

Course 2: Capitalism and major “shocks” (war & crises)

Le plan en trois parties

- The post-World War II settlement in the West: the Keynesian Welfare State
- The “shocks” of the 1970s and paradigm change
- A brief look at the Covid-19 crisis from a historical perspective

The post-World War II Settlement

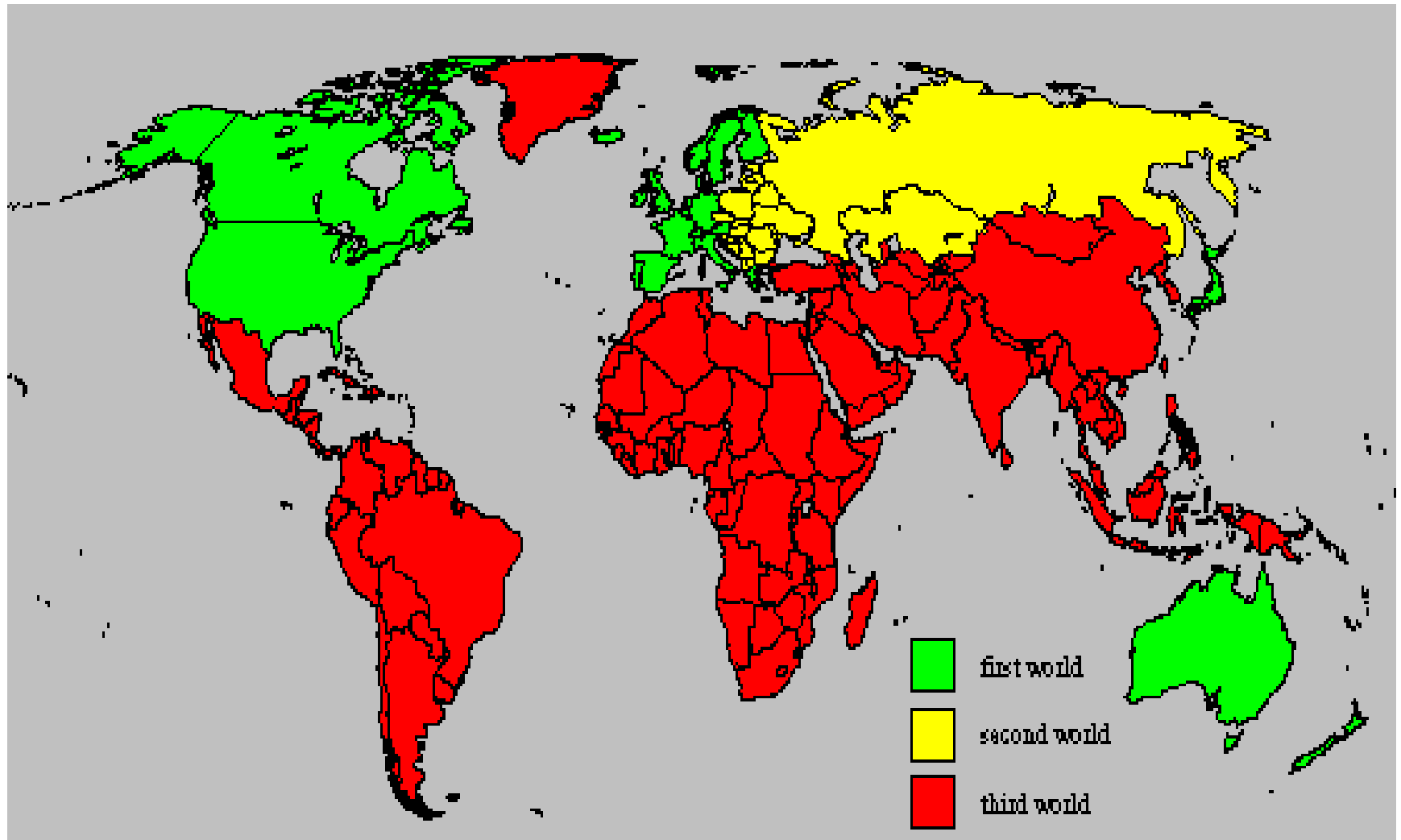
The World Today



Or if you prefer...



