

Course 2: Capitalism, the Liberal Order and “Shocks” (War & Crises)

Course 2: Outline

- Pax Americana and the Keynesian Welfare State: the post-World War II settlement in the West
- The “shocks” of the 1970s and paradigm change
- A brief review of French *Régulationist* theory
- The Covid-19 crisis and the wars in Ukraine and Gaza in a tentative historical perspective

Pax Americana and the Keynesian Welfare State: the first “Creation”* of the Liberal Order and the post-World War II Settlement

*Dean Acheson, *Present at the Creation*, 1969.

The World Today



Tony Barber, "[Maps distort reality while revealing the eternal truth about politics](#)",
The Financial Times, 1 February 2025

*Trump's renaming of the Gulf of Mexico is part of a long tradition of
deploying cartography in the service of power*

Or if you prefer...



Why the Obsession with Greenland?

Arctic Ocean Map and Bathymetric Chart



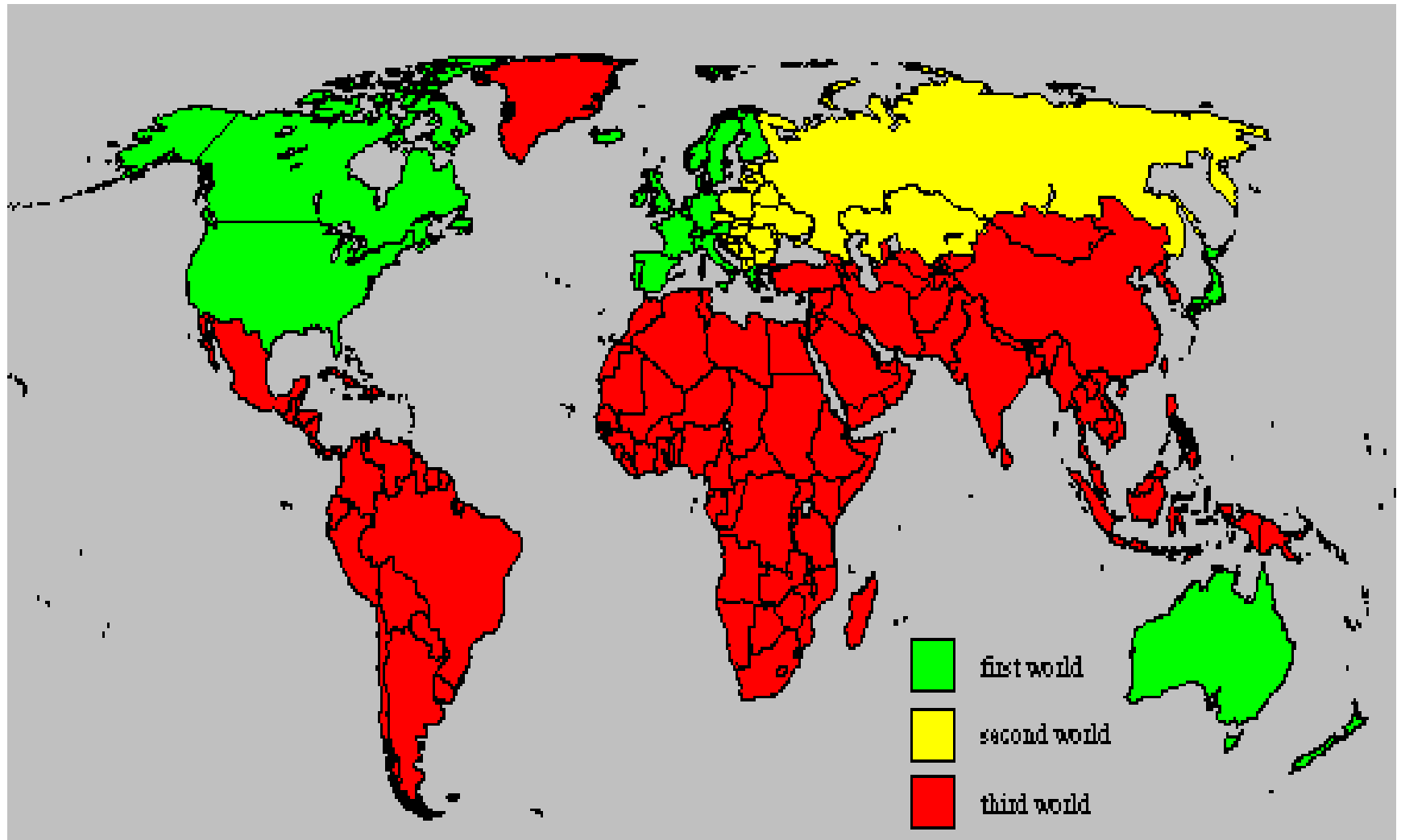
Greenland – Moscow c.
3,900 km

Paris – New York c. 5,800 km

As ice-cap melts, new trade
routes

Raw materials

The Post-World War II World



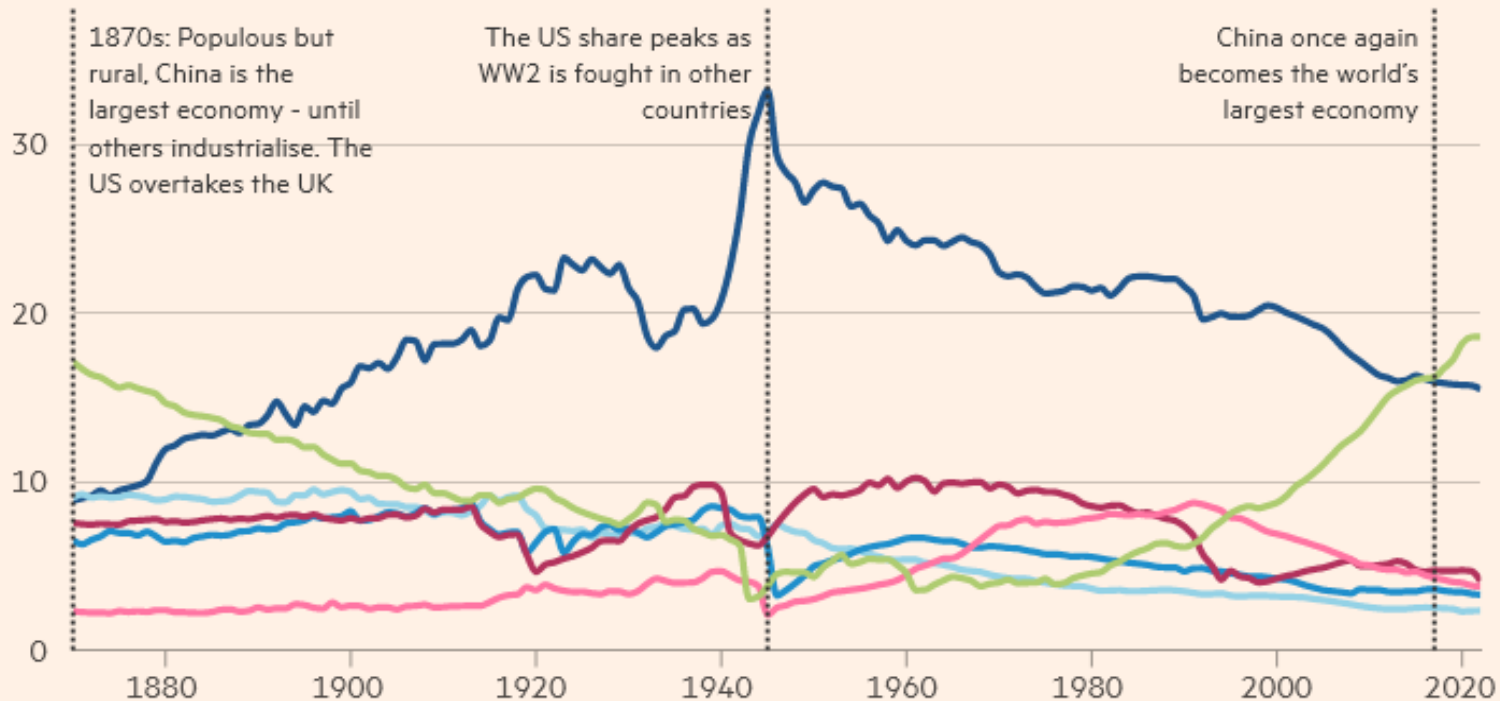
A different world

- The West – the industrialized 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 (Nehru), Egypt (Nassar) and Indonesia (Sukarno)).
- “The North” and the “South” (1970s)
- China – self-sufficient development (Mao)

The US as “hegemon” (GDP at PPP)

Estimated share of world GDP*, 1870-2022 (%)

