AGE OF EXTREMES

THE SHORT TWENTIETH CENTURY
1914–1991

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ABACUS

An *Abacus* Book

First published in Great Britain by Michael Joseph 1994
This edition published by Abacus 1995

A CIP catalogue record for this book is available from the British Library.

ISBN 0 349 10671 1

Printed and bound in Great Britain by Clays Ltd, St Ives plc

Abacus
A Division of
Little, Brown and Company (UK)
Brettenham House
Lancaster Place
London WC2E 7EN

Contents

PART THREE: THE LANDSLIDE

CHAPTER NINE
The Golden Years

It is in the past forty years that Modena has really seen the great leap forward. The era from Italian Unification until then had been a long age of waiting, or of slow and intermittent modifications, before transformation accelerated to the speed of lightning. People now came to enjoy a standard of living previously confined to a tiny elite.

– G. Muzzioli (1993, p. 323)

No hungry man who is also sober can be persuaded to use his last dollar for anything but food. But a well-fed, well-clad, well-sheltered and otherwise well-tended person can be persuaded as between an electric razor and an electric toothbrush. Along with prices and costs, consumer demand becomes subject to management.

– J.K. Galbraith, *The New Industrial State* (1967, p. 24)

I

Most human beings operate like historians: they only recognize the nature of their experience in retrospect. In the course of the 1950s many people, especially in the increasingly prosperous 'developed' countries, became aware that times were indeed strikingly improved, especially if their memories reached back to the years before the Second World War. A British Conservative premier fought and won a general election in 1959 on the slogan 'You've never had it so good', a statement that was undoubtedly correct. Yet it was not until the great boom was over, in the disturbed seventies, waiting for the traumatic eighties, that observers – mainly, to begin with, economists – began to realize that the world, particularly the world of developed capitalism, had passed through an

altogether exceptional phase of its history; perhaps a unique one. They looked for names to describe it: the 'thirty glorious years' of the French (*les trente glorieuses*); the quarter-century Golden Age of the Anglo-Americans (Marglin and Schor, 1990). The gold glowed more brightly against the dull or dark background of the subsequent decades of crisis.

There are several reasons why it took so long to recognize the exceptional nature of the era. For the USA, which dominated the world economy after the second World War, it was not all that revolutionary. It merely continued the expansion of the war years which, as we have seen, had been uniquely kind to that country. It had suffered no damage, increased its GNP by two thirds (Van der Wee, 1987, p. 30) and ended the war with almost two thirds of the world's industrial production. Moreover, just because of the size and advance of the US economy, its actual performance during The Golden Years was not as impressive as the rate of growth of other countries, which started from a much smaller base. Between 1950 and 1973 it grew more slowly than any other industrial country except Britain and, what is more to the point, its growth was no higher than in the most dynamic earlier periods of its development. In all other industrial countries, including even sluggish Britain, the Golden Age broke all previous records (Maddison, 1987, p. 650). In fact, for the USA this was, economically and technologically, a time of relative dropping back rather than of advance. The gap in productivity per man-hour between it and other countries diminished, and if in 1950 it enjoyed a national wealth (GDP) per capita double that of France and Germany, over five times that of Japan, and more than half as large again as Britain, the other states were fast catching up and continued to do so in the 1970s and 1980s.

Recovering from the war was the overwhelming priority for the European countries and Japan, and for the first years after 1945 they measured their success simply by how close they had come to a target set by reference to the past, not the future. In the non-communist states recovery also meant putting the fear of social revolution and communist advance, heritage of war and resistance, behind them. While most countries (other than Germany and Japan) were back to their pre-war levels by 1950, the early Cold War and the persistence of powerful communist parties in France and Italy discouraged euphoria. In any case, the material benefits of growth took some time to make themselves felt. In Britain it was not until the middle 1950s that they became palpable. No politician before then could have won an election on Harold Macmillan's slogan. Even in so spectacularly prosperous a region as Italy's Emilia-

Romagna, the benefits of the 'affluent society' did not become general until the 1960s (Francia, Muzzioli, 1984, pp. 327-29). Moreover, the secret weapon of a society of *popular* affluence, namely full employment, did not become general until the 1960s, when the average of west European unemployment stood at 1.5 per cent. In the 1950s Italy still had almost 8 per cent out of work. In short, not until the 1960s did Europe come to take its extraordinary prosperity for granted. By then, indeed, sophisticated observers began to assume that, somehow, everything in the economy would go onwards and upwards for ever. 'There is no special reason to doubt that the underlying trends of growth in the early and middle 1970s will continue much as in the 1960s,' wrote a United Nations report in 1972. 'No special influence can now be foreseen which would at all drastically change the external environment of European economies.' The club of advanced capitalist industrial economies, the OECD (Organization for Economic Cooperation and Development) revised its forecasts for future growth upwards as the 1960s advanced. By the early 1970s they were expected to be ('in the medium term') over 5 per cent (Glyn, Hughes, Lipietz, Singh, 1990, p. 39). It was not to be.

It is now evident that the Golden Age essentially belonged to the developed capitalist countries, which, throughout these decades, represented about three quarters of the world's production and over 80 per cent of its manufacturing exports (OECD, Impact, 1979 pp. 18–19). One further reason why this specificity of the era was only slowly recognized was that in the 1950s the economic upsurge seemed quite world-wide and independent of economic regimes. Indeed, initially it looked as though the newly expanded socialist part of the world had the advantage. The growth-rate of the USSR in the 1950s was faster than any Western country's, and the economies of Eastern Europe grew almost as rapidly – faster in hitherto backward countries, slower in the already industrialized or partly industrialized ones. Communist East Germany, however, lagged behind non-communist Federal Germany. Even though the Eastern Bloc of Europe lost pace in the 1960s, its GDP per capita over the whole of the Golden Age still grew slightly faster (or, in the case of the USSR just less) than that in the major capitalist industrial countries (IMF, 1990, p. 65). Still, in the 1960s it became clear that capitalism was forging ahead rather than socialism.

Nevertheless, the Golden Age was a worldwide phenomenon, even though general affluence never came within sight of the majority of the world's population – those who lived in countries for whose poverty and

backwardness the experts of the UN tried to find diplomatic euphemisms. Though the population of the Third World grew at a spectacular rate – the numbers of Africans, East Asians and South Asians more than doubled in the thirty-five years after 1950, the number of Latin Americans rose even faster (World Resources, 1986, p. 11). The 1970s and 1980s once again grew familiar with mass famine, its classic image, the starving exotic child observed after supper on every Western TV screen. During the Golden decades there was no mass starvation, except as the product of wars and political madness, as in China (see pp. 466–7) Indeed, as population multiplied, life expectancy stretched out by an average of seven years – even by seventeen years if we compare the later 1930s with the later 1960s (Morawetz, 1977, p. 48). This means that food production rose faster than population, as it did both in the developed and in every major area of the non-industrial world. In the 1950s it rose by more than 1 per cent a year per capita in every region of the 'developing world' except Latin America, and even there it grew per capita, though more modestly. In the 1960s it still rose in all parts of the non-industrial world, but (once again with the exception of Latin America, this time ahead of the rest), only very slightly. Nevertheless, the total food production of the poor world in both the 1950s and 1960s rose faster than in the developed world.

In the 1970s the disparities between different parts of the poor world make such global figures useless. By then some regions, such as the Far East and Latin America, were drawing well ahead of their population growth, whereas Africa was falling behind by more than 1 per cent a year. In the 1980s the poor world's food production per capita did not grow at all outside South and East Asia (but even here some countries produced less per head than in the 1970s – Bangladesh, Sri Lanka, the Philippines. Certain regions stayed well below their 1970 levels, or even continued to fall, notably Africa, Central America and the Asian Near East (Van der Wee, 1987, p. 106; FAO, *The State of Food*, 1989, Annex, Table 2, pp. 113–15).

