

The Capitalist Golden Age

The Post WWII “Free World”
Real Economy

Domestic US Factors in Great Depression

- Steel production – leading sector of the late 19th century “second industrial revolution”, grew to meet demand for railways, port facilities, communications, industrial and civic construction, WWI weaponry and transport equipment
- Following the war, with much of global track laid, global trading and communications infrastructure emplaced, and construction booms waning, demand began to taper off
- By early 1930s steel production, with its huge economy of scale requirements, operated at around 50 percent capacity

Contd.

- US agricultural production expanded in response to rising prices and growing demand during WW1
- Wealth effects transmitted to construction + nascent auto industries
- Thus mid-1920s drop in demand for US produced farm commodities reverberated through economy
- Devastating impact on banks which had financed growth in agriculture
- Auto industry particularly vulnerable given uneven technological base + limited demand

International Causes of Great Depression

- Peculiar triangular flow of payments instituted by which private lenders coveting German assets lent Germany money to cover war reparations
- Private flows turned away from Europe by 1928 in favor of lucrative gains on Wall Street
- Net dollar outflows from US to Europe, Latin America and Asia plummeted from \$900 million in 1927-28 to \$86 million by 1929-31
- Dearth of global liquidity led to world-wide recession which exacerbated travails of US economy to create Great Depression

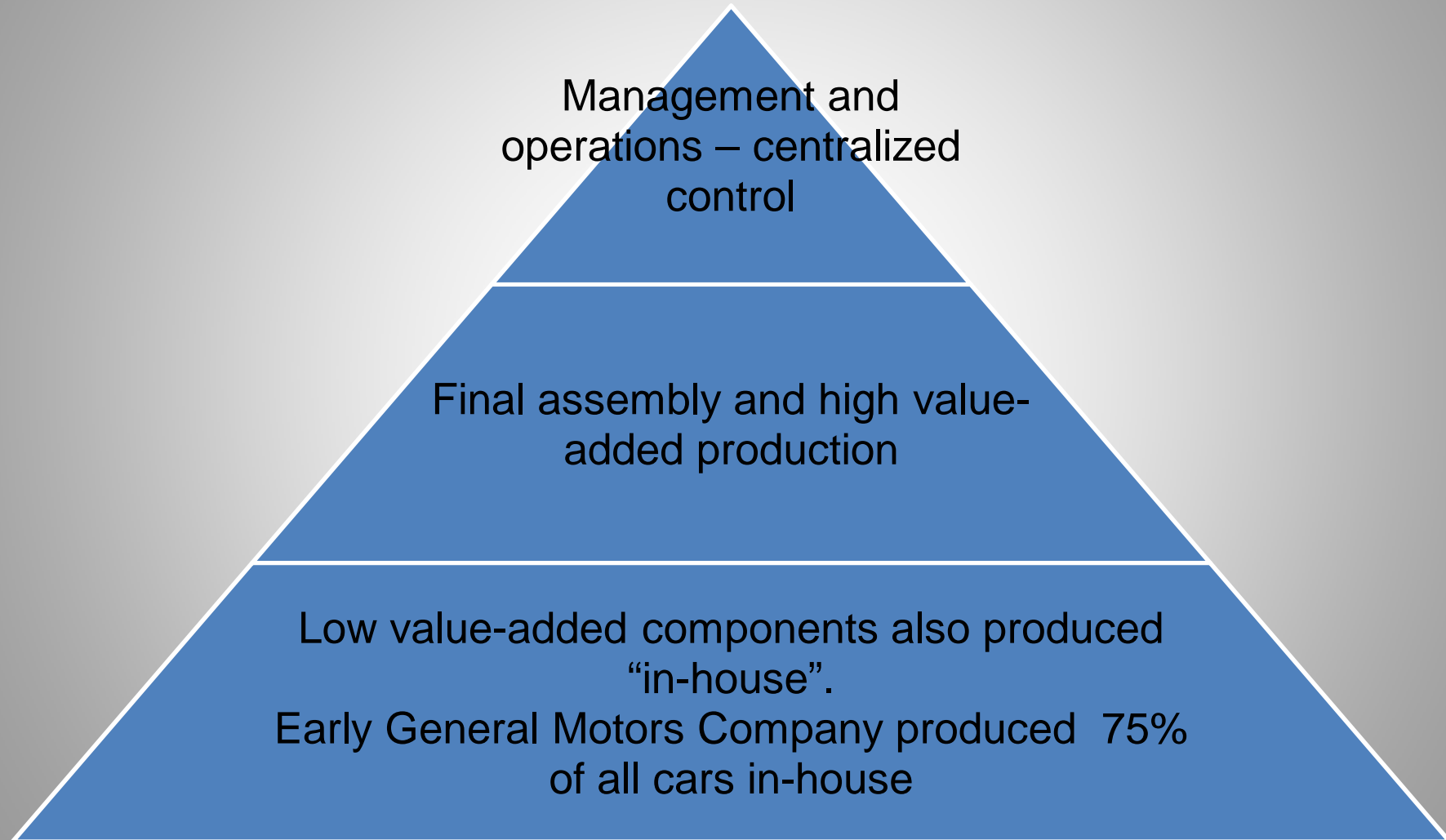
Making of Golden Age Economy: Automobiles