US UK Germany USSR** Japan China

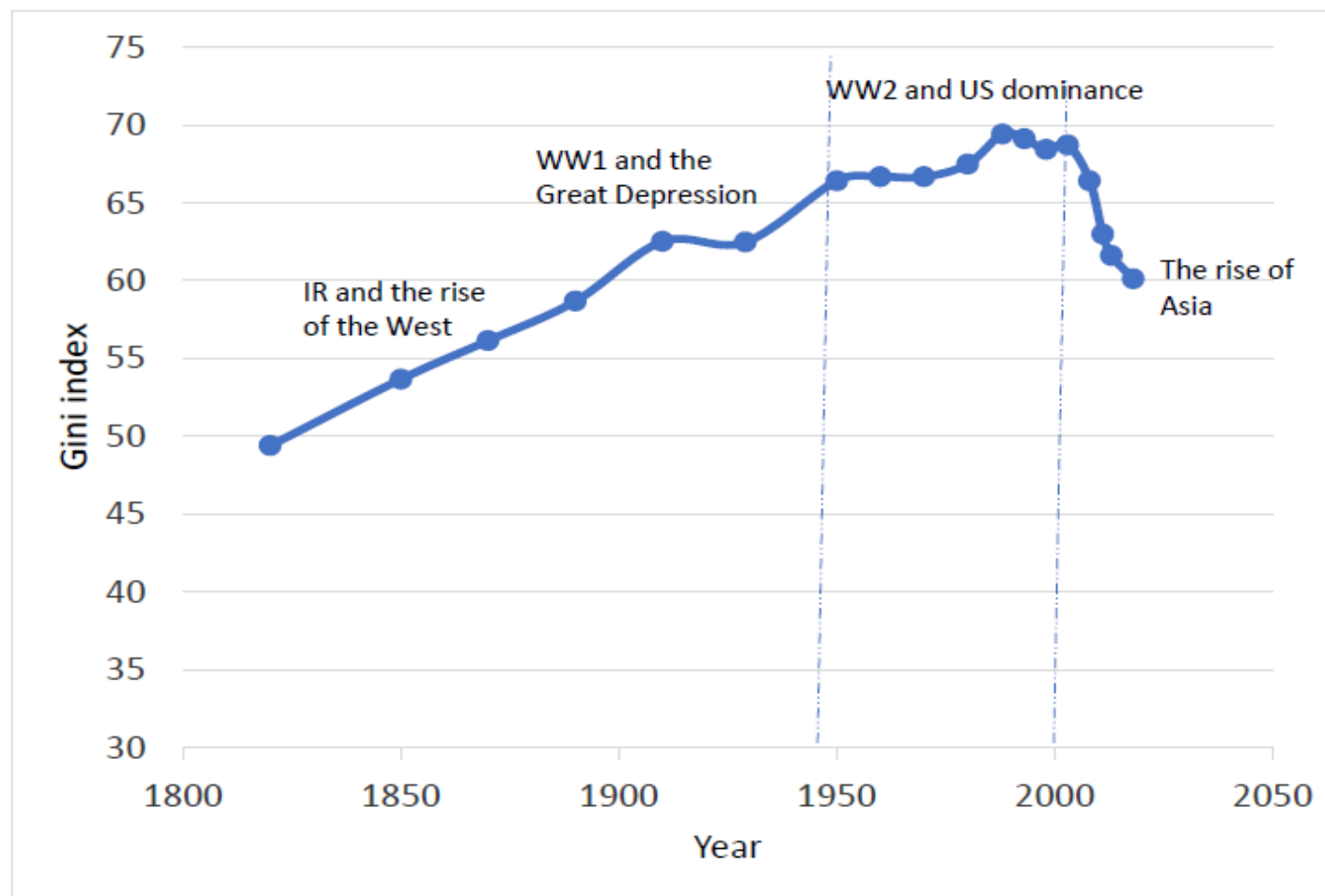


FINANCIAL TIMES

Source: Angus Maddison, Conference Board, IMF, FT • *At purchasing power parity **Russian empire pre-1917; successor states post-1991
Data visualisation by Keith Fray

Source: Philip Stephens, “How America picks its battles”, The Financial Times, January 25, 2023.

Estimated global income inequality 1820-2018



Note: 1820-1980 based on the revised Bourguignon and Morrison (2002) data series; 1988-2008 based on Lakner and Milanovic (2016); 2018-13 based on Milanovic (2021); 2018, unpublished results. For fuller explanation see Annex I.

Source: Branko Milanovic, "The three eras of global inequality, 1820-2020 with the focus on the past thirty years", Stone Center on Socio-Economic, Inequality, Working Paper Series, No. 59, November 2022.

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)
- Government “fought” poverty

Anti-poverty measures



UK – Macmillan – 300,000
homes per year (1950s)



US – Johnson – War on Poverty
Launched 1964

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

Standardised consumer behaviour