Meanwhile the problem of the developed world was that it produced so much surplus food that it did not know what to do with it and, in the 1980s, decided to grow substantially less, or else (as in the European Community) to dump its 'butter mountains' and 'milk lakes' below cost, thus undercutting producers in the poor countries. It became cheaper to buy Dutch cheese on Caribbean islands than in the Netherlands. Curiously, the contrast between food surpluses on one side, hungry people on the other, which had so outraged the world during the Great Depression of the 1930s, caused less comment in the late twentieth century. It was an

aspect of the growing divergence between the rich and the poor world which became increasingly evident from the 1960s.

The industrial world was, of course, expanding everywhere: in the capitalist and socialist regions and in the 'Third World'. In the old West there were dramatic examples of industrial revolution, such as Spain and Finland. In the world of 'really existing socialism' (see chapter 13) purely agrarian countries like Bulgaria and Rumania acquired massive industrial sectors. In the Third World the most spectacular development of the so-called 'newly industrialising countries' (NICs) occurred after the Golden Age, but everywhere the number of countries depending primarily on agriculture, at least for financing their imports from the rest of the world, diminished sharply. By the later 1980s a mere fifteen states paid for half their imports or more from farm exports. With one exception (New Zealand), all were in sub-saharan Africa and Latin America (FAO, *The State of Food*, 1989, Annex, Table 11, pp. 149–51).

The world economy was thus growing at an explosive rate. By the 1960s it was plain that there had never been anything like it. World output of manufactures quadrupled between the early 1950s and the early 1970s and, what is even more impressive, world trade in manufactured products grew tenfold. As we have seen, world agricultural output also shot up, if not so spectacularly. It did so not so much (as so often in the past) by bringing new land into cultivation, but rather by raising its productivity. Grain yields per hectare almost doubled between 1950–52 and 1980–82 – and more than doubled in North America, Western Europe and East Asia. World fisheries meanwhile trebled their catches before falling again (World Resources, 1986, pp. 47, 142).

One by-product of this extraordinary explosion was as yet barely noticed, though in retrospect it already looked menacing: pollution and ecological deterioration. During the Golden Age it attracted little attention, except from wild life enthusiasts and other protectors of human and natural rarities, because the dominant ideology of progress took it for granted that the growing domination of nature by man was the very measure of humanity's advance. Industrialization in the socialist countries was for this reason particularly blind to the ecological consequences of its massive construction of a rather archaic industrial system based on iron and smoke. Even in the West, the old nineteenth century businessman's motto 'Where there's muck, there's brass' (i.e. pollution means money), was still convincing, especially for road-builders and real-estate 'developers' who rediscovered the unbelievable profits to be made in an era of secular boom from speculation which could not go wrong. All one had to do was to wait for the value of the right building site to rise

into the stratosphere. A single well-sited building could now make a man a multimillionaire virtually without cost, since he could borrow on the security of his future construction and borrow further as its value (built or unbuilt, occupied or empty) continued to go up. Eventually, as usual, there was a crash – the Golden Age ended like earlier booms in a real-estate-cum-banking collapse – but until then city centres, large and small, were ripped out and 'developed' across the world, incidentally destroying medieval cathedral cities like Worcester in Britain or Spanish colonial capitals like Lima in Peru. Since the authorities in both East and West also discovered that something like factory methods could be used to construct public housing quickly and cheaply, filling the outskirts of cities with blankly menacing high-rise apartment blocks, the 1960s will probably go down as the most disastrous decade in the history of human urbanization.

In fact, far from worrying about the environment, there seemed to be grounds for self-satisfaction, as the results of nineteenth century pollution yielded to twentieth century technology and ecological conscience. Did not the simple banning of coal fires in London from 1953 abolish, at one stroke, the impenetrable fog so familiar from Charles Dickens' novels, which had periodically blanketed the city? Were not, some years later, salmon once again swimming up the once dead river Thames? Cleaner, smaller, quieter factories distributed themselves around the countryside instead of the vast smoke-swathed plants that had previously signified 'industry'. Airports replaced railway stations as the quintessential buildings representing transport. As the countryside emptied, people, or at least middle-class people moving into abandoned villages and farmsteads, could feel themselves closer than ever to nature.

Yet there is no denying that the impact of human activities on nature, primarily urban and industrial but also, it was eventually realized, agricultural, increased steeply from the middle of the century. This was largely due to the enormous increase in the use of fossil fuels (coal, oil, natural gas, etc.), whose potential exhaustion had worried earlier gazers into the future from the mid-nineteenth century on. New sources were discovered faster than they could be used. That total energy consumption shot up – it actually tripled in the USA between 1950 and 1973 (Rostow, 1978, p. 256; Table III, p. 58) is far from surprising. One of the reasons why the Golden Age was golden was that the price of a barrel of Saudi oil averaged less than $2 throughout the entire period from 1950 to 1973, thus making energy ridiculously cheap, and getting cheaper all the time. Ironically, it was only after 1973, when the oil-producers' cartel OPEC finally decided to charge what the traffic would bear (see pp. 473–4), that

ecology-watchers took serious note of the effects of the consequent explosion in petrol-driven traffic, which was already darkening the skies above the great cities in the motorized, and in particular the American, parts of the world. Smog was the immediate worry and understandably so. However, carbon dioxide emissions warming the atmosphere almost tripled between 1950 and 1973, that is to say the concentration of this gas in the atmosphere increased by a little less than 1 per cent a year (World Resources, Table 11.1, p. 318; 11.4, p. 319; V. Smil, 1990 p. 4, Fig. 2). The production of chlorofluorcarbons, chemicals which affect the ozone layer, rose almost vertically. At the end of the war they had barely been used, but by 1974 over 300,000 tons of one compound and over 400,000 tons of another were being released into the atmosphere each year (World Resources, Table 11.3, p. 319). The rich Western countries naturally generated the lion's share of this pollution, though the unusually filthy industrialization of the USSR produced almost as much carbon dioxide as the USA; almost five times as much in 1985 as in 1950. (Per capita, of course, the USA remained a long way ahead.) Only Britain actually lowered the amount emitted per inhabitant over this period (Smil, 1990, Table I, p. 14).

II

Initially this astonishing explosion of the economy seemed merely a gigantic version of what had gone before; as it were, a globalization of the state of the pre-1945 USA, taking that country as the model of a capitalist industrial society. So, to some extent, it was. The age of the automobile had long arrived in North America, but after the war it came to Europe and later more modestly to the socialist world and the Latin American middle classes, while cheap fuel made the truck and the bus the major means of transport over most of the globe's land-mass. If the rise of Western affluent society could be measured by the multiplication of private cars – from Italy's 750,000 in 1938 to the same country's fifteen millions in 1975 (Rostow, 1978, p. 212; UN Statistical Yearbook, 1982, Table 175, p. 960) – the economic development of many a Third-World country could be recognized by the rate at which the number of its trucks grew.

Much of the great world boom was thus a catching up, or in the USA a continuation of old trends. The model of Henry Ford's mass production spread across the oceans to new auto industries, while in the USA the Fordist principle was extended to new kinds of production, from house-

building to junk food (McDonald's was a post-war success story). Goods and services previously confined to minorities were now produced for a mass market, as in the field of mass travel to sunny beaches. Before the war never had more than 150,000 North Americans travelled to Central America and the Caribbean in any year, but between 1950 and 1970 their numbers grew from three hundred thousand to seven millions (US Hist Statistics I, p. 403). The European figures were, not surprisingly, even more spectacular. Spain, which had virtually no mass tourism until the later 1950s, welcomed over fifty-four millions of foreigners per year at the end of the 1980s, a number only slightly surpassed by Italy's fifty-five millions (Stat.Jahrbuch, 1990, p. 262). What had once been luxury, became the expected standard of comfort, at all events in the rich countries: the refrigerator, the private washing machine, the telephone. By 1971 there were over 270 million telephones in the world, i.e. overwhelmingly in North America and Western Europe, and their spread was accelerating. Ten years later their numbers had almost doubled. In the developed market economies there was more than one phone for every two inhabitants (UN World Situation, 1985, Table 19, p. 63). In short, it was now possible for the average citizen in those countries to live as only the very wealthy had lived in their parents' day – except, of course, that mechanization had now replaced personal servants.

