Even so, the database is anything but perfect. The British data are taken from the well-known Family Expenditure Survey, a household budget survey first carried out in 1953/54 and then regularly since 1957. The sizes of the samples involved in this survey were between 3500 and 12000 households p.a. and the methods employed relatively consistent over time, but there are nevertheless some weaknesses in these data. The most important of them in the present context are that there is only one useful survey for the 1950s, the one for 1953/54, and that the coverage of the FES is, due to response error, relatively weak with regard to high income households which means that it tends to understate income inequality.<sup>104</sup>

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<sup>101</sup> Cf. Abelshauser's remarks on the topic, Abelshauser 1983, p. 134.

<sup>102</sup> A brief dip into the official statistics of other countries suggests that the situation is similar for almost all of Western Europe. Cf. also the overview of eight countries in Stark 1977, *passim*.

<sup>103</sup> A good example is Hans-Peter Schwarz, arguably one of the foremost German historians of a generation. His account of trends in West Germany's income distribution (Schwarz 1981, pp. 399 ff.) can safely be dismissed as completely inadequate. Unfortunately his mistakes (e.g. ignoring inflation) belong to the more frequently quoted passages of the book; Weimer 1998, p. 118, repeats them all over again.

<sup>104</sup> On these issues cf. Kemsley/Redpath/Holmes 1980. To a lesser degree this also holds for households whose heads are self-employed.



This latter problem especially applies to the comparison with the German data which were *inter alia* designed to remedy the problems that other surveys had had with regard to high-income households.<sup>105</sup> Furthermore, they are not strictly speaking primary statistics, and this is the most important restriction on a comparison with the British FES. The German Institute for Economic Research (DIW) which devised the data called them “model estimates”.<sup>106</sup> They are the result of “a mammoth exercise in grossing-up and allocation”<sup>107</sup> which is based on the few household budget data there are, on three (flawed) Income and Consumption Surveys, the microcensuses, and the wage and salary surveys.<sup>108</sup>

The definitions used in these underlying primary statistics do correspond very closely to those used in the FES, so that in this regard no major problems arise for a comparison.<sup>109</sup> Furthermore, the DIW data are “widely considered as the most acceptable estimates of the distribution of household income in the Federal Republic”.<sup>110</sup> One problem, however, is that there are no annual data – the data for income refer to 1950, 1955, 1960, 1964, 1968, 1970, and 1975, while data for expenditure are only available for 1955, 1960, 1964, 1970, and 1974. Also, the expenditure data for 1955 are partly extrapolations for which the source base is more limited than for the other years.<sup>111</sup>

The degree of comparability is therefore restricted but these two datasets are still the most adequate accounts of the respective countries. The FES is also detailed enough to allow some manipulation in order to enhance the possibility of a direct comparison; the procedures used for deriving the results presented below are treated in detail in appendix III. Two things should be noted. Firstly, all data in the following refer to disposable incomes (as defined in the appendix); secondly, no effort has been undertaken to reconcile the data with those presented in the previous chapter. There are minor divergences for

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<sup>105</sup> Cf. Göseke/Bedau 1974, p. 14.

<sup>106</sup> “*Modellrechnungen*”, Göseke/Bedau 1974, pp. 14 f.

<sup>107</sup> Stark 1977, p. 74.

<sup>108</sup> The household budget data and the Income and Consumption Surveys are partly used in chapter 5.

<sup>109</sup> Cf. Stark 1977, p. 76 f.

<sup>110</sup> Stark 1977, p. 74.

<sup>111</sup> Cf. Göseke/Bedau 1978, p. 31.

which the underestimation of very high incomes in the FES is partly to blame.<sup>112</sup> The separate comparisons across time for each country are relatively unproblematic but the cross-country comparisons should be interpreted with caution.

## 4.2 Trends in the Distribution of Income

While the massive growth of disposable incomes in the post-war period was a direct consequence of economic expansion, the development of the distribution of household incomes was influenced by three factors which were not necessarily related to growth. These were population movements; changes in the socio-economic and, more specifically, in the occupational structure; and changes in redistributive policies.<sup>113</sup> Each differed considerably in the two countries under review.

Germany's population structure had gone topsy-turvy in 1945, and throughout the 1950s and well into the 1960s population grew massively from around 45 million to 60 million. Since more than half of this change especially after 1955 was due to the migration of "guest workers", these changes were partly an aspect of economic growth.<sup>114</sup>

The British experience was different. Firstly, population growth was not nearly as rapid as in Germany; and secondly, "it was based entirely on the

<sup>115</sup> The implication of these differing developments was that the way the age structure changed also differed. "Of the purely demographic changes during the 1950s and 1960s, the only change likely to have had a significant impact on the overall distribution was in the age structure of the population: this can be summarised as an increase in the proportions of young and old in the population, at the expense of the intermediate age

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<sup>112</sup> For example, the FES data indicate that disposable income levels in Germany in 1955 were 76% of those in Britain in 1953/4; the national accounts say the number is 70%. Also, according to the FES data, Germany's real disposable income levels were equal to Britain's as early as 1964. This is accompanied by a difference of 45% in the top decile, which seems hard to believe.

<sup>113</sup> Cf. Göseke/Bedau 1974, pp. 40 ff.

<sup>114</sup> Cf. Kleßmann 1991, p. 42 and Kleßmann 1988, pp. 30 ff.

<sup>115</sup> Pollard 1991, p. 289.

ranges".<sup>116</sup> However, the difference was that the number of young and old people grew only slowly in Britain, while it was very high in Germany already in the 1950s – a consequence of the heavy wartime losses in the intermediate age range.<sup>117</sup> The share of one-person-households was 17.1% of all households in Germany in 1950, but only 10.1% in Britain in 1953. It increased only slowly in the UK and never reached the German figure, a fact reflected in the continuously higher average size of British households (cf. table 4.1).

The main effect of the increase in one-person-households was to increase the absolute number of households while decreasing the average size and income per household.<sup>118</sup> Judging from the development of household sizes, one would consequently expect an initially high degree of inequality in Germany and only a modest change over the period. The reduction of the incidence of very large households (see below) should have worked towards equalising the distribution of income.<sup>119</sup> In Britain, inequality ought to have increased more markedly over time, although the UK also had fewer of the very large households at the end of the period.

Regarding the more directly economic changes, changes in the occupational structure also had an impact which was closely related to the issue of household size, especially in West Germany. Both the average size of households whose head was self-employed and their share of the total of households fell considerably, clearly a reflection of the structural shift out of agriculture which so drastically changed Germany's occupational structure and

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<sup>116</sup> RC 1977, p. 103.

<sup>117</sup> Cf. Kleßmann 1988, pp. 30 f.

<sup>118</sup> This could, however, have had a beneficial impact with regard to consumer demand, since it reduced the number of households benefiting from economies of scale, especially with regard to consumer durables, but also with regard to housing. The more households there are in an economy, the greater is the potential demand for refrigerators.

<sup>119</sup> This assumption has been tested by calculating a Gini coefficient on net incomes for 1974 with an assumed constant 1955 household size structure. The results were  $G_{1974} = .388$ ,  $G_{1974/const1955} = .422$ , i.e. the changes in household sizes reduced the Gini coefficient by .034 points, thus confirming the argument. Due to the presentation of the data in the FES, a calculation for Britain would have required an undue amount of estimation which could well have affected the results and was therefore omitted.

contributed to fast productivity growth.<sup>120</sup> This again worked towards a more equal distribution of income as the 1950s and 1960s progressed.<sup>121</sup>

In 1950s Britain, there was hardly any agriculture left to contract, and the number and size of households whose head was self-employed remained roughly constant. However, no clear trend for the distribution of incomes emerges from the occupational data for Britain, though the growing number of “other” households could be an indication of growing inequality. The developments are summarised in table 4.1.

So far the conclusion could be that Germany’s distribution of income should have come nearer to Britain’s. The effects of structural change in the economy were clearly working towards lower household sizes at the upper end of the range in Germany, and Britain slowly caught up on Germany’s unusually high number of small households.

*Table 4.1: Households and household sizes by occupational group, 1955 and 1974*

	1955 <sup>a</sup>				1974			
	UK		FRG		UK		FRG	
	Average size	% of all h’holds	Average size	% of all h’holds	Average size	% of all h’holds	Average size	% of all h’holds
All households	3,18	100	3,03	100	2,83	100	2,64	100
Self-employed	3,43	6,4	3,93	17,5	3,45	8,3	3,66	10,2
Employees	3,19	18,0	3,06	20,1	3,02	23,7	2,85	25,5
Manual occupations	3,52	54,3	3,27	34,3	3,25	40,9	3,04	29,7
Other	2,23	21,3	2,16	28,1	1,84	27,1	1,85	34,6

<sup>120</sup> Cf. Kirby 1999, pp. 83 ff.