- JK Galbraith, *The New Industrial State*, 1967
- The technostructure – management bureaucracies
- Ensured markets due to advertising
- The countervailing power of unions
- Government organised socialised consumption
 - Welfare – social housing, etc.

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

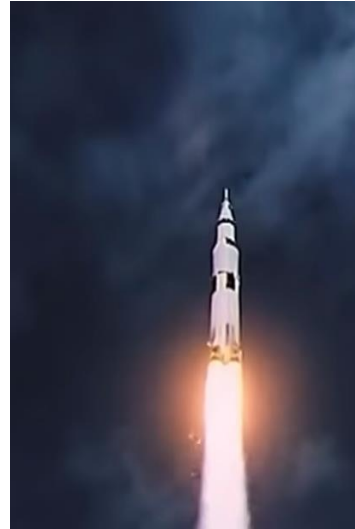


**Herbie the love Bug
1968**

The space race and the real “Moonshot”



In space,
12 April 1961



Largest machine ever,
designed by von Braun



Landing a man on the moon
“before decade is out”

16 July 1969 take-off



Apollo 11 crew

French “Indicative Planning”

Jean Monnet



Jean Monnet en 1952.

Commissariat général du Plan



- A rational organisation of the economy.
- Accompany restructuring of the economy, winding down old industries (mining) and nurturing new ones.
- Joint discussions with management and unions.
- Large public sector to implement *dirigiste* policies.

Some other sociological considerations

- Strong social solidarity – high top tax rates
- Limited choice in lifestyles and consumer products (far less complexity)
- Cultural homogeneity



