

The Economic Ascent of the Hotel Business

7

Second Edition

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7 European Economic Structures and Hotel Businesses: 1945–1960

Introduction

Europe was in a dire state in 1945 having endured a half century defined by two world wars, the Great Depression and ideological shifts. By 1950, the Soviet empire had stretched westwards. Bulgaria, Czechoslovakia, East Germany, Estonia, Hungary, Latvia, Lithuania, Poland and Romania as well as Albania and Yugoslavia had become communist. They all retrenched behind the Iron Curtain, their economic development ossified and so did their hotel businesses, which were minor. In contrast, West Germany and Italy were re-established as parliamentary democracies with supporting political institutions. Thus, all Western European countries were parliamentary democracies except for Spain and Portugal. The prime economic imperative was recovery from the war and this required dedicated focus on agriculture, construction and manufacturing, but the democracies were unable to achieve this on their own. The Marshall Plan, which operated between 1947 and 1953 and involved \$13 billion, mostly made-up of credit, to buy goods from the US and to pay US shippers for their transport to Europe enabled the democracies to kick-start their economies. Sixteen countries benefited – Austria, Belgium, Britain, Denmark, France, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and West Germany. The Marshall Plan capital was distributed on a per capita basis with former allies getting more than former Axis Powers. The initiative was successful. Between 1948 and 1952 European industrial production grew by 35% (www.wikipedia.com).

The European Coal and Steel Community (ECSC) was formed in 1951 by six countries – Belgium, France, Italy, Luxembourg, the Netherlands and West Germany – to oversee the more effective development of their coal and steel industries. It was a success that led in 1957 to these countries extending their economic cooperation with the Treaty of Rome, which established the European Economic Community (EEC). The EEC began to remove trade barriers among the six countries and created a common market in agricultural and industrial goods, which became the most significant economic development in Europe, ever. As the economies began to recover, the governments pursued explicit, long-term, big government macro-economic policies

that expanded public services and created welfare states in Europe, but left service businesses and experience businesses to market forces.

The traumas of the European economies at the end of World War II were reflected in the European hotel business. Conventional demand was absent and showed no likelihood of returning quickly when wartime specific demand was stopping. Urban and resort hotel supply had been depleted by bombing and business failures and there was no rush to construct new hotels because the hotel business, like other experience businesses, was not an economic priority. Leisure demand into hotels would have to wait until civilian employment was re-established and the distortions of the war became a less vivid memory. As the economic ascent of the hotel business in the US accelerated strongly over the period, the European hotel businesses struggled to regain their pre-war levels.

British economic structure and hotel demand

Britain entered the post World War II period as victor, but with the loss of almost 25% of its wealth (<http://uk.encycarta.msn.com>). The array of social issues needing to be resolved and the awful state of the economy produced a change in government as the war ended. Clement Attlee replaced Winston Churchill as Prime Minister and the new Labour government set about radically reorganising the economy. The Beveridge Report, published in 1942 established the blueprint for the introduction of the welfare state and the traditional modus operandi of industrial firms was upended by the most extensive programme of nationalisation ever undertaken in the country. Big government in Britain became even bigger. However, it did not produce a quick turn-around in economic performance, which was beyond fast solutions. Cash was an immediate problem and to increase liquidity, the Attlee government borrowed \$3.75 billion from the US, C\$1.25 billion from Canada and received \$2.4 billion aid from the Marshall Plan. This enabled the post-war governments to pursue a policy of full employment, which they achieved generally with the aid of job creation in public services and the nationalised industries. Despite policies to recover the economy, food and clothing rationing, introduced at the end of 1939, endured. At its height in 1947/48 rationing covered around 30% of all consumer spending and it lasted until late-1954 when meat was the last commodity to be de-rationed. An adult in 1948 had a weekly allowance of 13 ounces of meat, one and a half ounces of cheese, six ounces of butter, one ounce of cooking fat, two pints of milk and one egg (Sandbrook, 2005: 45) Thus, the austerity of the Great Depression and World War II continued until the mid-1950s.

After 10 years of post-war austerity the economy was enlivened in the second half of the 1950s, but not until the Suez crisis caused Britain to retreat from its position as a global military power (Sandbrook, 2005:27). The progress had been so noticeable that in 1957 the prime minister, Harold Macmillan delivered the political catchphrase of the late 1950s when he declared that, 'most of our people never had it so good'.

The four factors necessary for the ascent of economic structure from secondary to tertiary progressed. Civil and human rights were the main developments and came from the introduction of the welfare state. There was an increase in the proportion of women in the workforce, particularly in public services and there was a gradual increase in the number of women attending universities. The second factor, the development of the social sciences, was only slowly introduced into British universities during the period and their application to areas such as business was still minor (Sandbrook, 2005: 169). The third factor, access to personal credit, was mainly through hire-purchase schemes, which were tied to the purchase of generally small-ticket household appliances. The fourth factor, personal travel, was boosted by the extension of car ownership, but in Britain this was materially lower than in the US and was constrained in the first half of the period by petrol rationing. However, rail travel declined in response to the growth in car ownership and air travel remained minor.

During the post-war period the structural development of the economy was determined by government policies and these centred on the expansion of public services and the restructuring of the industrial segment. It was a top-down approach, but corporate-focused services businesses such as banking, finance, distribution and professional services benefited. However, consumer-focused services businesses such as retailing and experience businesses such as hospitality and travel did not benefit as much and had to rely on bottom-up growth in customer demand, which was not determined by the government.

Otus estimates that in 1945, only 18 million hotel room nights were sold in Britain; and that was inflated by the military and government use. By 1950 demand had recovered to 30 million, the level achieved in the second decade of the century. The austerity, rationing and the widespread programme of nationalisation limited the rate of hotel demand growth in the first 10 years after the war, but the improvements in the economy from 1955 accelerated demand, which by 1960 reached 38 million room nights, comfortably above the pre-war level. Domestic business demand grew from 7 million room nights in 1950 to 10 million in 1960. The policies of the government and the developments in the structure of the economy produced different growth patterns across the economic segments. The pattern of employment in each economic segment over the 1950s is recorded in Tables 7.1 and 7.2..

Table 7.1: Employment by segment in Britain: 1950–1960 (m)

	Agriculture	Industry	Public Services	Service and Experience Businesses	Total
1950	1.4	10.3	5.3	5.9	22.9
1960	1.2	11.2	6.5	6.4	25.3

Table 7.2: Employment by segment in Britain: 1950–1960 %

	Agriculture	Industry	Public Services	Service and Experience Businesses	Total
1950	6%	45%	23%	26%	100%
1960	5%	44%	26%	25%	100%

Source: Groningen Growth Centre