However, what strikes us most about the period is the extent to which the economic surge seemed powered by technological revolution. To this extent it multiplied not only improved products of the old kind, but quite unprecedented ones, including many which had been virtually unimagined before the war. Some revolutionary products, such as the synthetic materials known as 'plastics' had been developed between the wars or even begun to enter commercial production, like nylon (1935), polystyrene and polythene. Some, like television and recording on magnetic tape, were then barely out of the experimental stage. The war, with its demands on high technology, prepared a number of revolutionary processes for later civilian use, though rather more on the British side (subsequently taken up by the USA) than among the science-minded Germans: radar, the jet engine, and various ideas and techniques which prepared the ground for post-war electronics and information technology. Without them the transistor (invented 1947) and the first civilian digital computers (1946) would certainly have appeared considerably later. Perhaps fortunately, nuclear energy, first mobilized during the war for destruction, remained largely outside the civilian economy, except as a (so far) marginal contribution to the world's generation of electrical energy – about 5 per cent in 1975. Whether these innovations were based

on inter-war or post-war science, on inter-war technical or even commercial pioneering or on the great post-1945 forward rush – the integrated circuits developed in the 1950s, the lasers of the 1960s, or the various spin-offs from space rocketry – hardly matters for our purpose. Except in one sense. More than any previous period, the Golden Age rested on the most advanced and often esoteric scientific research, which now found practical application within a few years. Industry and even agriculture for the first time moved decisively beyond the technology of the nineteenth century (see chapter 18).

Three things about this technological earthquake strike the observer. *First*, it utterly transformed everyday life in the rich world and even, to a lesser extent, in the poor world, where radio could now reach the remotest villages thanks to the transistor and the miniaturized long-life battery, where the 'green revolution' transformed rice and wheat cultivation and plastic sandals replaced bare feet. Any European reader of this book who makes a quick inventory of his or her personal possessions, can verify this. Most of the contents of the refrigerator or freezer (neither of which most family homes would have owned in 1945) is novel: freeze-dried food, factory-farmed poultry produce, meat stuffed with enzymes and various chemicals to change its taste, or even constructed by the 'simulation of boneless high-quality cuts' (Considine, 1982, pp. 1164 ff.) not to mention products imported fresh by air from halfway across the globe, as would then have been impossible.

Compared to 1950 the share of natural or traditional materials – wood, metal treated in old-fashioned ways, natural fibres or fillings, even ceramics – in our kitchens, household furnishings and personal clothing has gone down dramatically, although the hype surrounding everything produced by the personal hygiene and beauty industry was such that it obscured (by systematically exaggerating) the degree of novelty of its enormously increased and diversified output. For technological revolution entered consumer consciousness to such an extent that novelty became the main sales appeal for everything from synthetic detergents (which came into their own in the 1950s) to laptop computers. The assumption was that 'new' equalled not just better, but utterly revolutionized.

As for the products visibly representing technological novelty, their list is endless, and needs no comment: television; vinyl records (LPs came in 1948); followed by tapes (tape cassettes came in the 1960s) and compact discs; small portable transistor radios – the present writer got his first as a present from a Japanese friend in the late 1950s – digital watches, pocket calculators, battery and then solar-powered; and then the rest of

domestic electronics, photo and video equipment. Not the least significant thing about these innovations is the systematic process of miniaturisation of such products, i.e. *portability*, which vastly extended their potential range and market. However, the technological revolution was perhaps symbolized just as much as superficially unchanged products which had, since the Second World War, been transformed from top to bottom, such as pleasure sailing boats. Their masts and hulls, their sails and rigging, their navigational equipment had little or nothing in common with inter-war vessels except shape and function.

Second, the more complex the technology involved, the more complex was the road from discovery or invention to production, and the more elaborate and expensive the process of traversing it. 'Research and Development' (R & D) became central to economic growth and, for this reason, the already enormous advantage of the 'developed market economies' over the rest was reinforced. (As we shall see in chapter 16, technological innovation did not flourish in the socialist economies.) The typical 'developed country' had upwards of a thousand scientists and engineers for every million of its population in the 1970s, but Brazil had about 250, India 130, Pakistan about sixty, Kenya and Nigeria about thirty, (UNESCO, 1985, Table 5.18). Moreover, the process of innovation became so continuous that the cost of developing new products became an increasingly large and indispensable share of the cost of production. In the extreme case of the armaments industries, where, admittedly, money was no object, new devices, had barely become fit for practical use before they were scrapped for even more advanced (and, of course, vastly more expensive) pieces of equipment, to the considerable financial benefit of the corporations concerned. In the more mass-market-oriented industries such as pharmaceutical chemicals, a new and genuinely needed drug, especially when protected from competition by patent rights, could make several fortunes, which were explained away by its producers as absolutely essential for further research. Less easily protected innovators had to clean up more quickly, for as soon as other products entered the market, the price dropped through the floor.

Third, the new technologies were, overwhelmingly, capital-intensive and (except for the highly skilled scientists and technicians) labour-saving, or even labour-replacing. The major characteristic of the Golden Age was that it needed constant and heavy investment and, increasingly, that it did not need people, except as consumers. However, the impetus and speed of the economic surge was such that, for a generation, this was not obvious. On the contrary, the economy grew so fast that, even in the industrial countries, the industrial working class maintained or even

increased its share of the occupied population. In all advanced countries but the USA, the reserve lakes of labour filled during pre-war depression and post-war demobilization were drained, new supplies of labour were sucked in from the native countryside and from foreign immigration, and married women, hitherto kept outside the labour market, entered it in growing numbers. Nevertheless, the ideal to which the Golden Age aspired, though it was only gradually realized, was production, or even service, without humans: automated robots assembling cars, silent voids filled with banks of computers controlling the output of power, trains without drivers. Human beings were essential to such an economy only in one respect: as buyers of goods and services. Here lay its central problem. In the Golden Age it still seemed unreal and remote, like the future death of the universe by entropy about which Victorian scientists had warned the human race.

On the contrary. All the problems which had haunted capitalism in its era of catastrophe appeared to dissolve and to disappear. The terrible and inevitable cycle of boom and slump, so murderous between the wars became a succession of mild fluctuations thanks to – or so the Keynesian economists who now advised governments were convinced – their intelligent macro-economic management. Mass unemployment? Where was it to be found in the developed world in the 1960s, when Europe averaged 1.5 per cent of its labour force out of work and Japan 1.3 per cent (Van der Wee, 1987, p. 77)? Only in North America was it not yet eliminated. Poverty? Of course most of humanity remained poor, but in the old heartlands of industrial labour what meaning could the *Internationale's* 'Arise, ye starvelings from your slumbers' have for workers who now expected to have their car and spend their annual paid vacation on the beaches of Spain? And, if they fell upon hard times, would not an increasingly universal and generous Welfare State provide them with protection, undreamed of before, against the hazards of ill-health, misfortune, even the dreaded old age of the poor? Their incomes rose year by year, almost automatically. Would they not go on rising for ever? The range of goods and services offered by the productive system, and available to them, made former luxuries part of everyday consumption. It widened year by year. What more, in material terms, could humanity want except to extend the benefits already enjoyed by the favoured peoples of some countries to the unhappy inhabitants of those parts of the world, admittedly still the majority of mankind, who had not yet entered upon 'development' and 'modernization'?

What problems remained to be solved? An extremely intelligent and prominent British socialist politician wrote in 1956:

> Traditionally socialist thought has been dominated by the economic problems posed by capitalism, poverty, mass unemployment, squalor, instability, and even the possibility of the collapse of the whole system . . . Capitalism had been reformed out of all recognition. Despite occasional minor recessions and balance of payments crises, full employment and at least a tolerable degree of stability are likely to be maintained. Automation can be expected steadily to solve any remaining problems of under-production. Looking ahead, our present rate of growth will give us a national output three times as high in fifty years (Crosland, 1956, p. 517).