The “shocks” of the 1970s

This system broke down in 1970s

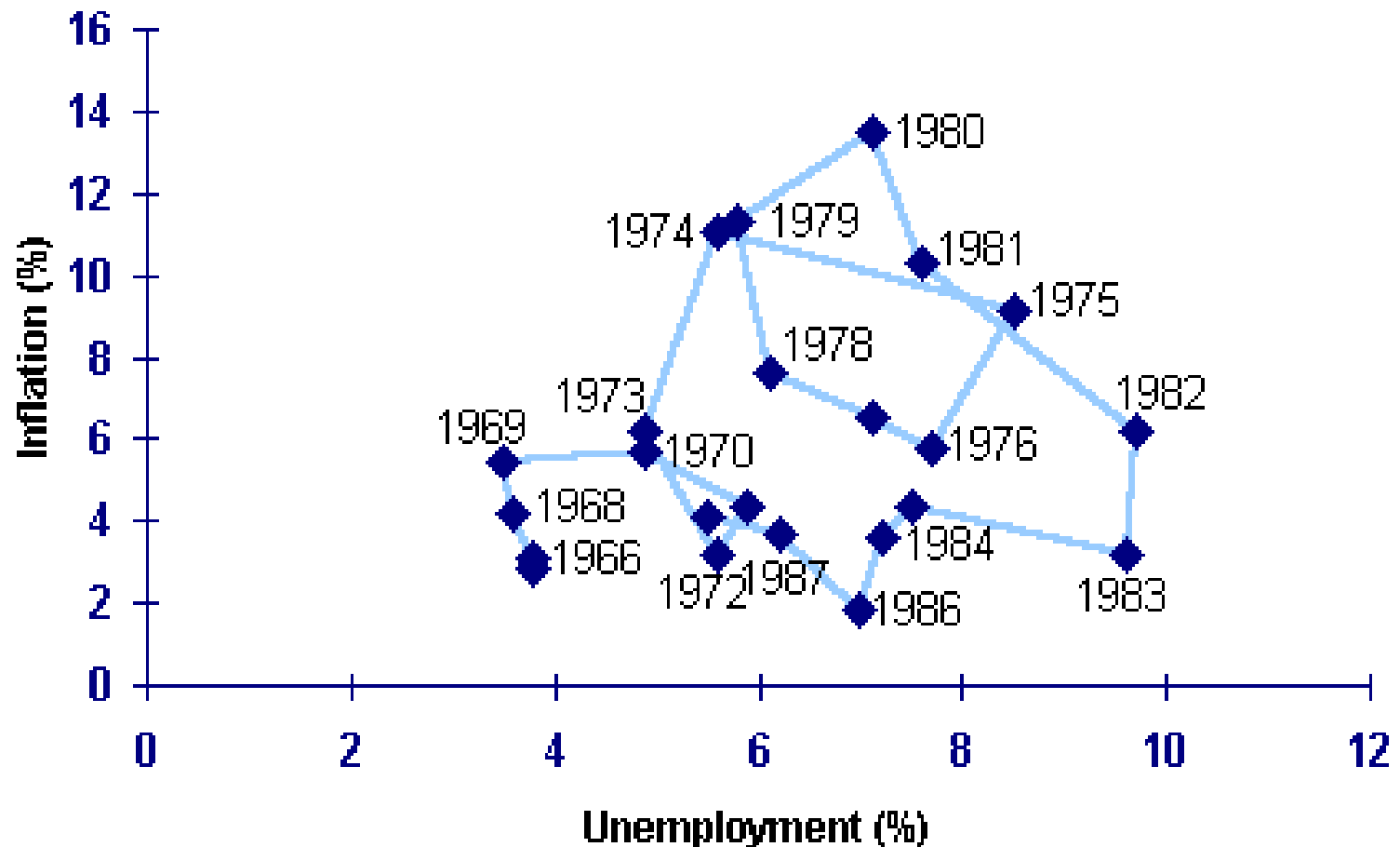
- The emergence of the “Great Inflation”
- International trade – new exporters Germany and Japan
- Demand leakage > breakdown of Keynesian circuit
- Search for individuality > product diversity
- Civil rights and women’s rights
- Renewed social conflict opened up in capitalist societies
- Regulation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

The rise of inflation: “Follow the Money”