The Post-World War II World



A different world

- The West – the industrialised countries, the advance capitalist countries
- The “Soviet bloc”: the USSR and Eastern Europe: central planning
- The “Third World” – independence
- The “non-aligned” countries (led by India, Egypt and Indonesia).
- “The North” and the “South”
- China – self-sufficient development (Mao)

The post-war boom 1

- Bretton Woods system > monetary stability, based on US \$ and gold
- GATT > trade liberalisation > to boost development and strengthen peace
- Good price/unemployment trade-off during post-war boom. (Macmillan: driving a car)
- Keynesian policy widely accepted
- Strong demand – helped by war (hot & Cold)
- Significant acceptance of high taxation
- Technology roll-out (Richard Gordon)

The post-war boom 2

- The US protector/hegemon of the West
- Super-power rivalry – MAD!
- **Faith in government**
- Deference to political authority/militarised societies
- Middle class women in the West in the home (see *Mad Men*)
- Sexual stereotyping



The post-war boom 3

- Soviet Central planning and planned trade in Comecon countries
- Latin America – import substitution, economic nationalism (and populism)
- India – planning and “Licence Raj”
- People’s Republic of China – state control and self-sufficiency (Great Leap Forward)
- Japan – export-led growth

La théorie de la Régulation

- Michel Aglietta: *Régulation et crises du capitalisme*, 1976.
- Marx and Keynes > Fordism > compromise between labour and capital (the Model T, \$5 a day) « le capitalisme contractuel » (Aglietta, 2019)
- Long production lines > incredible economies of scale

Herbie the Love Bug

Designed by Porsche – saved by the Brits after 1945, finally completely retired in Mexico in 2003 – 21 million built



Standardised consumer behaviour

- JK Galbraith, *The New Industrial State*, 1967
- The technostructure
- Ensured markets due to advertising
- The counterveiling power of unions

- Government organised socialised consumption
 - Welfare – social housing, etc.

The “shocks” of the 1970s

This system broke down in 1970s

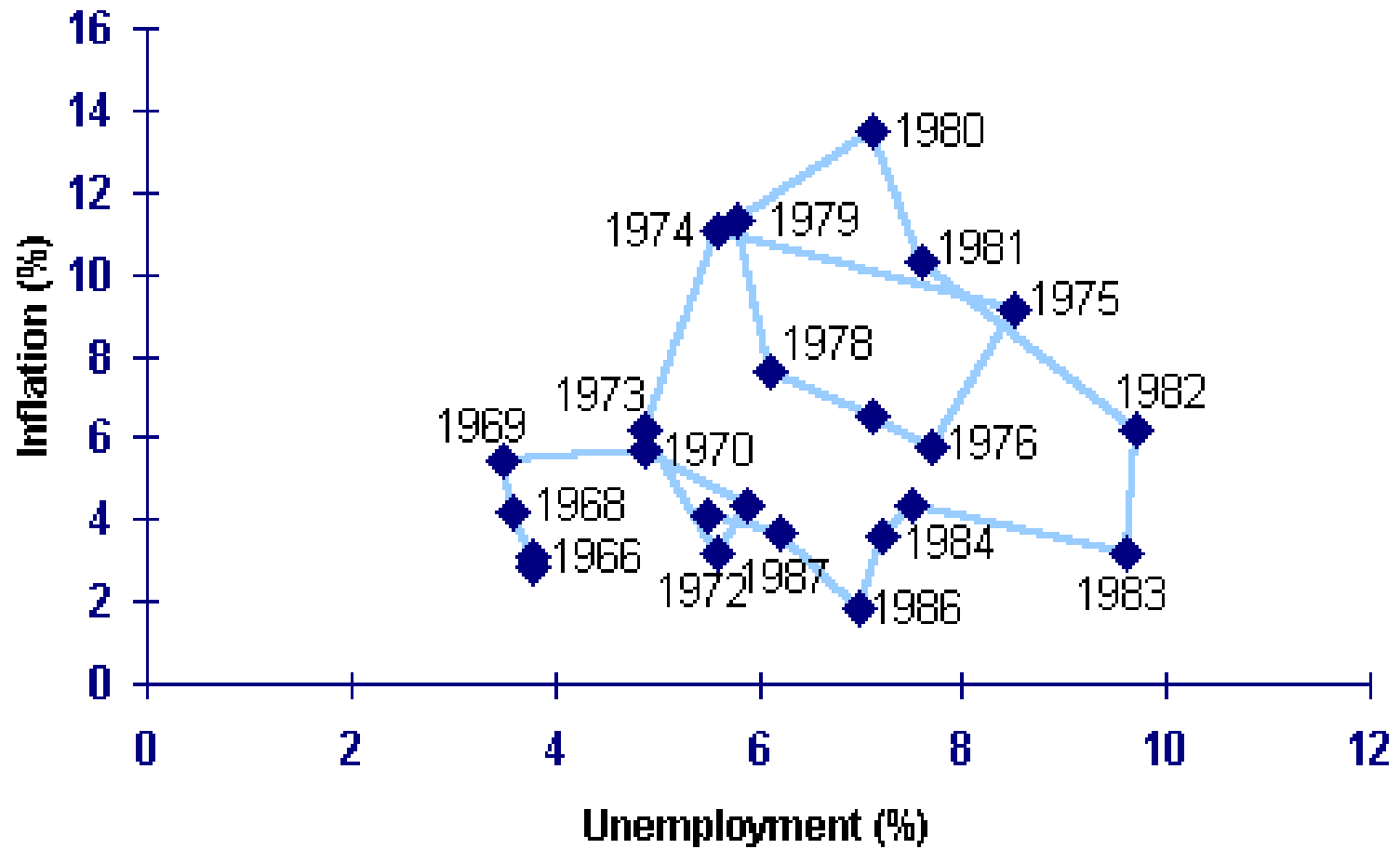
- The emergence of the “Great Inflation”
- International trade – new exporters Germany and Japan
- Demand leakage > breakdown of Keynesian circuit
- Search for individuality > product diversity
- Renewed social conflict opened up in capitalist societies
- Regulation theory (following Marx): crises are inherent to capitalism