III

How are we to explain this extraordinary and quite unexpected triumph of a system which, for half a lifetime, had seemed on the verge of ruin? What needs explaining, of course, is not the mere fact of a lengthy period of economic expansion and well-being, following on a similar period of economic and other troubles and disturbances. Such a succession of 'long waves' of about half a century in length has formed the basic rhythm of the economic history of capitalism since the late eighteenth century. As we have seen (chapter 2), the Age of Catastrophe had drawn attention to this pattern of secular fluctuations, whose nature remains obscure. They are generally known by the name of the Russian economist Kondratiev. In the long perspective, the Golden Age was just another Kondratiev upswing, like the great Victorian boom of 1850–73 – curiously the dates almost coincide at a century's distance – and the *belle époque* of the late Victorians and Edwardians. Like earlier such upswings, it was preceded and followed by 'downswings'. What needs explaining is not this, but the extraordinary scale and depth of this secular boom, which is a sort of pendant to the extraordinary scale and depth of the preceding era of crises and depressions.

There are no really satisfactory explanations for the sheer scale of this 'Great Leap Forward' of the capitalist world economy, and consequently for its unprecedented social consequences. Of course other countries had enormous scope for catching up with the model economy of early twentieth-century industrial society, the USA, a country devastated by neither war, defeat nor victory, though briefly shaken by the Great Slump. Other countries did indeed systematically try to imitate the USA, a process which speeded up economic development, since it is always easier to adapt an existing technology than to invent a new one.

That, as the Japanese example was to show, could come later. However, there was clearly more to the Great Leap than this. There was a substantial restructuring and reform of capitalism and a quite spectacular advance in the globalization and internationalization of the economy.

The first produced a 'mixed economy', which both made it easier for states to plan and manage economic modernization, and which also enormously increased demand. The great post-war economic success stories of capitalist countries, with the rarest exceptions (Hong Kong), are stories of industralization backed, supervised, steered, and sometimes planned and managed by governments: from France and Spain in Europe to Japan, Singapore and South Korea. At the same time the political commitment of governments to full employment and – to a lesser extent – to the lessening of economic inequality, i.e. a commitment to welfare and social security, for the first time provided a mass consumer market for luxury goods which could now become accepted as necessities. The poorer people are, the higher the proportion of their income they must spend on indispensable essentials such as food (a sensible observation known as 'Engel's Law'). In the 1930s, even in the rich USA about a third of household expenditure still went on food, but by the early 1980s only 13 per cent. The rest was available for other expenditures. The Golden Age democratized the market.

The second multiplied the productive capacity of the world economy by making possible a far more elaborate and sophisticated international division of labour. Initially this was largely confined to the collective of the so-called 'developed market economies', i.e. the countries in the US camp. The socialist part of the world was largely separate (see chapter 13), and the most dynamic developers in the Third World in the 1950s opted for a segregated and planned industrialization by substituting their own production for imported manufactures. The core countries of Western capitalism, of course, traded with the overseas world, and very advantageously too, since the terms of trade favoured them – i.e. they could get their raw materials and foodstuffs more cheaply. Still, what really exploded was the trade in industrial products, mainly between the industrial core countries. World trade in manufactures multiplied over tenfold in the twenty years after 1953. Manufacturers, which had formed a fairly constant share of world trade since the nineteenth century at a little less than half, now shot up to over 60 per cent (W.A. Lewis, 1981). The Golden Age remained anchored to the economies of the core capitalist countries – even in purely quantitative terms. In 1975 the Big Seven of capitalism alone (Canada, the USA, Japan, France, Federal Germany, Italy and Great Britain) contained three quarters of all the

passenger cars on the globe and almost as high a proportion of its telephones (UN *Statistical Yearbook*, 1982, pp. 955 ff, 1018 ff). Nevertheless, the new industrial revolution could not be confined to any region.

The restructuring of capitalism and the advance in economic internationalisation were central. It is not so clear that technological revolution explains the Golden Age, though there was plenty of it. As has been shown, much of the new industrialization of these decades was the spread of old industrializations based on old technologies to new countries: the nineteenth-century industrialization of coal, iron and steel to the socialist agrarian countries; the twentieth-century American industries of oil and internal combustion engines to European ones. The impact of the high-research-generated technology on civilian industry probably did not become massive until the Crisis Decades after 1973, when the major breakthrough of information technology and genetic engineering took place, as well as a number of other leaps into the unknown. Perhaps the chief innovations which began to transform the world almost as soon as the war ended were chemical and pharmaceutical. Their impact on the demography of the Third World was immediate (see chapter 12). Their cultural effects were a little more delayed, but not much, for the Western sexual revolution of the 1960s and 1970s was made possible by antibiotics – unknown before the Second World War – which appeared to remove the major risks from sexual promiscuity by making venereal diseases easily curable, and by the birth-control pill which became widely available in the 1960s. (The risk was to return to sex in the 1980s with AIDS.)

All the same, an innovating high technology soon became so much part of the great boom that it must form part of any explanation, even if we do not regard it as decisive in its own right.

Post-war capitalism was unquestionably, as the Crosland quotation put it, a system 'reformed out of all recognition' or, in the words of the British premier Harold Macmillian, a 'new' version of the old system. What happened was far more than a return of the system from some avoidable interwar 'errors' to its 'normal' record of 'both . . . maintaining a high level of employment and . . . enjoying some non-negligible rate of economic growth' (H.G. Johnson, 1972, p. 6). Essentially it was a sort of marriage between economic liberalism and social democracy (or, in American terms, Rooseveltian New Deal policy), with substantial borrowings from the USSR, which had pioneered the idea of economic planning. That is why the reaction against it by the theological free marketeers was to be so impassioned in the 1970s and 1980s, when the policies based on this marriage were no longer protected by economic success. Men like the Austrian economist Friedrich von Hayek (1899–1992) had never been

pragmatists, ready (if reluctant) to be persuaded that economic activities which interfered with *laissez-faire* worked; though of course they denied, with subtle arguments, that they could work. They were believers in the equation 'Free Market = Freedom of the Individual' and consequently condemned any departure from it as, to quote the title of his 1944 book, '*The Road to Serfdom*'. They had stood by the purity of the market in the Great Slump. They continued to condemn the policies which made the Golden Age golden, as the world grew richer and capitalism (plus political liberalism) flourished again on the basis of mixing markets and governments. But between the 1940s and the 1970s nobody listened to such Old Believers.

Nor can we doubt that capitalism was deliberately reformed, largely by the men who were in a position to do so in the USA and Britain, during the last war years. It is a mistake to suppose that people never learn from history. The inter-war experience, and especially the Great Slump, had been so catastrophic that nobody could possibly dream, as plenty of men in public life had done after the First World War, of returning as soon as possible to the time before the air-raid sirens had begun to sound. All the men (women were hardly yet accepted into the first division of public life) who sketched out what they hoped would be the post-war principles of the world economy and the future of the global economic order, had lived through the Great Slump. Some, like J.M. Keynes, had been in public life since before 1914. And if the economic memory of the 1930s was not enough to sharpen their appetite for reforming capitalism, the fatal political risks of not doing so were patent to all who had just fought Hitler's Germany, the child of the Great Slump, and were confronted with the prospect of communism and Soviet power advancing westwards across the ruins of capitalist economies that did not work.

Four things seemed clear to these decision-makers. The inter-war catastrophe, which must on no account be allowed to return, had been due largely to the breakdown of the global trading and financial system and the consequent fragmentation of the world into would-be autarchic national economies or empires. The global system had once been stabilized by the hegemony, or at least the centrality of the British economy and its currency, the pound sterling. Between the wars Britain and sterling were no longer strong enough to carry this load, which could now only be taken over by the USA and the dollar. (The conclusion, naturally, aroused more genuine enthusiasm in Washington than elsewhere.) Third, the Great Slump had been due to the failure of the unrestricted free market. Henceforth the market would have to be supplemented by, or to work within the framework of, public planning

and economic management. Finally, for social and political reasons, mass unemployment must not be allowed to return.