<sup>121</sup> The Gini coefficient for 1974 with an assumed constant 1955 occupational structure is  $G_{1974/const1955} = .0433$ , i.e. the changes in the occupational structure reduced the Gini coefficient ( $1974 = .388$ ) by .045 points. Calculated from Göseke/Bedau 1974.

<sup>a</sup> UK: 1953/4. Data are not strictly comparable, since “Other” includes members of the armed forces and those unemployed in Britain but not in Germany where members of the armed forces are included among employees and unemployed persons among their previous occupational group as long as they receive unemployment benefits (i.e. for one year). FES data may contain a slight bias away from self-employment.

**Source: Family Expenditure Survey and Göseke/Bedau 1974.**

This levelling tendency was, however, partly offset by another change in the socio-economic sphere and wholly offset by the impact of the state. Female employment in the 1950s and 60s was clearly an element working towards a more equal distribution of household income because it was relatively less frequent at the upper end of the income range.<sup>122</sup> The number of earners per household reported in table 4.2 is not a precise measure of female employment, but it does give an indication of the differences between the two countries. (Other household-related data are unavailable).

*Table 4.2: Number of earners per household, 1950-1974*

	1950		1955 <sup>a</sup>		1960		1964 <sup>b</sup>		1970		1974 <sup>c</sup>	
	UK	FR	UK	FR	UK	FR	UK	FR	UK	FR	UK	FR
	G		G		G		G		G		G	
1 earner	n/a	63,2	46,7	59,9	n/a	59,3	53,0	60,5	44,8	62,9	42,8	63,9
2 earners	n/a	23,6	37,0	25,1	n/a	25,7	32,4	25,5	41,5	24,7	44,7	24,0
3 or more earners	n/a	13,2	16,3	15,0	n/a	15,0	14,6	14,0	13,7	12,4	12,5	12,1

<sup>a</sup> UK: 1953/54   <sup>b</sup> UK: 1965   <sup>c</sup> FRG: 1975

The data are again not fully comparable because they comprise income recipients for the FRG and the UK in 1953/54 but persons working for gain for the UK from 1965. UK data after 1965 have been calculated by omitting the category “no worker”. They therefore cover only about 80% of all households.

**Source: Family Expenditure Survey and Göseke/Bedau 1974.**

The number of households with only one earner was much higher in Germany than in Britain for all of the 50s and 60s. It is true that the number of women in employment in Germany rose up to 1957, but from then on it fell continuously for the rest of the period. This was probably due to the tight grip that traditional family values had in Germany.<sup>123</sup> British attitudes towards family life, if not revolutionary, were apparently somewhat more relaxed.<sup>124</sup> Consequently, female employment did very little to reduce income inequality in Germany<sup>125</sup> but much more in Britain: The RC report gives a figure of a -.014 change in the Gini coefficient of *gross* household income which can be attributed to the increasing proportion of women going to work. Most of this change was to the benefit of the middle ranges of the income distribution.<sup>126</sup>

Probably the most important element in determining the scale of the differences between the two countries' distribution of income was the redistributive impact of the state. It is not my intention here to give a full account

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<sup>122</sup> Cf. RC 1977, pp. 103 f.

<sup>123</sup> A nice point in case is family minister Wuermeling's speech “Mothers are irreplaceable” dating from 1959, in which, among other things, he remarks with view to the role of female employment in the GDR that “this is a sort of equality from which we want to save ourselves and our wives”,

<sup>124</sup> Cf. Marwick 1996, pp. 64 f.

<sup>125</sup> Gini coefficient for net household income with assumed constant 1955 number of workers per household structure  $G_{1974/const1955} = .392$ , i.e. the changing employment structure has reduced G by .004 points. These data capture not only female employment.

<sup>126</sup> Cf. RC 1977, pp. 105 ff.

of the comparative effects of direct and indirect taxation, of social security benefits and so on; this would merit a major research project and is fraught with difficulties of almost every sort.<sup>127</sup> Some brief remarks are necessary, but more than that cannot be attempted here.

It is fair to say that policymakers' intentions and the attitude of the population at large to matters of redistribution in Britain and Germany were diametrically opposed, and so was the impact of the two systems of redistribution. To be sure, Germany had a very considerable tradition of social security systems which was reflected in the fact that throughout the period the share of GDP devoted to social expenditure was higher in Germany than in Britain.<sup>128</sup> However, in both countries the 1940s marked a departure in the attitude to income redistribution, and they moved from different starting points to opposite ends.<sup>129</sup>

In the Federal Republic, "capital formation [became] a prime desideratum of economic policy", and so "preferential treatment was given to the receivers of  
<sup>130</sup> This was part of the social consensus geared to rapid reconstruction and economic development, which took priority over matters of equality. Up to the reform of the old age pensions system and the tax system in 1957, the impact of both taxation and social security on income equality was (despite a higher proportion of transfer incomes than in Britain!) probably negligible, although no precise figures are available.<sup>131</sup> Afterwards, transfer payments provided for some redistribution, but the progressive nature of the tax system had an almost counterproductive effect. It had no serious impact on high income households because they were best able to make use of the many exemptions but it hit the intermediate income ranges hardest because there progression was steepest.<sup>132</sup> All this, it must be said, was a matter of little

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<sup>127</sup> Cf. Johnson 1994, pp. 296 f.

<sup>128</sup> Cf. Johnson 1999, p. 125.

<sup>129</sup> For Britain cf. Johnson 1994, pp. 285 ff.; for Germany, Hentschel 1983, pp. 146 ff.

<sup>130</sup> Schnitzer 1974, p. 98.

<sup>131</sup> "A very tentative hypothesis might be that the British direct redistributive mechanism may be the more effective. It is a pity that we do not have any gross income distribution estimates for West Germany to test this point", Stark 1977, p. 92.

<sup>132</sup> Cf. Schnitzer 1974, pp. 113 f.

concern for the population and it served its purpose of bringing about rapid growth and prosperity.<sup>133</sup>

Britain on the other hand undertook, from 1945 onwards, the implementation of the proposals of the Beveridge report, and by 1948 the basic structure of the welfare state as it stands up to the present day had emerged - accompanied by a “comprehensive welfare ideology” which “came from a desire to build a better and more equal Britain”.<sup>134</sup> Equality was probably *the* major goal of economic and social policies from the end of the war right up to Mrs Thatcher’s rise to power.<sup>135</sup> While it may be true that by these standards “[p]ost-war measures to reduce income inequalities have not been particularly dramatic”,<sup>136</sup> in comparison with Germany they certainly were. Schnitzer found that the impact of taxes on the Gini coefficient for the distribution of personal incomes of wage and salary earners in Germany in 1968 was to reduce it by a mere 4.4%.<sup>137</sup> In Britain, the Gini coefficient on household incomes in 1974 was reduced by 24.2% from original income to net income.<sup>138</sup> These figures are, of course, not comparable but they give a rough indication of the pronounced differences of the redistributive impact of the state.

So what did the distribution of disposable household income look like? First unsurprisingly, it was much more unequal in Germany than in Britain (cf. table 4.3). Measurement error is partly to blame for the scale of the difference but it is nevertheless clear that the allegedly “levelled” German society was, with regard to incomes, much less “levelled” than the “class-ridden” British society. Even the pre-tax distribution of household incomes in Britain was slightly more equal than the post-tax distribution in Germany. If equality is viewed as a goal, Britain had both a good deal of luck and a successful policy stance, while Germany had neither.<sup>139</sup>

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<sup>133</sup> Cf. Kleßmann 1988, p. 36. The distribution of *wealth*, however, became of increasing concern during the 1960s, cf. Abelshauser 1983, pp. 139 ff.

<sup>134</sup> Johnson 1994, p. 287.

<sup>135</sup> Cf. Page 1991, pp. 445 f.

<sup>136</sup> Ibid., p. 450.

<sup>137</sup> Cf. Schnitzer 1974, p. 117. He has very similar figures for other groups.

<sup>138</sup> Cf. RC 1977, p. 51. It was slightly heightened from net income to final income.

<sup>139</sup> Cf. RC 1977, p. 141.



Table 4.3: Disposable household incomes: Gini coefficients

	1955 <sup>a</sup>		1960		1964		1970		1974	
	UK	FRG	UK	FRG	UK	FRG	UK	FRG	UK	FRG
All households	.261	.376	.299	.371	.274	.371	.275	.385	.287	.380
Self-employed	.256	.343	n/a	.336	n/a	.333	n/a	.327	.213	.327
Employees	.204	.325	n/a	.321	n/a	.329	.224	.325	.212	.316
Manual occupations	.204	.301	n/a	.286	.195	.286	.212	.283	.207	.280

<sup>a</sup> UK: 1953/54   <sup>b</sup> 1966

**Source:** Calculated from Family Expenditure Survey and Göseke/Bedau 1974. The figures for “all households” in Germany differ slightly from those given by Göseke/Bedau because they have been calculated on the basis of grouped data. Though less precise, they are given here in order to gain full comparability with the other data and those presented in chapter 4.2.