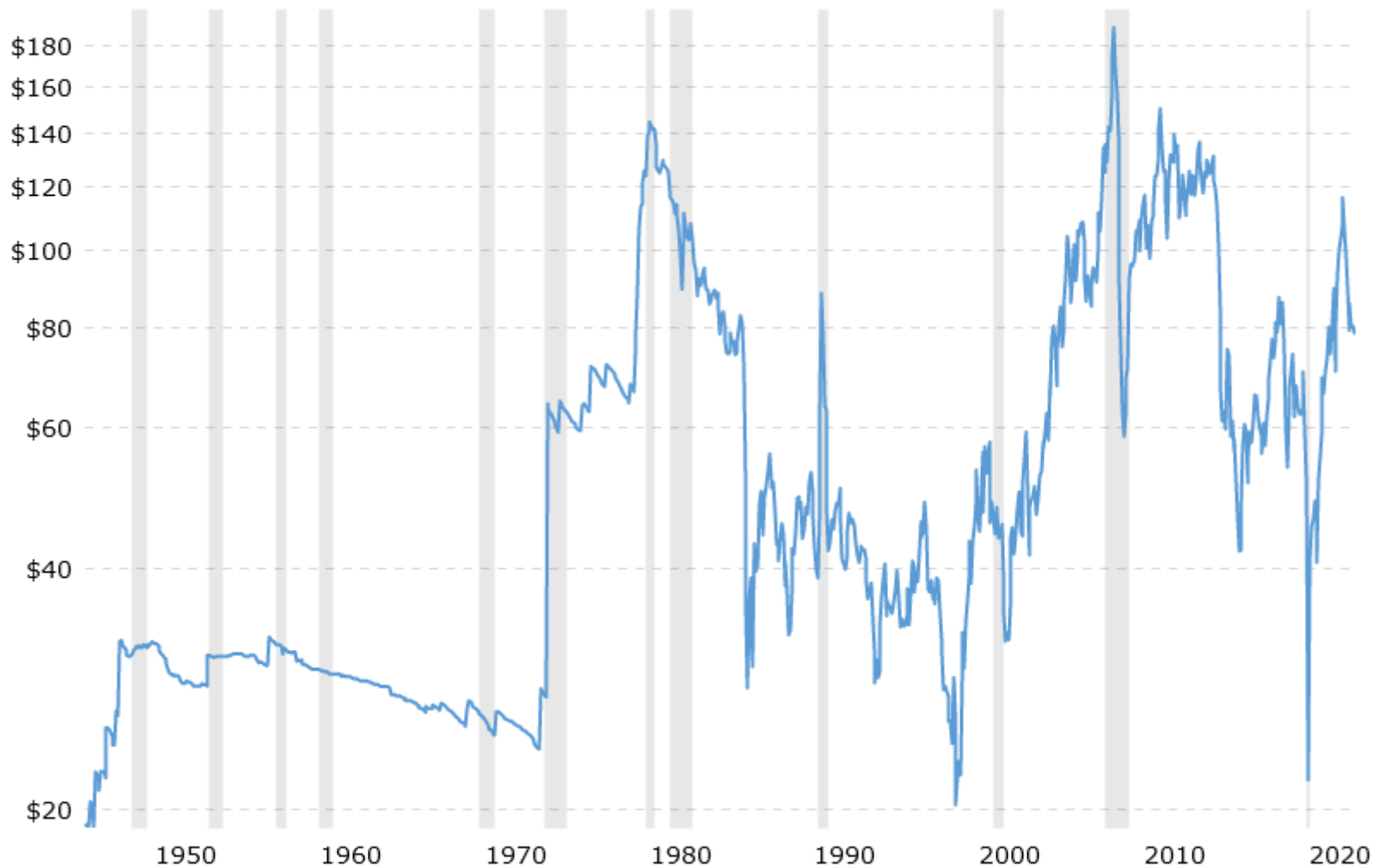
- In 1960s: inflation started rising – too much demand: Vietnam war, Great Society, and space race.
- Demand push– cost pull
- Low unemployment > pay rises
- Challenge to authority
- Challenge to social norms
- Civil rights, greater freedom for women
- AND PERMISSIVE MONETARY POLICY (in US)
- 1971: Nixon 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* (1972)