Decision-makers outside the Anglo-Saxon countries could do little about the reconstruction of the world trading and financial system, but found the rejection of the old free market liberalism congenial enough. Strong state-guidance and state-planning in economic matters were not new in several countries, from France to Japan. Even the state ownership and management of industries was familiar enough, and had been widely extended in Western countries after 1945. It was in no sense a particular issue between socialists and anti-socialists, although the general leftward swing of wartime Resistance politics gave it more prominence than it would have had before the war, as for instance in the French and Italian Constitutions of 1946–47. Thus, even after fifteen years of socialist government, Norway in 1960 had a proportionately (and of course absolutely) smaller public sector than West Germany, which was not a country given to nationalization.

As for the socialist parties and labour movements which were so prominent in Europe after the war, they fitted in readily with the new reformed capitalism, because for practical purposes they had no economic policy of their own, except for the communists, whose policy consisted in gaining power and then following the model of the USSR. The pragmatic Scandinavians left their private sectors intact. The British Labour government of 1945 did not, but did nothing whatever to reform it, and showed a lack of interest in planning that was quite startling, especially when contrasted with the enthusiastic planned modernisation of contemporary (and non-socialist) French governments. In effect, the Left concentrated on improving the conditions of their working-class constituencies and social reforms for this purpose. Since they had no alternative solutions except to call for the abolition of capitalism, which no social-democratic government knew how to, or tried to, abolish, they had to rely on a strong wealth-creating capitalist economy to finance their aims. In effect, a reformed capitalism which recognized the importance of labour and social-democratic aspirations suited them well enough.

In short, for a variety of reasons the politicians, officials and even many of the businessmen of the post-war West were convinced that a return to *laissez-faire* and the unreconstructed free market were out of the question. Certain policy objectives – full employment, the containment of communism, the modernization of lagging or declining or ruined economies – had absolute priority and justified the strongest government presence. Even regimes dedicated to economic and political liberalism now could, and had to, run their economies in ways which would once

have been rejected as 'socialist'. After all, that is how Britain and even the USA had run their war-economies. The future lay with the 'mixed economy'. Though there were moments when the old orthodoxies of fiscal rectitude, stable currencies and stable prices still counted, even these were no longer absolutely compelling. Since 1933 the scarecrows of inflation and deficit finance no longer kept the birds away from the economic fields, but the crops still seemed to grow.

These were not minor changes. They led a US stateman of ironclad capitalist credentials – Averell Harriman – in 1946 to tell his countrymen: 'People in this country are no longer scared of such words as "planning"... people have accepted the fact the government has got to plan as well as individuals in this country' (Maier, 1987, p. 129). They made it natural for a champion of economic liberalism and admirer of the US economy, Jean Monnet (1888–1979) to become a passionate backer of French economic planning. They turned Lionel (Lord) Robbins, a free market economist who had once defended orthodoxy against Keynes and run a seminar jointly with Hayek at the London School of Economics, into a director of the semi-socialist British war economy. For thirty years or so there was a consensus among 'western' thinkers and decision-makers, notably in the USA, which determined what other countries on the non-communist side could do, or rather what they could not do. All wanted a world of rising production, growing foreign trade, full employment, industrialization and modernization, and all were prepared to achieve it, if need be, through systematic government control and the management of mixed economies, and by co-operating with organized labour movements so long as they were not communist. The Golden Age of capitalism would have been impossible without this consensus that the economy of private enterprise ('free enterprise' was the preferred name)* needed to be saved from itself to survive.

However, though capitalism certainly reformed itself, we must make a clear distinction between the general readiness to do the hitherto unthinkable and the actual effectiveness of the specific new recipes which the chefs of the new economic restaurants were creating. This is hard to judge. Economists, like politicians, are always inclined to put down success to the sagacity of their policies, and, during the Golden Age,

* The word 'capitalism', like 'imperialism', was avoided in public discourse, since it had negative associations in the public mind. Not until the 1970s do we find politicians and publicists proudly declaring themselves 'capitalist', slightly anticipated from 1965 in the motto of the business magazine *Forbes* which, reversing a jargon phrase of American communists, began to describe itself as a 'capitalist tool'.

when even weak economies like the British flourished and grew, there seemed plenty of scope for self-congratulation. Still, deliberate policy undoubtedly scored some striking successes. In 1945–46 France, for instance, set out quite consciously on a course of economic planning to modernize the French Industrial economy. This adaptation of Soviet ideas to a capitalist mixed economy must have had some effect, since between 1950 and 1979 France, hitherto a by-word for economic retardation, caught up more successfully than any other of the chief industrial countries with US productivity, more so even than Germany (Maddison, 1982, p. 46). Nevertheless, we must leave the economists, a notably contentious tribe, to argue out the merits and demerits and the efficacy of the various policies of the various governments (mostly associated with the name of J.M. Keynes, who had died in 1946).

IV

The difference between broad intention and detailed application is particularly clear in the reconstruction of the international economy, for here the 'lesson' of the Great Slump (the word constantly appears in the discourse of the 1940s) were at least partly translated into concrete institutional arrangements. US supremacy was, of course, a fact. The political pressure for action came from Washington, even when many of the ideas and initiatives came from Britain, and where opinions differed, as between Keynes and the American spokesman Harry White,* over the new International Monetary Fund (IMF), the US view prevailed. Yet the original plan for the new liberal economic world order envisaged it as part of a new international political order, also planned during the last war years as the United Nations, and it was not until the original model of the UN collapsed in the Cold War that the only two international institutions actually set up under the Bretton Woods Agreements of 1944, the World Bank ('International Bank for Reconstruction and Development') and the IMF, both still in existence, became *de facto* subordinated to US policy. They were to foster long-term international investment and maintain exchange stability as well dealing with balance-of-payments problems. Other points on the international programme did not generate special institutions (e.g. for controlling the price of primary commodities and for international measures to maintain full employment), or were

* Ironically, White later became a victim of the US witch-hunt as an alleged secret Communist Party sympathiser.

only incompletely implemented. The proposed International Trade Organization ended up as the much more modest General Agreement on Tariffs and Trade (GATT), a framework for reducing trade barriers by periodic bargaining.

In short, insofar as the planners of the brave new world tried to construct a set of working institutions to give their projects reality, they failed. The world did not emerge from the war in the shape of a working international system of multilateral free trade and payments, and the American moves to establish it broke down within two years of victory. And yet, unlike the United Nations, the international system of trade and payments worked, though not in the way originally predicted or intended. In practice the Golden Age was the era of free trade, free capital movements and stable currencies that had been in the minds of the wartime planners. No doubt this was due primarily to the overwhelming economic dominance of the USA and of the dollar, which functioned all the better as a stabilizer because it was linked to a specific quantity of gold until the system broke down in the late 1960s and early 1970s. One must constantly bear in mind that in 1950 the USA alone contained 60 per cent or so of all the capital stock of all the advanced capitalist countries, produced 60 per cent or so of all their output, and even at the peak of the Golden Age (1970) still held over 50 per cent of the total capital stock of all these countries and produced almost half their output (Armstrong, Glyn, Harrison, 1991, p. 151).