A second thing which stands out is the lack of change. In Germany, this does not seem to be true within each of the four rough occupational groups presented in the table, where inequality has decreased slightly over the period. But apart from this it is fair to say that “the majority of the German population had lost the race into the economic miracle already at the start”,<sup>140</sup> and, what is more, inequality tended to increase towards the end of the period. In Britain, the changes were more marked, but still not on a scale at which measurement error could confidently be excluded. The trend seems to have been that there was a measurable increase in inequality between 1953/54 and 1960, followed by a slight fall, stability throughout the mid- and late sixties and a rise again in the early 70s.<sup>141</sup> The decile-by-decile comparison of real disposable income levels given in table 4.4 below should be interpreted with great caution. In particular, the figures for the upper deciles in Britain and consequently also the average figures are distorted by response error. Nevertheless, it is fair to claim that the majority of the British population was much better off vis-à-vis Germany than

<sup>140</sup> Kleßmann 1988, p. 36.

<sup>141</sup> Cf. also RC 1977, p. 244.

the macroeconomic record suggests. A full 70% of British households had been overtaken by their German counterparts in 1974 but only just. The very well-off in Germany had soon matched the very well-off in Britain, but they remained alone in that situation for almost the entire period.

*Table 4.4: Average real disposable income by decile, average UK 1960 = 100*

	1955 <sup>a</sup>		1960		1964		1970		1974	
	UK	FRG	UK	FRG	UK	FRG	UK	FRG	UK	FRG
Average	87	66	100	92	107	108	140	151	142	188
Decile										
1	30	15	28	22	36	27	43	36	42	49
2	41	22	44	33	45	38	63	53	58	68
3	61	31	57	43	72	51	86	70	83	86
4	70	39	73	55	73	64	107	88	103	109
5	73	49	84	68	101	79	124	107	125	133
6	84	58	98	81	104	95	144	129	157	160
7	103	69	115	96	119	112	163	154	162	192
8	106	84	118	116	137	135	174	187	184	231
9	127	106	147	145	171	170	203	245	213	304
10	180	187	231	258	211	307	292	443	296	548

<sup>a</sup> UK: 1953/4

**Source: Calculated from Family Expenditure Survey and Göseke/Bedau 1974. See appendices I and III for details of calculation.**

It is also interesting that the differential in the three lowest deciles narrowed only very slowly during the 60s - despite the narrowing differential with regard to one-person households. Britain may have been talking about the “new poverty” by the early 1970s;<sup>142</sup> but the “stepchildren of the *Wirtschaftswunder*” had apparently not even made their way out of the old poverty by then.<sup>143</sup> Things changed between 1970 and 1974, however, and so the result for the whole period is that the highest income growth rates in Germany are to be found at the lower and at the upper end of the income range. While the development was more uneven in Britain, it is nevertheless indicative that the highest and the third-highest rate of income growth is to be found in the sixth and in the fifth decile, respectively – exactly those deciles which in Germany had the lowest growth rates. The greater income equality in Britain was mainly to the benefit of those in the middle ranges of society, while in Germany both the middle and (except for the last four years) the low income households were lagging behind.

In sum, the structural impact of economic convergence did have knock-on effects on the trends in the distribution of income, and factors such as the shift out of agriculture tended to favour convergence with regard to income distribution. However, they were offset by the differences with respect to female employment, and the differences in the redistributive impact of the state. While female employment has nothing to do with economic convergence even at a second glance, the more important issue of redistribution by the state probably does. Paradoxically, Germany’s more unequal distribution of income may have been a prerequisite for its success. The intention of the system of taxation was to allow capitalists to keep their money – on the understanding that they would

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<sup>142</sup> Cf. Johnson 1994, p. 301.

<sup>143</sup> The data presented here are not intended to give a measure of poverty, and they would be inadequate for that purpose. Still, the statement remains true, cf. Kleßmann 1991, pp. 39 ff.

reinvest it.<sup>144</sup> Of course, the question whether the British system on the other hand curbed incentives and impeded growth is a huge issue which cannot be resolved here<sup>145</sup>. If the point were valid, it would mean that convergence at the macro-level could imply sustained differences e.g. with regard to distributional issues. In the case of Britain and Germany, these differences clearly were persistent.

#### 4.3 “Equality in Consumption”? Trends in the Distribution of Expenditure

Was it any different with regard to consumption? After all, the claim that the way people led their lives became more similar across the income range and across countries draws heavily on an alleged “equality in consumption”.<sup>146</sup> It is not quite clear, however, what kind of equality the proponents of this argument mean. If they mean that few people were excluded from access to certain significant goods (to which the phenomenon of ‘modern’ consumption is often reduced), then the argument has – at first sight - some appeal, though this is something different from equality. Section 5 will have a word or two to say about whether this argument holds.

If “equality in consumption” is meant in a stricter sense, so as to suggest that, although people earned different amounts of money, they nevertheless spent the same amount, or that, although people still spent different amounts of money, they spent it in an increasingly similar way, then the concept can safely be dismissed. This will be clear from the data presented below.

The first point is easiest to resolve. Table 4.5 reports Gini coefficients for expenditure on the groups of items already presented in section 3.

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<sup>144</sup> Cf. Crafts/Toniolo 1996, p. 22.

<sup>145</sup> Cf. Johnson 1994, pp. 297 ff.

<sup>146</sup> Abelshauser 1983, p. 133. Bourdieu’s argument that consumption as a cultural practice serves “as a way of *establishing* differences between social groups, not merely as a way of *expressing* differences which are already in place as a result of an autonomous set of economic factors” is usually also regarded as especially important for the post-war period because, so the argument goes, the economic differences already in place diminished in significance, cf. Bocock 1993, p. 64, from where the quote is also taken.

*Table 4.5:* Household expenditure on different groups of items (all households), 1955-1974: Gini coefficients

	1955 <sup>a</sup>		1960		1964		1970		1974	
	UK	FRG	UK	FRG	UK	FRG	UK	FRG	UK	FRG
Food	.193	.287	.208	.268	.197	.262	.197	.266	.196	.280
Alcohol and tobacco	.300	.376	.295	.351	.287	.329	.278	.311	.282	.286
Clothing and footwear	.322	.434	.349	.407	.319	.383	.327	.374	.312	.383
Rents and rates	.135	.254	.127	.247	.140	.241	.137	.248	.149	.251
Energy	.102	.262	.104	.230	.100	.206	.094	.190	.100	.148
Household goods										

and services	.276	.395	.300	.402	.317	.403	.253	.427	.327	.418
Education,										
recreation, leisure,										
health and beauty	.302	.465	.309	.455	.288	.444	.288	.457	.312	.436
care										
Transport, travel,										
communications	.363	.460	.476	.464	.400	.464	.366	.485	.356	.456
Total expenditure	.251	.365	.279	.358	.263	.352	.251	.362	.264	.356
Savings	.384	.535	.421	.519	.400	.504	.450	.516	.461	.503

<sup>a</sup> UK: 1953/4

**Source:** Calculated from Family Expenditure Survey and Göseke/Bedau 1978.

Of course, looked at in this way, the alleged “equality in consumption” evaporates almost completely. The Gini coefficients for total expenditure are indeed slightly lower than those for disposable incomes but the higher marginal propensity of low-income groups to consume is a well-known phenomenon and there is nothing new here to be explained. The other side of the coin is the high inequality with regard to savings. The German savings ratio, which has inspired audacious theories about German thrift and efficiency,<sup>147</sup> is 40% (1955) accounted for by the top decile and therefore at least partly a consequence of high income inequality. Anyway, it is clear that, by and large, the distribution of household income is mirrored in the distribution of expenditure, and not only of total expenditure but also of its component categories. As one would expect, the Gini coefficients for the groups which contain highly income elastic goods are higher than for the other groups, and the ones for necessities are a good deal lower.

The answer to the question whether equality with regard to expenditure was more marked than with regard to income is therefore a clear “no”, and so is the answer to the question whether convergence between Britain and Germany

was more marked in that respect than with regard to the distribution of income. The two countries did not converge either way; the clear losers were the lower and the middle ranges of the German income range. The lowest seventy per cent of the German income range spent less than their British counterparts on every expenditure group except clothing and household goods in all the years between 1955 and 1970.<sup>148</sup> The picture which emerges from the expenditure patterns is therefore very similar to the one emerging from the income distribution.