- Hard to imagine another production industry with the sheer material accouterment of automobiles – steel, rubber, glass, electronically operating production equipment and electronic components, machine tools, paint, upholstery, and plastics etc.
- Supportive infrastructure of roads, petroleum industry installations, service and repair facilities
- Backward and forward linkages running gamut from design and engineering to sales showrooms and marketing networks

New Business Model

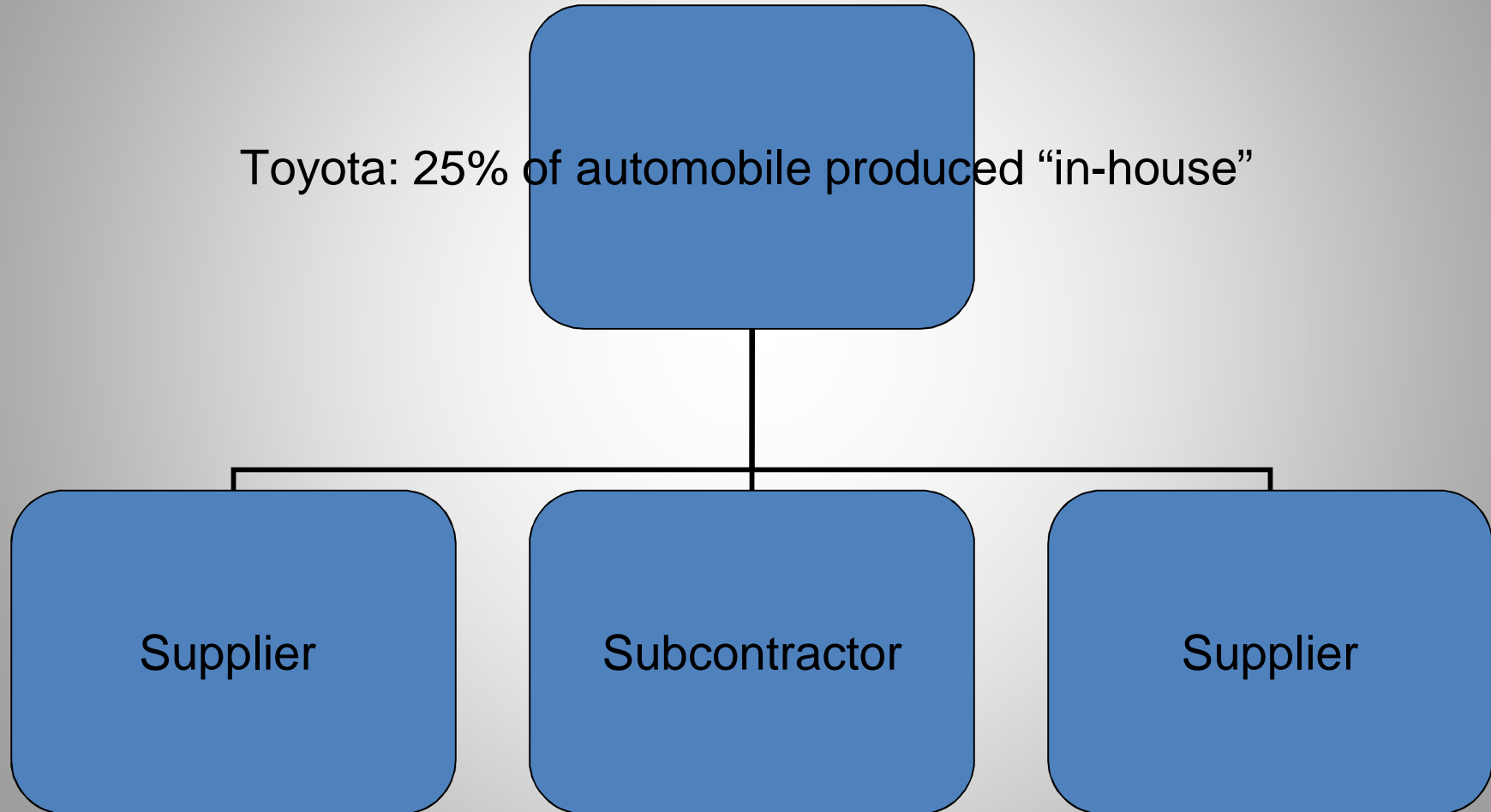
- Exemplified by US automobile companies new multinational corporations (MNCs) coordinated supply and distribution of thousands of standardized parts and components
- Integrated diverse operations running the gamut from research and product design through production and distribution to advertising and marketing
- Beyond automobiles MNCs sprang to predominance in industries ranging from chemicals and petroleum, agricultural machinery, transportation and construction equipment