It was also due to the fear of communism. For, contrary to American convictions, the chief obstacle to a free-trading international capitalist economy was not the protectionist instincts of foreigners, but the combination of traditional US high tariffs at home and the drive for a vast expansion of American exports, which the wartime planners in Washington regarded as 'essential to the attainment of full and effective employment in the USA (Kolko, 1969, p. 13). Aggressive expansion was plainly in the minds of American policy-makers as soon as the war was over. It was the Cold War which encouraged them to take a longer view, by persuading them that helping their future competitors to grow as rapidly as possible was politically urgent. It has even been argued that, in this manner, the Cold War was the major engine of the great global boom (Walker, 1993). This is probably an exaggeration, but the gigantic largesse of Marshall Aid (see pp. 240–1) certainly helped the modernization of such recipients as wanted to use it for this purpose – as Austria and France did systematically – and American aid was decisive in speeding up the transformation of West Germany and Japan. No doubt these two countries would have become great economic powers in any

case. The mere fact that, as defeated states, they were not masters of their foreign policy gave them an advantage, since it did not tempt them into pouring more than a minimum of resources into the barren hole of military spending. Nevertheless, we have only to ask what would have happened to the German economy if its recovery had depended on the Europeans, who feared its revival. How fast would the Japanese economy have recovered, if the USA had not found itself building up Japan as the industrial base for the Korean War and again the Vietnam War after 1965? America funded the doubling of Japan's manufacturing output between 1949 and 1953, and it is no accident that 1966–70 were the years of peak Japanese growth – no less than 14.6 per cent per annum. The role of the Cold War is thus not to be underestimated, even if the long-term economic effect of the vast diversion of resources by states into competitive armaments was damaging. In the extreme case of the USSR it was probably fatal. However, even the USA traded off military strength against growing economic weakness.

A capitalist world economy thus developed round the USA. It raised fewer obstacles to the international movements of factors of production than any other since the mid-Victorian period, with one exception: international migration was slow to recover from inter-war strangulation. This was partly an optical illusion. The great Golden Age boom was fuelled not only by the labour of the formerly unemployed, but by vast flows of internal migration – from country to city, from farming (especially out of regions of poor upland soils), from poorer to richer regions. So Italian southerners flooded into the factories of Lombardy and Piedmont and four hundred thousand Tuscan share-croppers left their holdings in twenty years. The industrialization of eastern Europe was essentially such a process of mass migration. Moreover, some of these internal migrants were actually international migrants, except that they had originally arrived in the receiving country, not as seekers for employment, but as part of the terrible mass exodus of refugees and expelled populations after 1945.

Nevertheless, it is notable that in an era of spectacular economic growth and increasing labour shortage, and in Western world dedicated to free movements in the economy, governments resisted free immigration, and, when they found themselves actually permitting it (as in the case of the Caribbean and other inhabitants of the British Commonwealth, who had the right to settle because they were legally British), put a stop to it. In many cases such immigrants, mostly from the less developed Mediterranean countries, were only allowed conditional and temporary residence, so that they could be easily re-patriated, although the expansion of the European Economic Community to include several emigrant

countries (Italy, Spain, Portugal, Greece) made this harder. Still, by the early 1970s about seven-and-a-half millions had migrated into the developed European countries (Potts, 1990, pp. 146–47). Even in the Golden Age immigration was a politically sensitive issue. In the difficult decades after 1973 it was to lead to a sharp rise in public xenophobia in Europe.

However, the world economy in the Golden Age remained *international* rather than *transnational*. Countries traded with each other to an ever greater extent. Even the USA, which had been largely self-supplying before the Second World War, quadrupled its exports to the rest of the world between 1950 and 1970, but it also became a massive importer of consumer goods from the late 1950s on. In the late 1960s it even began to import automobiles (Block, 1977, p. 145). Yet, though the industrial economies increasingly bought and sold each others' production, the bulk of their economic activities remained home-centred. At the peak of the Golden Age the USA exported only just under 8 per cent of its GDP, and, more surprisingly, export-oriented Japan only a little more (Marglin and Schor, p. 43, Table 2.2).

Nevertheless, an increasingly *transnational* economy began to emerge, especially from the 1960s on, that is to say, a system of economic activities for which state territories and state frontiers are not the basic framework, but merely complicating factors. In the extreme case, a 'world economy' comes into existence which actually has no specifiable territorial base or limits, and which determines, or rather sets limits to, what even the economies of very large and powerful states can do. Some time in the early 1970s such a transnational economy became an effective global force. It continued to grow, if anything more rapidly than before, during the Crisis Decades after 1973. Indeed its emergence largely created the problems of these decades. Of course it went hand in hand with a growing *internationalization*. Between 1965 and 1990 the percentage of the world's product which went in exports was to double (World Development, 1992, p. 235).

Three aspects of this transnationalization were particularly obvious: transnational firms (often known as 'multinationals'), the new international division of labour and the rise of offshore finance. The last of these was not only one of the earliest forms of transnationalism to develop, but also the one which demonstrates most vividly the way in which the capitalist economy escaped from national, or any other, control.

The term 'offshore' entered civilian public vocabulary some time in the 1960s to describe the practice of registering the legal seat of businesses in some, usually tiny and fiscally generous territory which permitted entrepreneurs to avoid the taxes and other constraints imposed on them

by their own country. For every serious state or territory, however committed to the freedom of profit-making, had by the mid-century established certain controls and restrictions on the conduct of legitimate business in the interests of its people. A suitably complex and ingenious combination of the legal loopholes in the corporate and labour laws of kindly mini-territories – for instance Curaçao, the Virgin Islands and Liechtenstein – could do wonders for a firm's balance-sheet. For 'the essence of offshoreness lies in turning an enormous number of loopholes into a viable but unregulated corporate structure' (Raw, Page and Hodgson, 1972, p. 83). For obvious reasons offshoreness lent itself particularly to financial transactions, although Panama and Liberia had long subsidized their politicians by the income from registering the merchant ships of other countries whose owners found their native labour and safety regulations too onerous.

Sometime in the 1960s a little ingenuity turned the old international financial centre, the City of London, into a major global offshore centre by the invention of 'Eurocurrency' i.e. mainly 'Eurodollars'. Dollars held on deposit in non-US banks and not repatriated, mainly to avoid the restrictions of US banking law, became a negotiable financial instrument. These free-floating dollars, accumulating in huge quantities thanks to the growing American investments abroad and the enormous political and military expenditures of the US government, became the foundation of an entirely uncontrolled global market, mainly in short-term loans. Its rise was quite dramatic. The net Eurocurrency market rose from perhaps fourteen billion dollars in 1964 to perhaps 160 billions in 1973 and almost five hundred billions five years later, when this market became the main mechanism for recycling the Klondike of oil-profits which the OPEC countries suddenly found themselves wondering how to spend and invest (see p. 473). The USA was the first country to find itself at the mercy of these vast, multiplying floods of unattached capital that washed round the globe from currency to currency, looking for quick profits. Eventually all governments were to be its victims, since they lost control over exchange rates and the world money supply. By the early 1990s even joint action by leading central banks proved impotent.

That firms based in one country, but operating in several, should expand their activities, was natural enough. Nor were such 'multinationals' new. The US corporations of this kind raised their foreign affiliates from about seven-and-a-half thousand in 1950 to over twenty-three thousand in 1966, mostly in western Europe and the western hemisphere (Spero, 1977, p. 92). However, increasingly other countries firms followed. The German chemical corporation Hoechst, for instance, estab-

lished or associated itself with 117 plants in forty-five countries, in all but six cases after 1950 (Fröbel, Heinrichs, Kreye, 1986, Tabelle IIIA, p. 281 ff.). The novelty lay rather in the sheer scale of operations of these transnational entities. By the early 1980s US transnational corporations accounted for over three quarters of their country's exports and almost half its imports, and such corporations (both British and foreign) were responsible for over 80 per cent of British exports (UN Transnational, 1988, p. 90).