For “the West”: a world of crisis

Phillips Curve, 1966 to 1988



Oil Shocks: inflation adjusted (Jan 2023 $\approx$ \$80 a barrel)



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](#)

La fin des « trente glorieuses »



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

Evacuation US embassy Saigon 1975



1979 UK Conservative election slogan



An introduction to French
Théorie de la Régulation

La théorie de la Régulation

- Michel Aglietta:
Régulation et crises du capitalisme, 1976 :
examining the crisis
- Marx and Keynes >
Fordism > compromise
between labour and
capital
- Long production lines >
incredible economies of
scale



Model T: “any colour as
long as it is black”
Pay \$5 a day

Workers as clients

Crises of capitalism

Neo-classical / orthodox approach

- Actors are rational
- Market equilibrium is the natural state
- Behaviour is utility maximising
- Behaviour is timeless

The Regulationist approach

- Crisis is the normal state of capitalism
- Uncertainties and contradictions between different capitals (capital & consumer goods) and between capital and labor
- What institutions “regulated” Fordism?
- What institutions allowed it to reproduced itself

Accumulation regimes and crises

- *Accumulation regime*: systematic organization of production, income distribution, exchange of social product, and consumption
- *Mode of regulation* – the combination of institutional forms > networks and norms of behavior
- Crises > search for a new *institutional fix*

Institutional forms

- Institutional forms transform antagonism into “simple differences”
- Five fundamental institutional forms

1. Wage labor (wage-labor nexus)
2. Money (monetary regime)
3. Inter-firm relations (competition regime)

▼

4. Modalities of state intervention (state forms)
5. Prevailing order of international rules & norms (international regime)

Crises

Conjunctural crises

- Cyclical downturns
- Serious fluctuations in profitability, investment and employment
- Usually contained by the mode of regulation

Structural crises

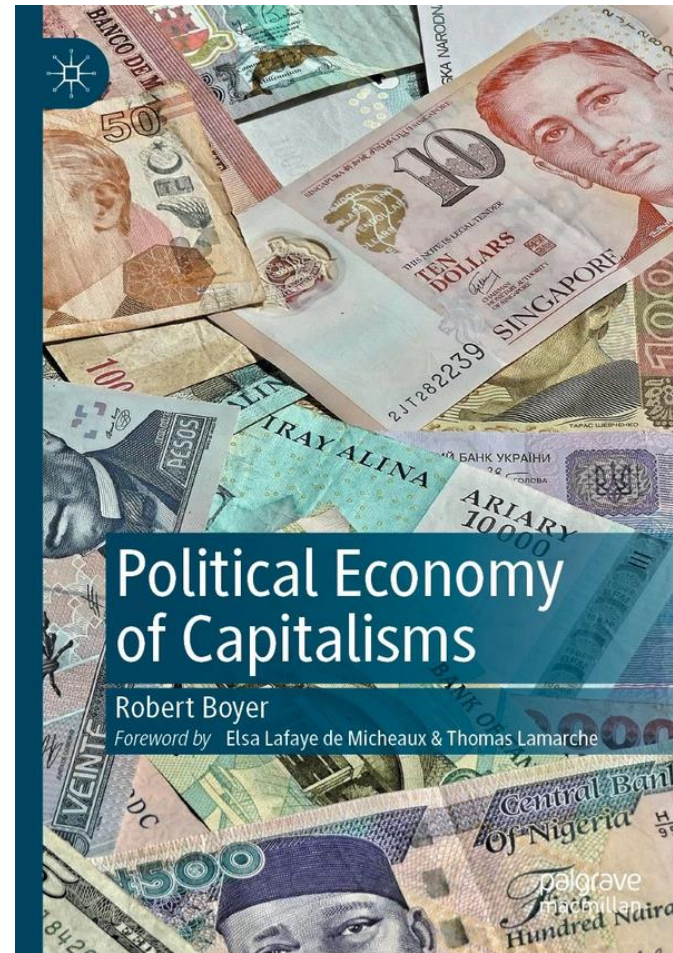
- Space opens for struggle between political and social actors
- Alternative regulatory arrangements
- Search through trial and error > “chance discoveries”