Vertical Integration



Horizontal Integration

Toyota: 25% of automobile produced "in-house"



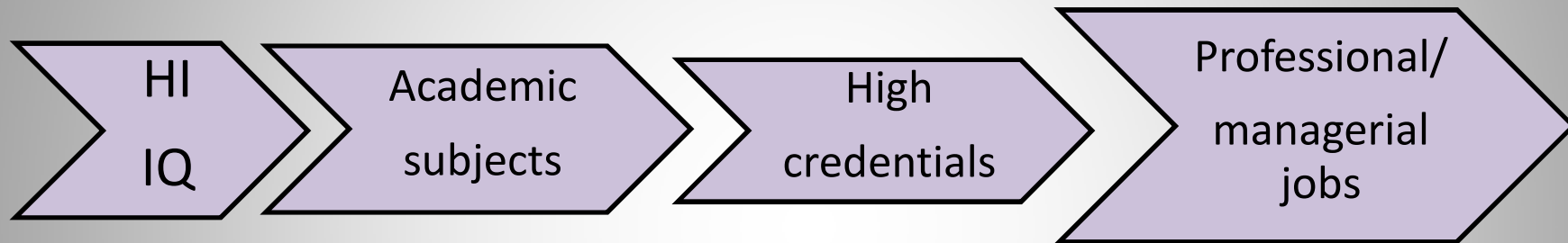
Class Accord Between Capital & Labor

- Recognition by capital that high wages for production work flip side to high throughput of industry – workers could buy consumer goods they made
- Growth of labor unions saw wages rise in relation to productivity gains
- Unions de-politicized – concerned with economic gain not political economic change