More tricky to assess is the question whether the way people spent their money rather than the amount they spent converged across income ranges or countries. Could it be that while there were persistent differences in levels of consumers' expenditure, the structures nevertheless became more similar over time?

This is an issue which could have quite some implications. For example, Fiegehen et al. discuss "whether there are any relatively abrupt changes in expenditure patterns as income rises which might help to suggest where a line should be drawn between the poor and the non-poor".<sup>149</sup> A similar point is made by Wildt when he argues that the image of a gradual spread of mass consumption from top to bottom of society is unrealistic.<sup>150</sup>

But these assumptions do not hold, at least not at the level considered here. There certainly are "threshold" levels for goods such as motorcars, quite simply because they are not offered at infinitesimally small price steps (though consumer credit might be a way to alleviate this problem!). The categories presented here are probably too crude to capture these effects, and one may well object to that; but there simply are no better data to study the pattern of change with income in a comparative perspective.

Table 4.6 reports constant price budget shares by decile for both countries in 1955 (UK: 1953/54) and 1974 and comparative levels of

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<sup>147</sup> Cf. e.g Wildt 1994, pp. 61 ff.

<sup>148</sup> Calculated from Göseke/Bedau 1978 and FES. Data are not shown in a separate table due to the complexity.

<sup>149</sup> Fiegehen/Lansley/Smith 1977, p. 70. They deny the question.

expenditure. The same figures have been analysed for the intermediate years for which they were available and also for three rough occupational groups of heads of households, namely self-employed, salaried employees, and employees in manual occupations. The results were virtually the same in all these categories in every year, so that it was not considered worthwhile to include them.

It is fairly clear from the table that neither in Germany nor in Britain and neither in 1955 nor in 1974 were there any major discontinuities in the way the budget shares changed with income. One ought not be deceived by the apparently steeply falling share of the budget devoted to rent and energy in the three lowest deciles in Britain in 1953/54. A calculation of income elasticities for successive deciles<sup>151</sup> reveals that the income elasticity of demand for rent was actually at its lowest for deciles one/two and two/three (0.38 and 0.23, average: 0.48), and this also applies for energy. These elasticities have also been calculated for the other data, and the results were for both countries and both years very similar to what Fiegehen et al. also found. They “did not reveal a systematic pattern but suggested a rather unstable relationship between income and expenditure elasticity on particular goods or services”.<sup>152</sup> In other words, there were no distinct discontinuities of any sort in the way expenditure patterns changed with income.

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<sup>150</sup> Cf. Wildt 1994, p. 11. It is not quite clear to me, though, how one can arrive at such a conclusion by examining a group which comprised no more than 2% of society.

<sup>151</sup> Proportionate change of expenditure on a given item expressed as a ratio of the proportionate change in income, also used in Fiegehen/Lansley/Smith 1977, p. 83.

<sup>152</sup> Ibid. The only possible exception are the elasticities at the step from decile two to decile three in the category “all households” in Germany in 1955. However, the data for the lowest two deciles in this case are (as one can see from plotting out the raw data) linearly extrapolated and should be treated carefully (it is a different matter from the third decile upwards).



*Table 4.6: Consumers' expenditure: constant price budget shares of component categories by decile and comparative levels of expenditure, average expenditure UK 1960 = 100, 1955 and 1974*

Decile	United Kingdom										West Germany									
	1	2	3	4	5	6	7	8	9	10	1	2	3	4	5	6	7	8	9	10
<u>1955</u>																				
Food	37, 8	38, 5	37, 6	36, 8	36, 5	35, 2	33, 1	32, 8	31, 2	27, 0	40, 6	38, 8	36, 9	35, 6	34, 2	33, 1	31, 9	30, 6	29, 0	23, 7
Alcohol and tobacco	5,0	6,6	8,5	8,8	8,8	8,8	9,2	9,2	9,5	9,6	8,6	8,7	8,8	8,9	9,1	9,3	9,5	9,6	9,8	9,2
Clothing and footwear	6,5	7,8	8,7	8,7	8,8	9,5	10,	10,	10,	11,	8,4	9,4	10,	11,	12,	12,	13,	14,	14,	15,
							3	4	9	7			6	4	1	7	4	2	9	3
Rents and Rates	15, 4	12, 7	9,6	9,2	9,1	8,7	7,8	7,7	7,1	6,4	12,	10,	9,7	8,9	8,4	7,9	7,5	7,0	6,5	5,5
Energy	12, 6	10, 3	7,6	7,2	7,1	6,4	5,6	5,5	5,1	4,4	5,3	5,1	4,9	4,7	4,5	4,3	4,1	3,8	3,5	2,7
Hhold goods and services	10, 0	10, 0	9,9	10, 2	10, 2	10, 5	10, 5	10, 5	10, 6	11, 8	11,	11,	11,	11,	12, 0	12, 1	12, 2	12, 3	12, 5	14, 3
Education, recreation etc.	8,8	8,4	9,1	9,8	9,8	9,8	10,	10,	11,	11,	5,3	6,3	7,5	8,2	8,8	9,2	9,7	10,	10,	13,
							6	8	1	9								2	8	1
Transport, travel, comm..	3,8	4,9	6,4	6,6	6,8	7,7	8,6	8,7	9,7	10,	3,7	4,2	4,8	5,2	5,5	5,7	6,0	6,3	6,6	8,3
										2										

Total expenditure, av. exp. UK 1960 =100 <u>1974</u>	31	43	64	73	75	85	105	108	128	178	17	24	33	42	51	61	72	88	110	187
Food	28,	27,	26,	24,	24,	22,	22,	21,	20,	17,	26,	25,	24,	24,	24,	23,	22,	21,	19,	16,
	2	4	1	7	6	7	2	3	1	8	1	3	9	6	0	1	2	4	7	3
Alcohol and tobacco	5,3	8,5	9,8	11,	10,	10,	10,	10,	9,8	9,8	11,	11,	10,	10,	10,	10,	9,9	9,5	8,8	7,3
				0	1	3	2	6			2	1	9	7	5	3				
Clothing and footwear	7,7	8,7	9,7	9,6	10,	10,	11,	11,	11,	11,	9,3	9,4	9,9	10,	11,	11,	11,	11,	11,	11,
					2	9	0	5	4	8				5	0	1	4	8	8	4
Rents and Rates	19,	15,	12,	11,	9,9	9,5	9,3	8,6	8,3	8,0	12,	12,	11,	10,	9,7	9,2	8,7	8,1	7,5	6,6
	1	7	8	1							3	1	4	5						
Energy	13,	9,6	6,7	6,5	5,9	5,2	5,0	4,5	4,4	3,7	8,1	7,6	6,9	6,0	5,3	4,7	4,2	3,7	3,2	2,4
	0																			
Hhold goods and services	11,	9,0	10,	10,	12,	10,	10,	13,	14,	13,	12,	12,	13,	13,	14,	14,	15,	15,	16,	18,
	4		3	2	0	6	9	6	0	9	0	4	0	7	3	8	3	6	4	5
Education, recreation etc.	9,4	9,0	9,5	8,9	10,	10,	10,	10,	10,	12,	7,5	8,2	8,5	8,9	9,3	9,8	10,	10,	11,	13,
					6	6	7	3	9	6							2	7	5	2
Transport, travel, comm.	5,9	7,3	12,	15,	15,	17,	17,	17,	17,	18,	7,1	7,5	8,0	8,8	9,7	10,	11,	11,	13,	15,
			0	4	2	3	8	8	8	6						4	1	9	0	1
Total expenditure,av exp. UK 1960 =100	43	63	88	107	127	149	159	180	203	273	50	68	86	107	130	154	182	218	279	477

*Source:* Calculated from Family Expenditure Survey and Göseke/Bedau 1978. See appendix III for details of calculation.

In fact in both countries these changes showed a very similar pattern. The budget share of food declined with rising income, for alcohol and tobacco it rose up to the middle income ranges and fell thereafter, and the shares for travel and transport and the other highly income elastic goods rose steadily with income and showed no discrete steps whatsoever, even if small samples were involved as with the self-employed in Britain.

Two further aspects of the question of changing structures of consumption with changing incomes have been tested. Firstly, a diachronic comparison of households with similar incomes at different points in time has been carried out separately for each country. A typical example would be to pick the 8<sup>th</sup> German decile in 1955 and compare it to the 4<sup>th</sup> German decile in 1974. The same can be done for Britain with the 7<sup>th</sup> and the 4<sup>th</sup> decile, respectively. The results are strikingly similar – apart from the fact that, in both countries, the 1974 data indicate a slightly higher share for travel and transport, and a slightly lower share for foodstuffs. If the same thing is done across countries, the only marked differences which emerge are that (no matter which income group, occupational group or year is chosen) Britons spent consistently more on transport and travel and on energy than Germans and Germans consistently more on household goods than Britons, a difference on which comment has already been made.