In one sense these are irrelevant figures, since the main function of such corporations was 'to internalize markets across national frontiers', i.e. to make themselves independent of the state and its territory. Much of what the statistics (which are still basically collected country by country) show as imports or exports is in fact *internal* trade within a transnational entity such as General Motors, which operated in forty countries. The ability to operate in this manner naturally reinforced the tendency for capital to concentrate, familiar since Karl Marx. By 1960 it was already estimated that the sales of the two hundred largest firms in the (non-socialist) world were the equivalent of 17 per cent of the GNP of that sector of the world, and by 1984 they were said to amount to 26 per cent.* Most of such transnationals were based in substantial 'developed' states. In fact, 85 per cent of the 'big 200' were based in the USA, Japan, Britain and Germany, with firms from eleven other countries making up the rest. Yet, even if the links of such super-giants with their native governments were likely to close, by the end of the Golden Age it is doubtful whether any of them, except the Japanese ones and some essentially military firms, could be confidently described as *identified* with their government's or nation's interests. It was no longer as clear as it had once seemed that, in the words of a Detroit tycoon who entered the US government, 'What's good for General Motors is good for the USA'. How could it be, when their operations in the home country were merely those in one market of the hundred in which, say, Mobil Oil was active, or the 170 in which Daimler-Benz was present? Business logic would force an international oil firm to calculate its strategy and policy towards its native country in exactly the same way as towards Saudi Arabia or Venezuela, namely in terms of profit and loss on one hand, of the comparative power of company and government on the other.

The tendency for business transactions and business enterprises – and by no means only those of a few score of giants – to emancipate

* Such estimates are to be used with care, and are best treated simply as orders of magnitude.

themselves from the traditional nation state, became even more marked as industrial production began, slowly at first but with growing speed, to move out of the European and North American countries that had pioneered industralization and capitalist development. These countries remained the powerhouse of Golden Age growth. In the middle 1950s the industrial countries had sold about three-fifths of their manufactured exports to each other, in the early 1970s, three quarters. However, then things began to change. The developed world began to export somewhat more of its manufactures to the rest of the world, but – more significantly – the Third World began to export manufactures to the developed industrial countries on a substantial scale. As the traditional primary exports of backward regions lost ground (except, after the OPEC revolution, mineral fuels) they began, patchily but rapidly, to industralize. Between 1970 and 1983 the Third World's share of global industrial exports, hitherto stable at about 5 per cent, more than doubled (Fröbel et al, 1986, p. 200).

A new international division of labour therefore began to undermine the old one. The German firm Volkswagen set up car factories in Argentina, Brazil (three plants), Canada, Ecuador, Egypt, Mexico, Nigeria, Peru, South Africa and Yugoslavia – as usually, mainly after the mid-1960s. New Third-World industries supplied not only the swelling local markets, but also the world market. They could do this, both by exporting articles completely produced by local industry (such as textiles, most of which had by 1970 already emigrated from the old countries to the 'developing' ones), and *by becoming part of a transnational process of manufacture.*

This was the decisive innovation of the Golden Age, though it did not fully come into its own until later. It could not have happened but for the revolution in transport and communication, which made it possible and economically feasible to split the production of a single article between, say, Houston, Singapore and Thailand, air-freighting the partly completed product between these centres and controlling the entire process centrally by modern information technology. Major electronics producers began to globalize themselves from the mid-1960s. The line of production now moved not through gigantic hangars on a single site, but across the globe. Some of them stopped in the extra-territorial 'free production zones' or offshore plants which now began to spread, overwhelmingly in poor countries with cheap and mainly young women's labour, another and new device for escaping the control of a single state. Thus one of the earliest, Manaus, deep in the Amazonian jungle, manufactured textiles, toys, paper goods, electronics and digital watches for US, Dutch and Japanese firms.

All this produced a paradoxical change in the political structure of the

world economy. As the globe became its real unit, the national economies of the large states found themselves giving way to such offshore centres, mostly situated in the small or tiny mini-states which had conveniently multiplied as the old colonial empires fell apart. At the end of the Short Twentieth Century the world, according to the World Bank, contained seventy-one economies with populations of less than two-and-a-half millions (eighteen of them with populations of less than 100,000), that is to say, two fifths of all the political units officially treated as 'economies' (World Development, 1992). Until the Second World War such units had been regarded as economic jokes, and indeed not real states at all.* They were and are certainly incapable of defending their nominal independence in the international jungle, but in the Golden Age it became evident that they could flourish as well as, and sometimes better than, large national economies by providing services directly to the global economy. Hence the rise of new city states (Hong Kong, Singapore), a form of polity last seen to flourish in the Middle Ages; patches of Persian Gulf desert were transformed into major players on the global investment market (Kuwait), and of the many offshore refuges from state law.

This situation was to provide the multiplying ethnic movements of late twentieth century nationalism with unconvincing arguments for the viability of an independent Corsica or Canary Islands. Unconvincing, because the only independence achieved by secession was that of separation from the nation state with which such territories had previously been associated. Economically, separation would almost certainly make them more dependent on the transnational entities which increasingly determined such matters. The most convenient world for multinational giants is one populated by dwarf states or no states at all.

V

It was natural that industry should shift from high-cost to cheap labour locations as soon as this became technically possible and cost-effective, and the (hardly surprising) discovery that some non-white labour forces were at least as skilled and educated as white ones was to be an additional bonus for high-tech industries. Yet there was a particularly convincing reason why the Golden Age boom should lead to a shift away from the core countries of the old industralization. This was the peculiar 'Keyne-

* Not until the early 1990s were the ancient statelets of Europe – Andorra, Liechtenstein, Monaco, San Marino – treated as potential members of the United Nations.

sian' combination of economic growth in a capitalist economy based on the mass consumption of a fully employed and increasingly well-paid and well-protected labour force.

This combination was, as we have seen, a political construct. It rested on an effective policy consensus between Right and Left in most 'Western' countries, the extreme fascist-ultranationalist right having been eliminated from the political scene by the Second World War, the extreme communist left by the Cold War. It was also based on a tacit or explicit consensus between employers and labour organizations to keep labour demands within limits that did not eat into the profits, and the future prospects of profits high enough to justify the huge investments without which the spectacular growth of Golden Age labour productivity could not have taken place. Indeed, in the sixteen most industrial of the market economies investment grew at an annual rate of 4.5 per cent, about three times as fast as during the years from 1870 to 1913, even allowing for the rather less impressive rate in North America, which pushed the general average down (Maddison, 1982, Table 5.1, p. 96). *De facto*, the arrangement was triangular, with governments, formally or informally, presiding over the institutionalized negotiations between capital and labour, who were now habitually described, at least in Germany, as the 'social partners'. After the end of the Golden Age these arrangements were savagely assailed by the rising free-market theologians under the name of 'corporatism', a word which had half-forgotten and entirely irrelevant associations with inter-war fascism (see p. 114).

This was a deal acceptable to all sides. Employers, who hardly minded high wages during a long boom with high profits, welcomed the predictability which made forward planning easier. Labour got regularly rising wages and fringe benefits, and a steadily extended and more generous Welfare State. Government got political stability, weakening communist parties (except in Italy) and predictable conditions for the macro-economic management which all states now practised. And the economies of the industrial capitalist countries did splendidly, if only because for the first time (outside North America and, perhaps Australasia) an economy of mass consumption came into existence on the basis of full employment and regularly rising real incomes, buttressed by social security, which in time was paid for by rising public revenues. Indeed, in the euphoric 1960s some incautious governments went so far as to guarantee the unemployed – who were then few – 80 per cent of their former wage.

Until the late 1960s the politics of the Golden Age reflected this state of affairs. The war was followed everywhere by strongly reformist

governments, Rooseveltian in the USA, socialist-dominated or social-democratic in virtually all ex-belligerent Western Europe except in occupied West Germany (where there were neither independent institutions nor elections until 1949). Even the communists were in government until 1947 (see p. 238). The radicalism of the Resistance years affected even the emerging conservative parties – the West German Christian Democrats thought capitalism was bad for Germany as late as 1949 (Leaman, 1988) – or at least made it hard to swim against the tide. The British Conservative party claimed credit for the reforms of the Labour government of 1945.