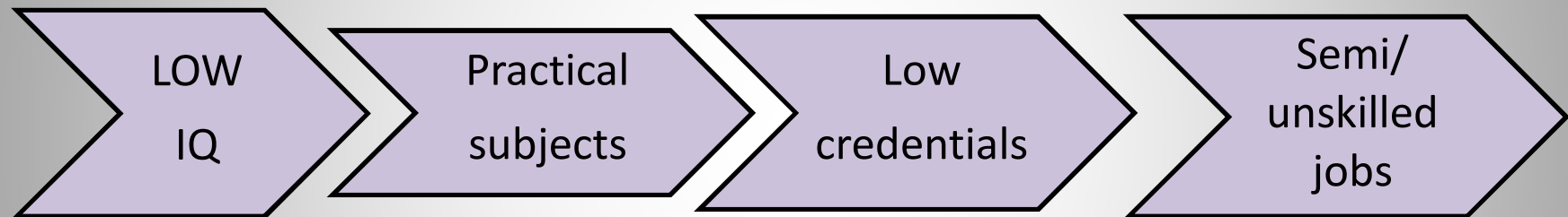
Industrial Foundations of Employment

- 100 jobs in manufacturing had created a further approximately 422 jobs attendant to them
- In the 1960s and 70s autos and related industries employed 1 in 6 Americans
- 100 jobs in the automobile industry create another 691 around it

Factory Model of Education: Track 1



Factory Model of Education: Track 2



Educational Expansion + Middle Class

- Growth of middle class – less able to maintain standing through inheritance and seeking status of “white collar” work – depended upon education to transmit “cultural capital” to offspring
- “Diploma disease” – use of qualifications by professional groups to restrict access led to demand for higher level of credentials
- Widening access to universities lowers the value of credentials in job competition