Finally, the budget shares of households have been compared across time to those of other households whose incomes were a constant multiple of their incomes. For example, the income of the highest decile in Germany was 12 times the income of the lowest decile in 1955 and 11.5 times the income of the lowest decile in 1974. The slight difference need not concern us, for the bias that it introduces goes against the argument. If a similarity index akin to the one used in chapter three is then constructed by adding up the absolute values of the differences of the budget shares for each group in the highest and in the lowest decile,<sup>153</sup> and the similarity indices for 1955 and 1974 are then compared, it emerges that nothing much has changed – in other words,

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<sup>153</sup> E.g. if the highest decile in 1955 spent 20% on foodstuffs and the lowest 40%, the value 20 is taken and added to the difference in the other groups.

the structures of consumption of the two groups were as different in 1955 as they were in 1974.<sup>154</sup> Exactly the same holds for the highest and the lowest decile in Britain in 1953/54 and 1974 (second-highest decile) and, in fact, for a number of other pairs for which tests have been carried out.<sup>155</sup> Weighting the index with the weights of the highest decile does not change the results and weighting it with the weights of the lowest decile also does not change the results.

To cut a long story short: there is, on the basis of the data presented here, simply no way to argue that structures of consumption became more similar over time despite persisting differences in incomes and there is no way to argue that there was an increasing “equality in consumption” which was not apparent at the income side. What is more, one can be quite confident about the argument that affluence as measured by consumption *did* spread gradually across society – as gradually as income did, that is. For there is one other point which follows from these findings, namely, that, even in the limited sense of spending one’s money in a similar way (no matter how much), Germany and Britain did not converge any further than they converged with regard to the income distribution. The answer to the question whether the two countries converged with regard to the distribution of consumption is most straightforwardly and adequately given by the answer to the question whether they converged with regard to the income distribution – even if a number of historians have argued differently.

## **5. From Economic Convergence to Mass Affluence?**

### **5.1 Economic Convergence, Social Change, and Happy Families**

However, depending on the question one asks, the perspective adopted in the previous section may be inadequate. While it does capture significant differences between the two countries with regard to the structure of

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<sup>154</sup> Results 1955: 52.0; 1974: 50.5

<sup>155</sup> Results 1953/54: 56.1; 1974: 55.0. Again, there is a slight bias against the argument implicit in the choice of the deciles.

consumption, nevertheless it reveals little about possible implications of the growth of income and of its distribution for socio-economic or social change.

This is a very broad topic indeed, and I do not intend to work it all through. What I want to find out here is whether it could be the case that the distribution of income was largely irrelevant for the post-war experience of affluence. This sounds like the definition of a paradox but, in a world in which owning certain goods was far more significant for social change than earning or spending a certain amount of money, it could well be the case that affluence so defined differed from affluence defined by income and expenditure and that the pattern of convergence and divergence between countries was different in that respect.

In order to get a tighter grip on this question, the following analysis will take the changing expenditure pattern of two adult, two children households with “middle income” (see below for the definition) as a peg roughly to sketch some of the changes the expansion of incomes brought about in the lives of very ordinary people and to analyse them with view to the question of convergence. The massive changes in the everyday life of the proverbial “man in the street” have arguably shaped the image of the period and it should be interesting to see whether these changes followed the path suggested by the economic development or whether they diverged from it and if so, why.

The changing expenditure patterns of two adult, two children households with middle income are a good guide to these changes because these households were the “ideal type” of that age. They were certainly not representative in statistical terms. Two adult, two children households represented just 11.2% in Britain in 1953/54 and about 14.4% in Germany in 1950 – with a slightly falling tendency until 1973. Adding an income criterion (see below) leaves us with an estimated 2% of all households in Germany,<sup>156</sup> and with 4.2% of the households covered by the FES in 1953/54. But in symbolic terms these households incorporated all the conceptions of the 1950s and 1960s of what a “proper” household should be, as captured by the happy families from the innumerable family car adverts of the 1950s and 60s.

They were the ones upon whom the eyes of the period rested<sup>157</sup> and they were the ones who quite unexpectedly experienced the most fundamental changes of their everyday lives. The “happy family” from the car advert will therefore guide us through some of the changes which lie behind the Gini coefficients and the decile shares of the previous section, and we will see whether they have a different story to tell.

Admittedly, there is a pragmatic aspect to choosing this group as well; it is the only type of household for which there are sufficient source materials in both countries for most of the period.<sup>158</sup> Germany’s Federal Statistical Office has collected continuous data from 1949 onwards,<sup>159</sup> though it must be said that there was a change of method in 1964 which makes a direct comparison between the years prior to that year and the subsequent years slightly problematic.<sup>160</sup>

Both the pre-1964 and the post-1964 data correspond well, however, to the criterion according to which their British counterparts were selected from the FES. With the help of the Income and Consumption Surveys, it was calculated that the gross income of the German households covered by the Statistical Office amounted to about 80% of the average gross income of all two adult, two children households. From the British data those income cells were then selected which represented approximately the same percentage of the average gross income of British two adult, two children households. The households are therefore representative of the differing experiences with regard to income growth in the two countries). Unfortunately, however, the British data are restricted to the years 1953/4, 1961, and 1965-73.

## 5.2 Income Convergence at the Micro-Level

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<sup>156</sup> By Reddies 1964, p. 497.

<sup>157</sup> Not only those of the advertisers but also e.g. those of Galbraith - see what is probably the most well-known passage of the “Affluent Society” where he goes on about “The family which takes its mauve and cerise, air-conditioned, power-steered and power-braked automobile ..” etc.

<sup>158</sup> That is itself a reflection of the importance attached to this group during the period!

<sup>159</sup> Preise Löhne Wirtschaftsrechnungen R. 13, 1949 ff.

<sup>160</sup> Cf. Reddies 1964, *passim*.

There is one other sense in which the households presented here occupy a position which makes them interesting for further study: in both countries and throughout most of the period their disposable income corresponded almost exactly to the mean disposable income of all households in the respective country. This gives an impression of where they are located on the income range presented in the previous chapter.

Unsurprisingly, the income growth of the two economies at large is almost exactly mirrored in the income development of the two adult, two children households. The German families' real gross income, equivalent to about 69% of their British counterparts' incomes in 1953/54, grew at an average annual rate of 5.8% between 1950 and 1973 and already equalled British gross income by 1965 - despite the fact that gross income growth of the British families was at 3.6% p.a. between 1954 and 1974 also very marked (this figure is, however, influenced by a jump of almost 15% in 1972/73). At the end of the period, the British households had roughly doubled their gross income, while in Germany households had about 3.5 times the 1950 amount.

The differences in the redistributive impact of the tax system made themselves felt very clearly, however, especially prior to the German tax reform in 1957. While the British families paid virtually no income tax in 1953/54 and national insurance contributions also amounted to only 2.4% of gross income, the German state deducted around 3% of family incomes. A further 8.5% went into social security – and stayed there. Transfer incomes from the security system were less than 1% of disposable income for the entire period, and considerably less in the late 1960s and early 1970s (income in kind excluded).<sup>161</sup> The tax reform brought alleviation but almost at the same time higher social security contributions set in. From 1960 onwards, income tax also began to rise again, now in parallel to the British tax rises but always slightly above the British level, so that in 1973 the British families had 8.5% and the German families 11.2% of their gross income deducted. Social security contributions in Germany had always been considerably above the British level and so the German families had 22% of their gross income



deducted for insurance and tax in 1973 while the equivalent figure for Britain was 12.5%.

If these factors are taken into account, it is clear that the German households' disposable incomes as a share of British households' disposable incomes were somewhat lower than the development of gross incomes suggests. Price-parity-adjusted real disposable incomes were only 62% of the British level in 1953/54, but they displayed a clear tendency towards convergence. The graph which could be derived from the data is a spitting image of the graph presented in section 3.1 – apart from the fact that the German overtaking was less marked here, undoubtedly due to the impact of taxation. But still, if viewed from the income side, the conclusion can only be that typical German and British households must have been in very different circumstances in 1953/54 but in very similar circumstances in 1973, and that in between these years both experienced a major expansion of incomes which must have had a huge impact on their lives.

### **5.3 Mass Consumption: Convergence at the Micro-Level – and “Prosperity for all”?**

This impact of rising incomes on everyday lives is mirrored in the changing patterns of consumption of two adult, two children households in both countries. If we look at the groups of goods and services which have been serving as guidelines in the previous chapters, the pattern which is summarised in table 5.1 on the whole developed in a similar way as the pattern at the macrolevel. Total expenditure again corresponded very closely to disposable income; it is no surprise that the German households reached British levels of expenditure first in 1969 and that afterwards the development was more or less parallel. However, while there are no obvious contradictions between the expenditure patterns of these households and the development of private consumption at the macrolevel, the changes implied in the expansion of incomes of average households clearly merit some further investigation.