Post-Fordism (1980s and 1990s)

- Not quite so clear and coherent
- “Toyotism” – just-in-time, TQC, quality circles
- Complex production networks – externalization
- Faster product development > shorter production runs
- Cost control – delayering of management – end of collective bargaining > weaker labor/unions
- But workers who are engaged, task-flexible

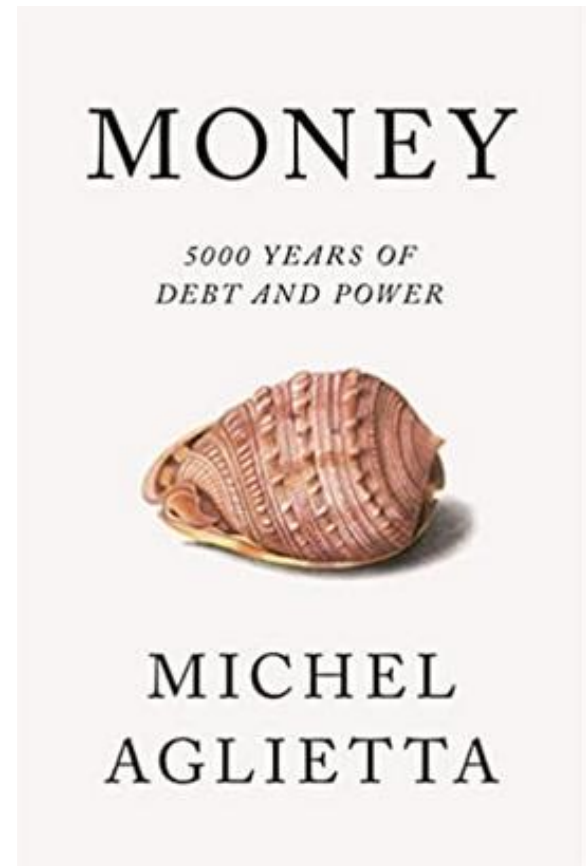
New areas of Regulationist research

- Comparative capitalisms
- Diversity of capitalisms
- Platform capitalism ...
- The crisis of the pandemic



Aglietta

- Money – “violence & trust”
- Financial capitalism
- « *le capitalisme contractuel* » (Aglietta, 2019)



A brief look at the Covid-19 crisis
and the wars in Ukraine and Gaza as
“shocks” – in a tentative historical
perspective

Causes and consequences of “shocks”/ crises

	1970s: the “Great Inflation” stagflation	2007-2009 GFC/Great Recession	Covid-19 2020 -	Wars in Ukraine 2022 -
Causes	Endogenous: inflation Exogenous: Yom-Kippur War	Endogenous: global imbalances, financial market distortions	Exogenous: virus Endogenous: globalization (travel / bio-system)	Exogenous: Russia invades Ukraine 24 Feb 2022 Hamas attacks Israel 7 Oct 2023
Location	The “West”	Global – mainly old industrialised countries	From China to rest of world	Ukraine, Russia, Europe, the Middle East
Consequences	Rise of neo-liberalism: Acceptance and justification of inequality in West Globalisation – Asian catch-up	G20 Coop. financial reg. Short term govt intervention Unconventional monetary policy	Massive govt. Intervention Huge debt & QE Economic nationalism Rising inequalities	Profound geopolitical realignment Power politics New economic and military blocs?

Takeouts: Why look at stagflation of 1970s?

- Background to the emergence of neoliberalism – still dominant framework
- It informs on the wide-ranging impact of inflation – the emergence of fiat money
- It puts the notion of crises back into economics (neo-regulationist approach)
- But today's world is far more complex
- Challenges are far greater
- Wars in Ukraine and Gaza and the return of a fragmented world

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](#)