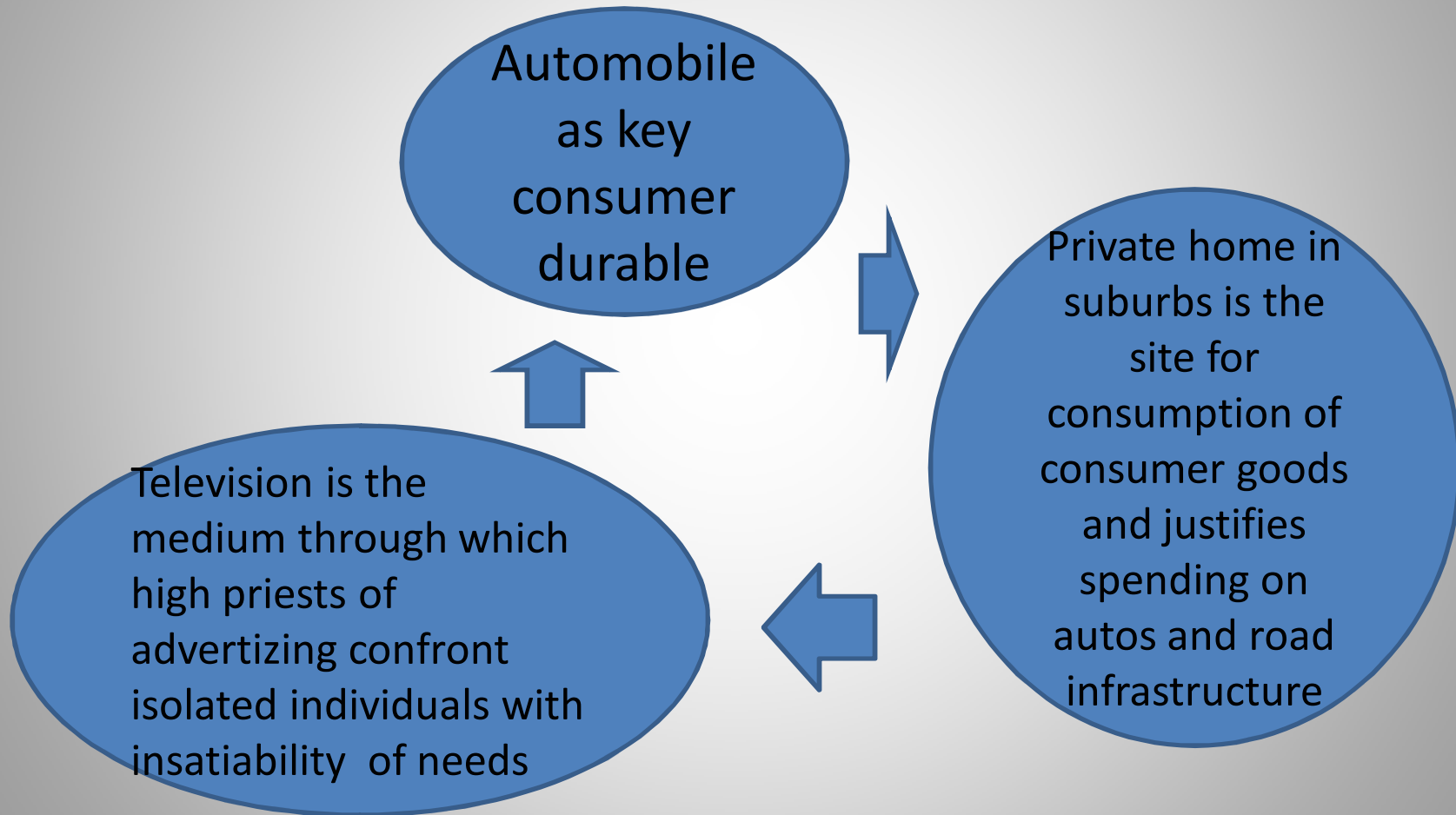
“Big Government” Social Democracy

- Economist John Maynard Keynes famously claimed that as household wealth increased the marginal propensity to consume fell
- Therefore when concern of economy is with maintaining effective demand – solution is income redistribution
- Entails – social wage – unemployment insurance, old age social security, public health insurance plans, social welfare, public education

Ideology of Ever-expanding Mass Consumption

- High throughput of consumer durable MNCs supported not only by government social wage but inculcation of new ideology
- Ideology of ever-expanding mass consumption equates happiness and personal fulfillment with consuming a diverse array of consumer durables and services
- Related ideology of hyper-individualism counters fact of large MNC collectivities and centralized collectivity of the Keynesian welfare/warfare state delivering “the goods” by forceful assertion of people’s seemingly unique individual tastes and consumption choices

Automobile – Suburbia – Television Complex

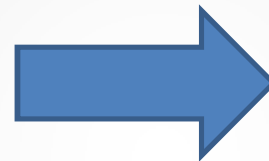


Advent of Macroeconomic Policy-Making

- Growing belief that governments have a policy role to play in supporting capital accumulation arises in the early 20th century
- Macroeconomic policy comes into its own in the post-WWII golden age economy of mass production and mass consumption
- Fiscal policy of countercyclical demand management along with social wage is flipside to high throughput of mass production

Keynesian Multiplier Effect

As businesses profit and workers receive wages both are able to pay more taxes which clears the government deficit.



Governments invest in public works and support of **social wage** during recession phase of the business cycle



Potentially unemployed workers continue to receive income as do many unemployed. These workers are a source of effective demand. Their purchasing of goods from the private sector keeps businesses from closing.