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<sup>161</sup> This calculation cannot be made from the British data.

One of the categories which developed along the lines of income convergence was the numerically most important category, namely, food. By 1961, the German households spent in real terms about 90% of the British level. From then on the proportions between Britain and Germany remained roughly stable until relative prices in Germany began to fall in the late 1960s. The budget share for two adult, two children households devoted to food fell from 41.7% in Britain in 1953/54 to 25.9% in 1973, and from 44.3% to 27.8% in Germany in the same period. What this perspective does not reveal, however, is that a major revolution with regard to food consumption had taken place in both countries in the 1950s.<sup>162</sup> Food had been in short supply in Britain especially during the world wide food shortage between 1946 and 1948<sup>163</sup> while at the same time the official food rations for men in Germany's French zone of occupation were as little as 900 calories per day. For the majority of the population the 1950s brought, maybe for the first time in the history of both countries, the opportunity to eat as much as they wished – which resulted in a tendency to “overshoot” with regard to the intake of certain (previously) prestigious foodstuffs such as meat. The *Freßwelle* has been dismissed in section 3 with view to the actual quantities consumed but it would be appropriate to revive the term with regard to Britain.

*Table 5.1:* Expenditure of two adult, two children households with middle income: budget shares (% of total) in constant 1961 prices

	1953/4		1961		1965		1970		1973	
	UK	FRG	UK	FRG	UK	FRG	UK	FRG	UK	FRG
Food	39,9	42,2	35,9	37,5	34,2	32,4	29,4	31,7	26,0	29,9
Alcohol & tobacco	8,3	4,3	9,2	5,4	10,0	5,0	8,0	4,3	8,7	3,7
Clothing and footwear	8,8	16,5	7,6	14,4	9,2	12,7	10,9	11,0	12,0	9,3
Rents and rates	10,8	12,4	9,4	11,8	9,9	11,4	11,2	10,7	10,7	11,5
Energy	7,4	3,3	6,5	3,3	6,1	3,6	6,7	3,8	5,5	3,8
Household goods & services	8,0	9,1	8,8	10,7	6,9	12,0	8,9	12,6	10,5	15,9
Education, re-creation, leisure,										

<sup>162</sup> For the following remarks about Germany cf. Teuteberg 1972, pp. 21 ff.

<sup>163</sup> Cf. Burnett 1989, p. 303.

health & beauty care	10,2	9,5	9,7	10,4	11,1	9,8	9,1	9,8	10,6	10,3
Transport, travel, communications	4,8	2,8	10,6	5,5	11,1	9,7	15,2	10,5	15,8	10,8
Total expenditure, UK 1961 =100	83	57	100	88	111	104	123	127	151	155

**Source:** Calculated from Family Expenditure Survey and Preise Löhne Wirtschaftsrechnungen R. 13.

The consumption of beef, butter, sugar and other previously rationed goods increased by about 150% between 1950 and 1956.<sup>164</sup> “Once these particular appetites had been satisfied by the later 1950s”, however, “dietary habits settled down to a pattern which has changed only slowly over time”.<sup>165</sup>

The development in Germany was more gradual, quite simply because it was not the case of pent up purchasing power let loose on previously unavailable foodstuffs. Nevertheless, all the new features such as the growth of frozen foodstuffs and ready-made meals appeared during the 1950s and it is fair to say that from the early or mid-1960s the pattern of food consumption tended to stabilise on this qualitatively new level .<sup>166</sup>

It is impossible to pinpoint these changes exactly in the expenditure patterns of two adult, two children households. There are no adequate price indices available and the FES contains no information on the quantities consumed but for example the amount of poultry consumed by the German families increased almost ninefold between 1950 and 1963. (An interesting example, because the fact that poultry was mostly sold as a frozen foodstuff required that both the shop – the supermarket! - where it was bought and the consumer had a freezer).<sup>167</sup> They obviously took part in the “nutritional revolution” of the period. The National Food Survey indicates that British households with an income as high as those of the households presented here were certainly not excluded from the general pattern of change in the 1950s.<sup>168</sup>

<sup>164</sup> Cf. Buss 1991, p. 51.

<sup>165</sup> Burnett 1989, p. 304.

<sup>166</sup> Cf. Toland 1981, p. 22, and Wildt 1994, pp. 76 ff.

<sup>167</sup> Cf. Wildt 1994, p. 382.

<sup>168</sup> Cf. Buss 1991, pp. 49 ff.

While there were persistent national differences in tastes (there is neither a separate category for sausages in the British records nor one for fish and chips in the German records), the direction of change was nevertheless similar for these households in both countries.

Very much the same summary can be applied to the changes with regard to the other two major categories which saw near absolute convergence during the 1950s and 1960s, namely, expenditure on rent, and expenditure on leisure and recreation. The German households, in 1953/54 spending about 78% on rent of what their British counterparts spent, had reached 102% in 1961 and the proportions saw almost no change at all afterwards – an immediate reflection of the German building boom of the 1960s which ended when the shortage had been made good.<sup>169</sup> If the question of amenities is taken into consideration, then the picture is similar. The average German household was on a par with Britain as early as 1960. In fact, because 5 million entirely new houses and flats were built between 1950 and 1960 in West Germany,<sup>170</sup> there were slightly more households in Germany with central heating in 1960 than in Britain (though still accounting for a mere 10%).<sup>171</sup>

Education, recreation, leisure, health and beauty care is admittedly a very mixed category but it nevertheless contains some important aspects of the period. Here the “catching up” of the German households remained only marginally behind the pattern of income convergence. This seems to be a contradiction to Germany’s lagging behind which is indicated by the data from the macro-level.

The explanation is that, for example, the spread of TVs among the “typical” households looked at here differed notably from the pattern at the macro-level. To be sure, almost nobody in Germany had a TV in the 1950s, whereas in Britain sales took off already around 1953 or 1955 at the latest.<sup>172</sup> But, just as working-class households held a special position with regard to TV

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<sup>169</sup> Cf. Andersen 1997, p. 141.

<sup>170</sup> Britain built less than half that figure, cf. Benson 1994, p. 38.

<sup>171</sup> Cf. Andersen 1997, p. 144, and Toland 1981, p. 28.

ownership in Britain in the 1950s,<sup>173</sup> the ownership figures for the German two adult, two children households were, in 1964, markedly higher than those for both pensioners' households and for civil servants with higher-than average incomes, reflecting the weak purchasing power of the former and the tastes of the latter. In Britain, TV ownership in the 1960s seems to have been more evenly spread, especially with regard to the lower income groups (but just as in Germany the cultural snobbery of the higher income groups is also apparent in the figures).<sup>174</sup>

The implication is that Germany may not have caught up on Britain as a whole by 1960 with regard to this important good, but that those households which to a significant extent shaped the image of the period apparently had.

From a look at expenditure, it may be surprising that this description also holds for travel, transport and communications. The German households were still lagging behind somewhat in the late 1960s but this was due to the economic downturn in 1966/67 when expenditure on that group in Germany almost exactly halved. But the category had shown a very marked expansion of 23% p.a. between 1959 and 1964, and of course the "recession" did not hit people so hard that they had to sell the cars they had bought in the previous years. In fact, the number of German two adult, two children households owning a car was 30% in 1964 – exactly the number for British households with equivalent income. By 1973, the German ownership figures slightly exceeded the British but, roughly speaking, the development in the early seventies was one of parallel expansion. The most marked differences with

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<sup>172</sup> Cf. Hall 1960, p. 432, and Andersen 1997, pp. 119 f.

<sup>173</sup> Cf. Zweig 1961, p. 8.

<sup>174</sup> The figures for Germany (1964), % of households owning TVs, are: Pensioners 28.1%, two adult, two children households 63%, civil servants 55.3%; for Britain, the figures for comparable income groups (data for household types are unavailable) in the same year are 42.3% (<£10/week), 57.2% (£20-£30/week), and 47.4% (£30 or more). The argument that pensioners' households were lagging behind other households with similar incomes does not apply for Germany; the Income and Consumption Surveys show that TV ownership was more widespread among pensioners than among other low income households, so that the position of German low income households might actually be overstated in the figures presented here.

All these differences had virtually disappeared by 1973, though the low income and pensioners' households remained slightly behind. Figures are from FES and Preise Löhne Wirtschaftsrechnungen R. 13 which includes data on durables from 1964 onwards, also for pensioners' households.

regard to ownership had apparently evened out already by the early 1960s, though there are no figures available which are both comparable and reliable. The more marked differences at the macro-level during the 1960s were again mainly at the cost of the low-income households in Germany.<sup>175</sup>

The comparatively very slow expansion of the German households' expenditure on alcohol, tobacco, and energy need not concern us in detail here, although there were marked qualitative changes as well. The other two categories clearly displayed an exceptional course. The development of expenditure on clothing has already been remarked upon; it is again apparent that in the 1950s and 1960s the German households spent considerably more on clothing than their British counterparts. From the mid-60s, however, this peculiarity started to erode and by the end of the sixties there was virtually no difference between German and British households' spending on clothing.