The rise of inflation: “Follow the Money”

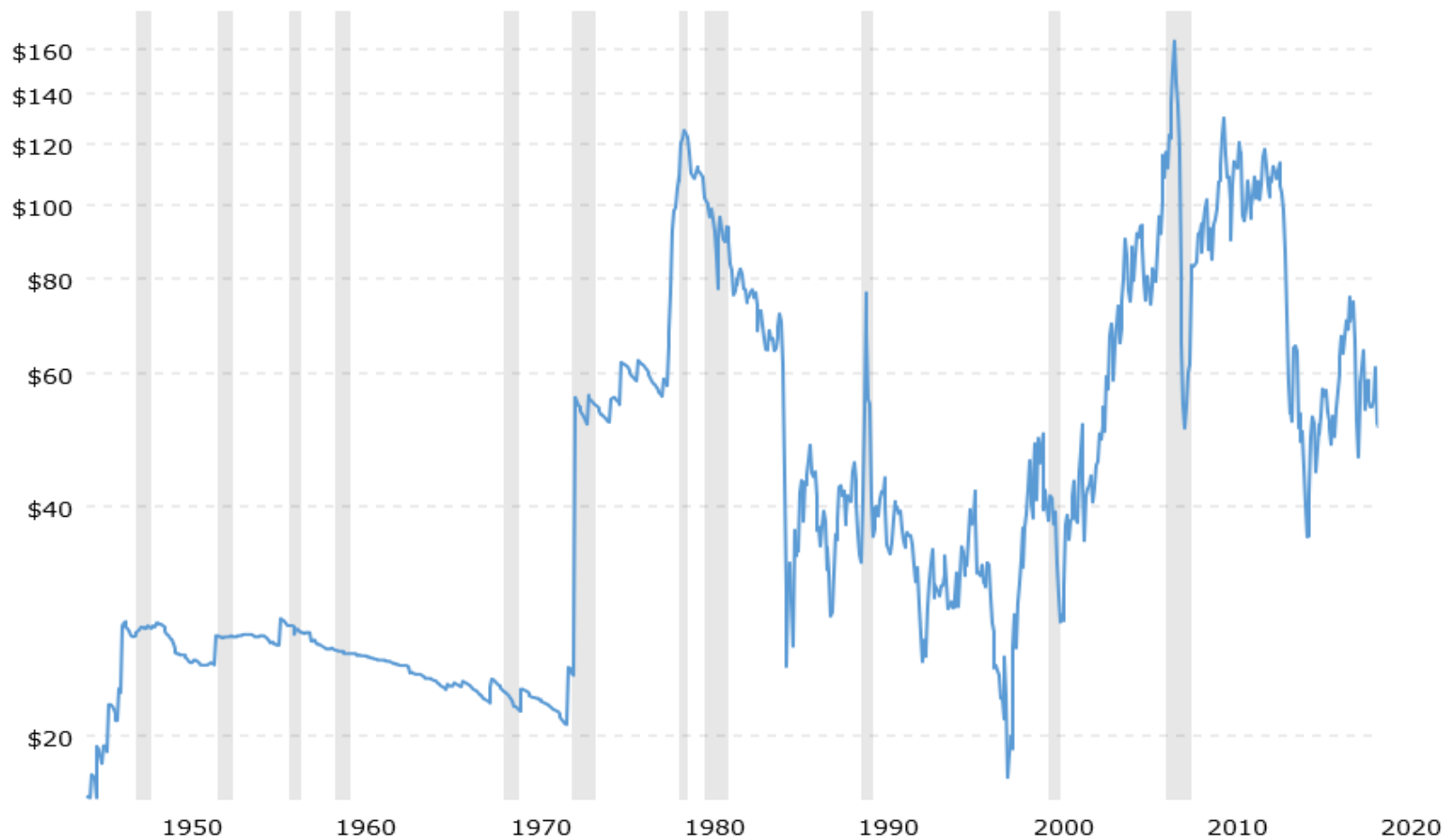
- In 1960s: inflation started rising – too much demand: Vietnam war, Great Society, and space race.
- Demand push– cost pull
- Low unemployment > pay rises
- Challenge to authority
- Challenge to social norms
- Civil rights, greater freedom for women
- AND PERMISSIVE MONETARY POLICY (in US)
- 1971: Nixon announced suspension of Bretton Woods (<https://www.youtube.com/watch?v=iRzr1QU6K1o>)
- A fall in dollar, and a surge in global inflation.
- Compounded by first oil price shock 1973-4
- Recession and inflation (demand leakage, higher energy and raw material prices) > STAGFLATION (*The Economist*).
- The first oil shock to Elton John and *Benny and the Jets*: <https://www.youtube.com/watch?v=Qb-sRuGiGFY>
- Club of Rome: *The Limits of Growth* (1973?)