Somewhat surprisingly, reformism soon retreated, though not the consensus. The great boom of the 1950s was presided over, almost everywhere, by governments of moderate conservatives. In the USA (from 1952) in Britain (from 1951), in France (except for brief episodes of coalition), West Germany, Italy and Japan, the Left was entirely out of power, though Scandinavia remained social democratic and socialist parties were in government coalitions in other small countries. There can be no doubt about the recession of the Left. This was not due to any massive loss of support by the socialists or even the communists in France and Italy where they were the major working-class party.* Nor, except perhaps in Germany, where the Social Democratic Party (SPD) was 'unsound' on German unity, and in Italy where it remained allied to the communists, was it due to the Cold War. Everybody, except for the communists, was reliably anti-Russian. The mood of the booming decade was against the Left. This was not a time for change.

In the 1960s the centre of gravity of the consensus shifted towards the Left; perhaps partly due to the increasing retreat of economic liberalism before Keynesian management, even in anti-collectivist hold-outs like Belgium and West Germany, perhaps in part because the elderly gentlemen who had presided over the stabilization and revival of the capitalist system left the scene – Dwight Eisenhower (born 1890) in 1960, Konrad Adenauer (b. 1876) in 1965, Harold Macmillan (b. 1894) in 1964. Eventually (1969) even the great General de Gaulle (b. 1890) departed. A certain rejuvenation of politics took place. In fact, the peak years of the Golden Age seemed to be as congenial to the moderate Left, once again in government in many west European states, as the 1950s had been

* However, all Left parties were electoral minorities, though large ones. The highest vote scored by such a party was 48.8 per cent by the British Labour Party in 1951, ironically in an election won by the Conservatives with a slightly smaller vote, thanks to the vagaries of the British electoral system.

uncongenial. This drift to the Left was partly due to electoral shifts, as in West Germany, Austria and Sweden, and anticipated even more striking shifts in the 1970s and early 1980s, when both the French socialists and the Italian communists reached their all-time peaks, but essentially voting patterns remained stable. Electoral systems exaggerated relatively minor shifts.

However, there is a clear parallelism between the shift to the Left and the most significant public developments of the decade, namely the appearance of welfare states in the literal meaning of the word, that is to say states in which welfare expenditures – income maintenance, care, education, etc. – became the *greater part* of total public expenditure, and people engaged in welfare activities formed the largest body of all public employment, e.g. in the middle of the 1970s 40 per cent in Britain and 47 per cent in Sweden (Therborn, 1983). The first welfare states in this sense appeared round 1970. Of course the decline of military expenditure during the détente years automatically raised the proportion of spending under other headings, but the example of the USA shows that there was a real change. In 1970, while the Vietnam War was at its height, the number of school employees in the USA for the first time became significantly larger than the number of 'military and civilian defense personnel' (Statistical History 1976, II, pp. 1102, 1104, 1141). By the end of the 1970s all advanced capitalist states had become such 'welfare states', with six states spending more than 60 per cent of total public outlays for welfare (Australia, Belgium, France, West Germany, Italy, Netherlands). This was to produce considerable problems after the end of the Golden Age.

Meanwhile the politics of 'developed market economies' seemed tranquil, if not somnolent. What was there to get impassioned about, except communism, the dangers of nuclear war and the crises imported into their affairs by imperial activities abroad, such as the Suez adventure of 1956 in Britain, the Algerian war in France (1954–61) and, after 1965, the Vietnam War in the USA? That was the reason why the sudden and almost worldwide spurt of student radicalism in and around 1968 took politicians and older intellectuals so much by surprise.

It was a sign that the Golden Age balance could not last. Economically this balance depended on a coordination between the growth of productivity and earnings which kept profits stable. A sag in the continuous rise of productivity and/or a disproportionate rise in wages would result in destabilization. It depended on what had been so dramatically absent between the wars, a balance between the growth of production and the ability of consumers to buy it. Wages had to rise fast enough to keep the

market buoyant, but not fast enough to squeeze profits. But how to control wages in an era of labour shortage or, more generally, prices in a time of exceptionally booming demand? How, in other words, to control inflation, or at least keep it within bounds? Lastly, the Golden Age depended on the overwhelming political and economic dominance of the USA which acted – sometimes without meaning to – as the stabilizer and guarantor of the world economy.

In the course of the 1960s, all these showed signs of wear and tear. The hegemony of the USA declined and, as it slipped, the gold-dollar based world monetary system broke down. There were some signs of slow-down in labour productivity in several countries, and certainly signs that the great labour reservoir of internal migration which had fed the industrial boom was close to exhaustion. After twenty years, a new generation had become adult, for whom inter-war experience – mass unemployment, insecurity, stable or falling prices – were history and not part of experience. They had adjusted their expectations to the only experience of their age group, that of full employment and continuous inflation (Friedman, 1968, p. 11). Whatever the specific situation which triggered the 'worldwide wage explosion' at the end of the 1960s – labour shortage, growing efforts by employers to hold down real wages or, as in France and Italy, the great student rebellions, all of them rested on the discovery by a generation of workers who had got used to having or finding work, that the regular and welcome rises so long negotiated by their unions were actually much less than could be screwed out of the market. Whether or not we detect a return to class struggle in this recognition of market realities (as many in the post-1968 'new Left' held), there is no doubt about the striking change of mood between the moderation and calm of wage negotiations before 1968 and the last years of the Golden Age.

Since it was directly relevant to the way the economy worked, the shift in labour's mood was far more significant than the great burst of student unrest in and around 1968, though the students provided more dramatic material for the media and far more food for the commentators. The student rebellion was a phenomenon outside economics and politics. It mobilized a particular minority sector of the population, as yet barely recognized as a special group in public life, and – since most of its members were still being educated – largely outside the economy, except as purchasers of rock records: the (middle-class) youth. Its cultural significance was far greater than its political significance, which was fleeting – unlike analogous movements in Third World and dictatorial countries (see pp 332 and 444). Yet it served as a warning, a sort of

memento mori to a generation that half-believed it had solved the problems of Western society for good. The major texts of Golden Age reformism Crosland's *The Future of Socialism*; J.K. Galbraith's *The Affluent Society*; Gunnar Myrdal's *Beyond the Welfare State*; and Daniel Bell's *The End of Ideology*, all written between 1956 and 1960, rested on the presumption of the growing internal harmony of a society that was now basically satisfactory, if improvable, that is to say, on confidence in the economy of organized social consensus. That consensus did not survive the 1960s.

So 1968 was neither an end nor a beginning, but only a signal. Unlike the wage explosion, the collapse of the Bretton Woods international financial system in 1971, the commodities boom of 1972–3 and the OPEC oil crisis of 1973, it does not figure much in the explanation of economic historians about the end of the Golden Age. Its end was not quite unexpected. The expansion of the economy in the early 1970s, accelerated by a rapidly rising inflation, by massive rises in the world's money supplies and the vast American deficit, became hectic. In the economists' jargon, the system became 'overheated'. In the twelve months from July 1972, the real GDP in the OECD countries rose by 7.5 per cent, and real industrial production by 10 per cent. Historians who had not forgotten the way the great mid-Victorian boom ended, might well have wondered whether the system was not riding for a fall. They would have been right, though I do not think anyone predicted the fall of 1974, Nor, perhaps, took it as seriously as it turned out to be, for, though the GNP of the advanced industrial countries actually *dropped* substantially – such a thing had not happened since the war – people still thought of economic crises in terms of 1929, and there was no sign of catastrophe. As usual, the immediate reaction of shocked contemporaries, was to look for special reasons for the collapse of the old boom, 'an unusual bunching of unfortunate disturbances unlikely to be repeated on the same scale, the impact of which was compounded by some avoidable errors', to quote the OECD (McCracken, 1977, p. 14). The more simple-minded put it all down to the greed of the OPEC oil sheikhs. Any historian who puts major changes in the configuration of the world economy down to bad luck and avoidable accidents should think again. And this was a major change. The world economy did not recover its old stride after the crash. An era was at an end. The decades since 1973 were to be once again an age of crisis.

The Golden Age lost its gilt. Nevertheless, it had begun, indeed it had largely achieved the most dramatic, rapid and profound revolution in human affairs of which history has record. To this we must now turn.