The picture is slightly different with regard to household goods and services. It has been argued above that the equipment of the home with furniture and newly available electrical appliances played a far more important role in West Germany than in Britain, and this hypothesis is borne out by the results of opinion polls and not least by the overall expenditure pattern analysed in section 3. Nevertheless, while by 1961 the German households already spent slightly more (and by 1965 considerably more) money on this group than their British counterparts, the fact that at the macrolevel Germany's expenditure per capita had been equal to Britain's already in 1953 is not reflected in the data presented here. In 1955 more than 30 percent of the German spending on these items was carried out by the top decile, and in the early 1950s the average household – tastes notwithstanding – simply could not afford to buy the expensive items in that group, notably washing machines. However, although the disposable income level of the German households was still only 87% of the British level in 1961, spending on household goods amounted to 106% of the British level by then. Indeed, by 1964 83% of the German two adult, two children households had a refrigerator and 60% a washing machine, while the figures for Britain were merely 25% and 42%,

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<sup>175</sup> Figures again from FES and Preise Löhne Wirtschaftsrechnungen R. 13.

respectively. Again, the differences in basic equipment (not in expenditure) tended to even out in the early 1970s, although the German households were still slightly better equipped.

Some qualifications to the image derived from the more global perspective adopted in the previous chapters emerge from the consideration of two adult, two children households. While the development of incomes of this group gives support to the finding that the British households in the middle sections of the income range were relatively better off until well into the 1970s vis-à-vis their German counterparts than the macroeconomic record suggests, this apparently does not hold with regard to consumer durables. To be sure, comparable data on this issue are in very short supply and those used in the text cannot give more than a rough indication of the actual development. Nevertheless, it seems safe to state that the difference between German and British two adult, two children households in terms of their access to TVs, motorcars etc. had virtually disappeared already in the early 1960s. It is quite possible that the higher British levels of expenditure had an effect on the quality of the goods consumed but the principal point is that in both countries by 1960 a great number of these households could afford goods of which they had not imagined ten years before. With regard to the fundamental transformation of everyday life of “normal” households which is so closely associated with the spread of consumer durables, the differences in the income distribution (and the better position of the British households in this respect) mattered little or not at all. By the early 1960s, two adult, two children households with middle income could afford to own a TV – in both countries, notwithstanding that Britain was still considerably richer than West Germany. From this perspective (and only from this perspective), it is understandable that the perception in both countries was that the 1950s changed the face of society - and that the 1960s added to that merely in degree.<sup>176</sup>

It mattered little in this context that the lower income groups in Germany were considerably worse off than their British counterparts. After all, that the average family was living in affluence was the new phenomenon, not the fact

that some people were not. The focus of German self-perception was clearly on those who took part in mass consumption rather than on those who were left out of it.<sup>177</sup> The focus in Britain, however, was slightly different. The main ambition in 1945 was to destroy the “five giant evils”, while the prosperity of the average worker was taken for granted, much more so than in Germany at least. Had it been otherwise, Britain might have been considered less of a failure, and Germany less of a miracle.

## 6. Conclusion

This paper has tried to trace in detail the connections between the macroeconomic convergence of the West German and the British economies between 1950 and 1973 and the apparent convergence of both countries on a model of society characterised by affluence and, more specifically, mass consumption - looking in particular at the issue of whether consumption really was for the masses.

Starting off from the assumption that economic theories about economic convergence at large provide a valuable guideline to explore more elusive matters such as “social convergence” and that the development of consumer spending may have been an important link between economic and social change during the “Golden Age”, it was found that theorising on convergence may have important implications for the development of private consumption and for the question of a “convergence in mass affluence”. Indeed, with Britain and West Germany as examples, it has been shown that macroeconomic convergence had an immediate impact on the convergence of disposable incomes, as was expected. Although the evidence with regard to structures of relative prices was less than conclusive, it is nevertheless clear that, at the macroeconomic level, income convergence was matched by slightly weaker convergence of patterns of private consumption.

While this was clearly a necessary prerequisite for the seemingly converging course of the rise of mass consumption in Britain and West

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<sup>176</sup> Cf. Ryder/Silver 1985, pp. 196 ff. on Britain and Andersen, pp. 10 ff. on Germany.

<sup>177</sup> Cf. Kleßmann 1988, p. 39.



Germany, it was certainly not a sufficient one. To be sure, some of the forces implicit in the catch-up theory have indeed worked towards increasing the similarity of the distribution of household income in the two countries, but these effects were more than offset by the impact of the state. The result was that Germany's distribution of income consistently displayed much higher inequality than was the case in Britain. At the same time, it was also argued that this could in fact have been an aspect of Germany's exceptional "social capability" for rapid growth and that the connection between catch-up growth and convergence of the distribution of income may therefore not be so straightforward after all.

Looking at the consumption side, it is clear that the pattern of distribution almost exactly mirrored the pattern of the distribution of income in both countries, and that therefore the differences between Britain and Germany were equally persistent with regard to consumption as income. (The assumption that expenditure or the structure of expenditure behaved in any way differently from income and that there may have been some additional scope for convergence at that side was shown to be erroneous). The consequences were that the majority of the British population was earning and spending more money than their German counterparts, even at a point in time where Germany had already left Britain behind in macroeconomic terms. In fact, throughout the entire period from 1950 to 1973 the middle sections of the income range were a good deal better off in Britain (and a good deal worse off in Germany) than GDP/capita figures suggest. Also, the lower end of the income range in Germany had benefited comparatively little from the massive economic expansion for all but the last four years.

While these findings have been confirmed by the closer analysis of a specific type of household, namely the two adult, two children household with middle income, it is also apparent that the differences in the distribution of income were only of limited relevance for the perception of affluence. The reason for this was that despite the persistent differences the everyday lives of people at the centre of society in both countries experienced a fundamental

transformation at about the same time, namely, during the 1950s. If this point is taken into consideration, the difference between the average income of a British household in the 5<sup>th</sup> decile of the income distribution and a German household in the same decile mattered less than the difference between, (say) owning a TV and not owning a TV; and in both countries households in the 5<sup>th</sup> decile could at the end of the 1950s own a TV, despite differences in income.

Nevertheless, even in this sense there clearly were differences between Britain and Germany. It seems quite clear from the limited available evidence on this aspect that *Britain* was the society which could pride itself of having reached the “age of high mass consumption” at the end of the 1950s. Germany had at best reached the affluence of the middle class, and it did not achieve mass affluence on the British scale, i.e. the inclusion also of the lower ranks of the income scale in the phenomenon of modern consumption until years after it had overtaken Britain in macroeconomic terms. If one only had the data presented in this paper and the two labels “*nivellierte Mittelstandsgesellschaft*” and “class society”, one would almost certainly stick the German label upon the British dataset, and (with some hesitation) vice versa.

There were obviously different routes to affluence and mass consumption, and it seems as if the attempt at the direct approach (the income distribution) has largely been perceived as a “failure”, whereas the way through the back door (prolonged growth) has been dubbed a “miracle”. With hindsight, there may be quite something to this view. If, however, the social spread of mass consumption during the 1950s and 1960s is taken as a point of reference, then the only sensible explanation for these designations would be that Germany achieved more than it expected, and Britain less. However, this may have been due to differences in expectations rather than achievement.



## 7. Methodological Appendices

### Appendix I: Method of calculating comparative levels of income and expenditure

The *Verbrauchergeldparitäten* (consumer price parities) used to compare absolute levels of income and expenditure for the two countries are taken from Statistisches Bundesamt, Preise Löhne Wirtschaftsrechnungen Reihe 6, 1961. These parities are *not* purchasing power parities: they are direct price comparisons. The Federal Statistical Office has surveyed the prices of over 400 goods and services in the UK in April and May 1961 and has then simply divided the price of the equivalent German good by the price of the British good (controlling for quantities, of course). The effort put into ensuring the comparability of these goods has been considerable and is laid out in detail in a range of articles in *Wirtschaft und Statistik*, 6/1961, 6/1968, 1/1969, 6/1969, and 1/1970.

The ratios derived by the price comparisons were put together by the Office by using both the weights of German household expenditure and the weights of British household expenditure (taken from unpublished data). These two values were then published for total expenditure and for the nine major *Bedarfsgruppen* (groups of expenditure), namely food; alcohol and tobacco; rent; energy/heating; clothing; health and body care; education, recreation and leisure; and transport and communications. These are the same groups which are being used for the classification of goods in those German statistics relating to expenditure (apart from the fact that food and alcohol and tobacco are separate here and that no value is published for personal expenditure) and in the price indices.