For “the West”: a world of crisis

Phillips Curve, 1966 to 1988



Oil Shocks



Source: Macrotrends (<https://www.macrotrends.net/1369/crude-oil-price-history-chart>).

Debauching currency

- **“Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and, while the process impoverishes many, it actually enriches some.”**

— John Maynard Keynes, [The Economic Consequences of the Peace](#)

Evacuation US embassy Saigon 1975



1979 UK Conservative election slogan



La fin des « trente glorieuses »



Source: <https://www.youtube.com/watch?v=BgXjtKarmrk>

What happened?

- A broad monetarist and liberal critique of Keynesianism and the role of government
- Fisher equation: $MV = PT$
- The Lucas critique (1976): agents adapt their behaviour – they have rational expectations
- The long run unemployment rate is vertical – the natural rate.
- Governments should not fine tune/micro-manage demand

Less government and more markets

- Hayek: “The Use of Knowledge in Society” > deregulation and later privatisation
- **Public choice theory**
- Tulloch and Buchanan: *The Calculus of Consent* (1962): pork-belly politics, log-rolling, concentrate special interests stronger than dispersed voter interests
- William Niskanen: theory of bureaus > budget maximisation from sponsor. Output always exceeds its marginal utility to society.

A brief look at the Covid-19 crisis
from a historical perspective

Causes and consequences of “shocks”

	World War II	1970s: the “Great Inflation” stagflation	2007-2009 GFC/Great Recession	Covid-19 2020 -
Causes	Endogenous: Great Depression Exogenous: Axis military aggression	Endogenous: inflation Exogenous: Yom-Kippur War	Endogenous: global imbalances, financial market distortions	Endogenous: globalisation (travel, weakening bio-system) Exogenous: virus jumps species
Location	Europe, Asia (North Africa, North America)	The “West”	Global – mainly old industrialised countries	From China to rest of world
Consequences	Post-war consensus Fairness and equality Welfare states	Rise of neo-liberalism Acceptance and justification of inequality	G20 Coop. financial reg. Short term govt intervention Unconventional monetary policy	Massive govt. intervention Economic nationalism Rising inequalities

More videos

- [Stagflation and the Oil Crisis of the 1970s](#)
- [Ford, Carter, and the Economic Malaise](#)
- [The Economy of the Soviet Union](#)
- [30 years of Socialism \(1947-1980\) | Economic history of India | License Permit Raj](#)
- [Les trente glorieuses](#)
- [Communist China: The Great Leap Forward](#)
- [Power to the People: Peronism](#)
- [African Decolonisation Explained](#)