The arithmetic mean of the German-weighted and the UK-weighted parities were also published, and they have been used throughout this paper. This was considered unproblematic because the differences between budget shares in 1961 were relatively minor and the direction of change in the current price budget shares was very similar throughout the period. This is no more a statistical artefact than any direct comparison of income and expenditure

levels must be; using both British-weighted and German-weighted figures throughout would have littered the paper with numbers without contributing to better results. The figures are nevertheless given here.

1961 Consumer price parities, £1 = DM ...	UK weighted	FRG weighted	Mean value
Total expenditure	12,47	11,04	11,76
Food	12,77	11,50	12,14
Alcohol & Tobacco	12,85	9,79	11,32
Rent	10,72	10,68	10,70
Energy/Heating	17,35	15,75	16,55
Household goods and services	10,74	10,05	10,40
Clothing	11,03	10,65	10,84
Health and body care	13,61	11,71	12,66
Education, recreation, leisure	11,68	9,97	10,83
Transport and communications	12,34	11,67	12,01

*Source:* see text

The next step was to combine the parities for food and alcohol & tobacco and for health and body care and education etc. by using the relevant budget shares from the two countries. This was necessary because expenditure data for these groups also had to be combined in order to yield comparable data. For Germany, the budget shares for food and alcohol and tobacco were taken from Rau 1971. No budget shares are available for the years 1967-1974, so these have been extrapolated since the ratio of the shares for food on the one hand and alcohol and tobacco on the other hand had been virtually constant at 75:25 since 1961. The parity for the category “personal expenditure” has been calculated as a residual but the results are not considered in the text (however, even though the category acted as a

“buffer” for statistical discrepancies, the results this index yielded were at least not unrealistic).

Finally, the parities have been multiplied by the ratio price index FRG/price index UK (1961 = 100) in each year from 1950 to 1974 in order to derive the parities for these years from the benchmark year 1961. This is possible because the parities are a direct comparison of prices, rather than PPP estimates which would be affected by changes in the exchange rate. Such an approach has also been used by the Federal Statistical Office itself (and by other institutions such as the ECSC, the OEEC, and the UN).<sup>178</sup>

It is important to be aware of the fact that a direct comparison between two countries – be they as similar as Britain and Germany became over time – is fraught with methodological difficulties, and that the original estimates are therefore by no means exact measures.<sup>179</sup> This problem is compounded by the extrapolation with the price indices, and the parities so derived are probably best described as “guesstimates”. There is, however, no better way of doing it; an ex post direct comparison of prices for every year is very difficult and, given the effort the Statistical Office put into ensuring comparability in its 1961 calculations, highly unlikely to yield better results.

To be sure, the Federal Statistical Office has calculated parities also for 1953 and 1975, and these diverge somewhat from the extrapolated parities. However, they have not been used here on the following grounds:

a) The 1953 estimates, which are the ones which diverge most from the “guesstimates” used here, are deficient by the Office’s own (1961) standards. This is stated clearly in the methodological description of the 1961 parities,<sup>180</sup> and they can safely be dismissed as inadequate.

b) The 1975 parities suffer from a different problem. It is well known that Britain in 1974/75 experienced inflation rates as high as 25% and a negative rate of growth. The data from the budget shares corroborate what one would suspect in such a situation, namely, that the composition of

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<sup>178</sup> Cf. Günter 1961, p. 448.

<sup>179</sup> Ibid.

<sup>180</sup> Ibid. and the articles in *Wirtschaft und Statistik* mentioned in the text.

consumers' expenditure changed rather drastically from the previous year. Since the parities are budget share weighted, they would have been quite different had the relevant data been collected in 1974, and extrapolating them backwards amounts to a considerable overstatement of the German position relative to the UK. It would imply that German disposable income levels were 150% of the British in 1973 and would have equalled the British as early as 1961/62. A comparison with Maddison's GDP data suggests that this is highly unlikely; 1961/62, to be sure, is the year when German GDP/capita overtakes Britain's but labour's share of GDP was at the time still much lower in Germany than in Britain. In 1973, German GDP was about 110% of Britain's, and the result from the extrapolated 1961 parities with regard to disposable income levels (FRG = 130% of UK) are much more realistic than the 150% figure yielded by the 1975 parities.

## Appendix II: Key for the combination of price indices and groups of expenditure

In order to fit the German system of classification which has been used as the basis for comparison throughout the text, the components of the British retail price index have been combined according to the following key:

German system	British system
Food	Food
Alcohol and tobacco	Alcohol
	Tobacco
Clothing and footwear	Clothing and footwear
Rents and rates	Rents
Fuel, light, power	Fuel, light, power
Household goods and services	Furniture
	Electrical appliances
	Other household equipment
	Household consumables
	Domestic services
Education, recreation, leisure, health and beauty care	Audio-visual equipment
	Chemists' goods
	Records, toys etc.
	Leisure services
Transport and communications	Transport and vehicles
	Postage, telephone, telegraph

The weights used for the combinations were those given in the retail price index. The index for "electrical appliances and audio-visual equipment" has, as is apparent from the table, been split into two equal halves (which, judging from the FES data, seems to be realistic in terms of expenditure). The price indices for the last three categories in the table had to be estimated for 1953, 1954, and 1955, because some of the British indices are not available



for the years prior to 1956. The estimation has been undertaken by calculating, with the help of the budget shares (which are available), the difference between the index for all items and the sum of the indices of the first five indices, and by then assuming that the relative position of the three other categories vis-à-vis each other was the same in 1953-55 as in 1956. A calculation for the years prior to 1953 has not been undertaken because of the upheaval in the price structure in 1952.

The keys for the combination of expenditure groups comprise (national accounts and budget surveys together for both countries) several hundred items and are therefore not included here. They are available on request which should be directed to my address or to [kramper@hotmail.com](mailto:kramper@hotmail.com).

### **Appendix III: Method of calculating comparable deciles**

The first step undertaken for yielding comparable data on expenditure patterns was to regroup the expenditure data of the FES according to the nine major groups used by the DIW - which are the same as the eight groups of the Federal Statistical Office shown in chapter 3, apart from the fact that food and alcohol & tobacco form two separate groups in the DIW account. During this process, the British pre-1971 data have also been converted to the decimal system and recalculated on a monthly rather than weekly basis ( $x/7 \cdot 30.4$ ).

The second problem encountered was that for both countries households are grouped in (differently defined) income cells and data are presented as cell means. Furthermore, the British cells refer to gross incomes, while the German cells refer to net incomes and the definition of income diverges slightly. Therefore, the British gross incomes have been redefined as the sum of expenditure, tax and national insurance contributions, and savings (or dissavings). Fortunately, all these data are provided in the FES.

This approach tends to heighten the incomes of the lowest groups somewhat, since it is well-known that these income groups usually understate their real incomes when asked by an interviewer about their normal income - which is how the FES income data have been arrived at.<sup>181</sup>

Disposable incomes were simply defined as gross incomes minus tax and social security contributions; this is equivalent to the definition from the DIW accounts.<sup>182</sup> It was then assumed that both incomes and taxes were log-linearly distributed between two neighbouring income cells, and – since sample sizes are provided for every income cell – decile shares of the total net income were calculated by log-linear interpolation.

This approach has previously been adopted by Fiegehen et al. for low income groups and has yielded reliable results.<sup>183</sup> Also, comparison with the data provided by the Royal Commission on the Distribution of Income and Wealth for 1974 (the only existing comparison between gross and net

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<sup>181</sup> Cf. the introductory remarks reprinted in various issues of the FES.

<sup>182</sup> Cf. Göseke/Bedau 1974, pp. 16 f.

<sup>183</sup> Cf. Fiegehen et al. 1977, pp. 157 ff.

household income) shows a good degree of agreement; the divergences with regard to the lower deciles are due to my differing definition of income just described.<sup>184</sup> For Germany, decile shares and Gini coefficients are provided in the accounts of the DIW.

The next step was to determine the decile shares with regard to the nine groups of expenditure mentioned above. These have been calculated by assuming that the average figures for expenditure in each cell corresponded to the household with the average net income in that cell. The expenditure of households ranked between two average expenditure households has then been estimated by log-linear interpolation.

From the resulting decile shares, Gini coefficients have been calculated for each of the expenditure groups. For the calculation of the 1974 expenditure data for Germany the 1975 income decile shares had to be used but, since the decile shares had been roughly constant throughout the previous 25 years, this is probably not too serious a limitation on the results.

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<sup>184</sup> Cf. RC 1977, p. 51.

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