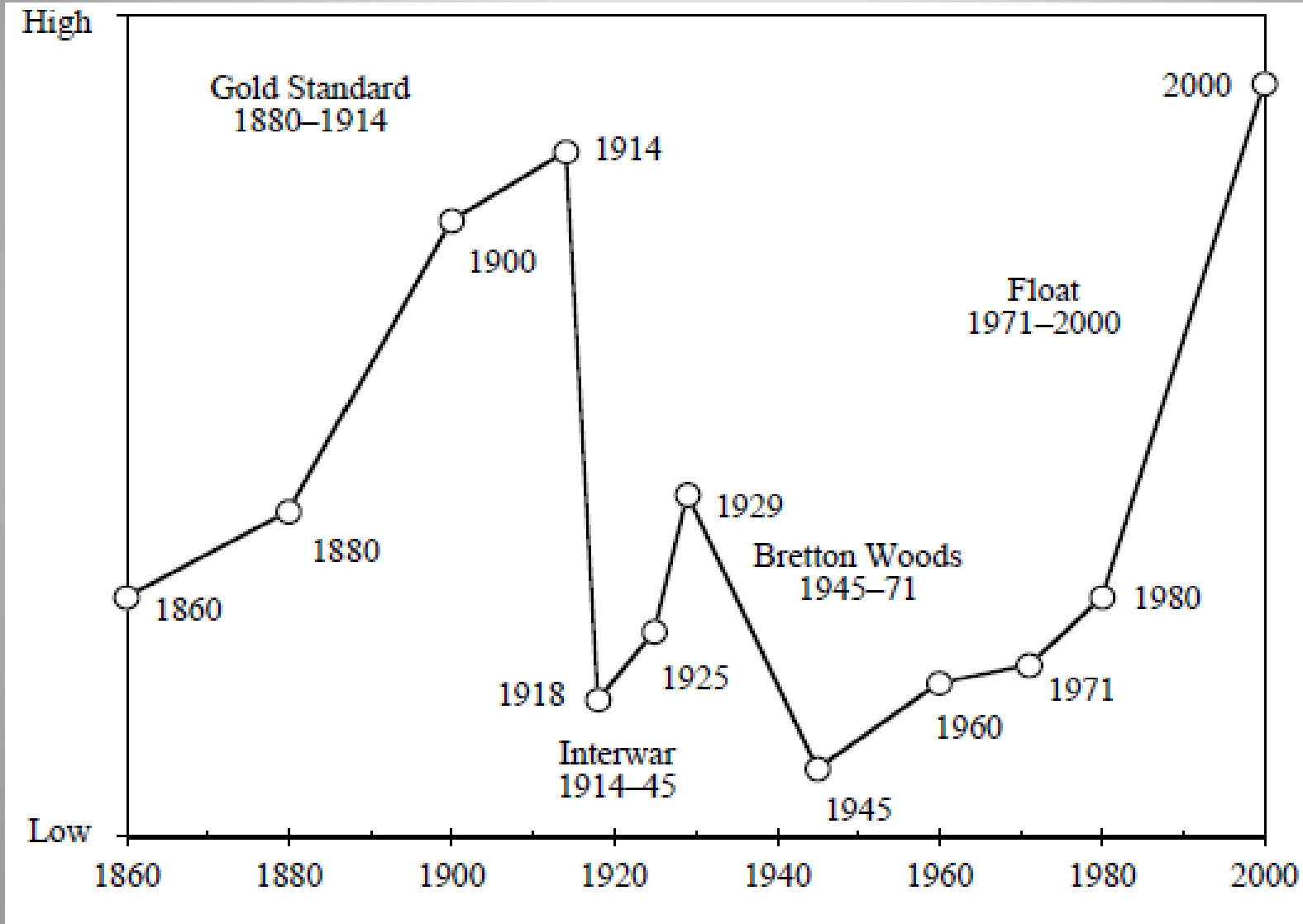
Bretton Woods Monetary System (BWMS)

- US dominant economic power – 65% of world gold reserves in Fort Knox – allies devise new international monetary order in 1944 – BWMS – US dollar to be principle world money
- The dollar price of gold becomes basis for fixing exchange rates between different national currencies
- The exchange rate of dollars to gold was \$35 = 1oz gold
- National currencies issued as fiat money ends seamlessness between domestic and international monetary system
- BWMS offers a “social contract” between nations – US allowed to satisfy global demand for its capital by means which strengthened its own industrial base and power
- Other countries received dollars necessary for participation in world economy
- BWMS mandated capital controls to allow domestic policy space for post-war reconstruction

“Impossibility Theorem”

Capital Mobility	Stable Exchange Rate	Monetary Policy Independence
Gold Standard	Gold Standard	XX
XX	Bretton Woods	Bretton Woods

Stylized View of Capital Mobility in Modern History



New International Policy Orientation of US to Build a “Free World”

1. “Cold War” and anti-communism to fashion *TRIAD* of North America/Western Europe/Japan centered Northeast Asian economy into 3 “showcase” economic growth poles of capitalism
2. Marshall Plan to reconstruct Western Europe
3. “Dodge Plan” to rebuild Japan
4. US exports new model of consumer capitalism to Western Europe and Japan

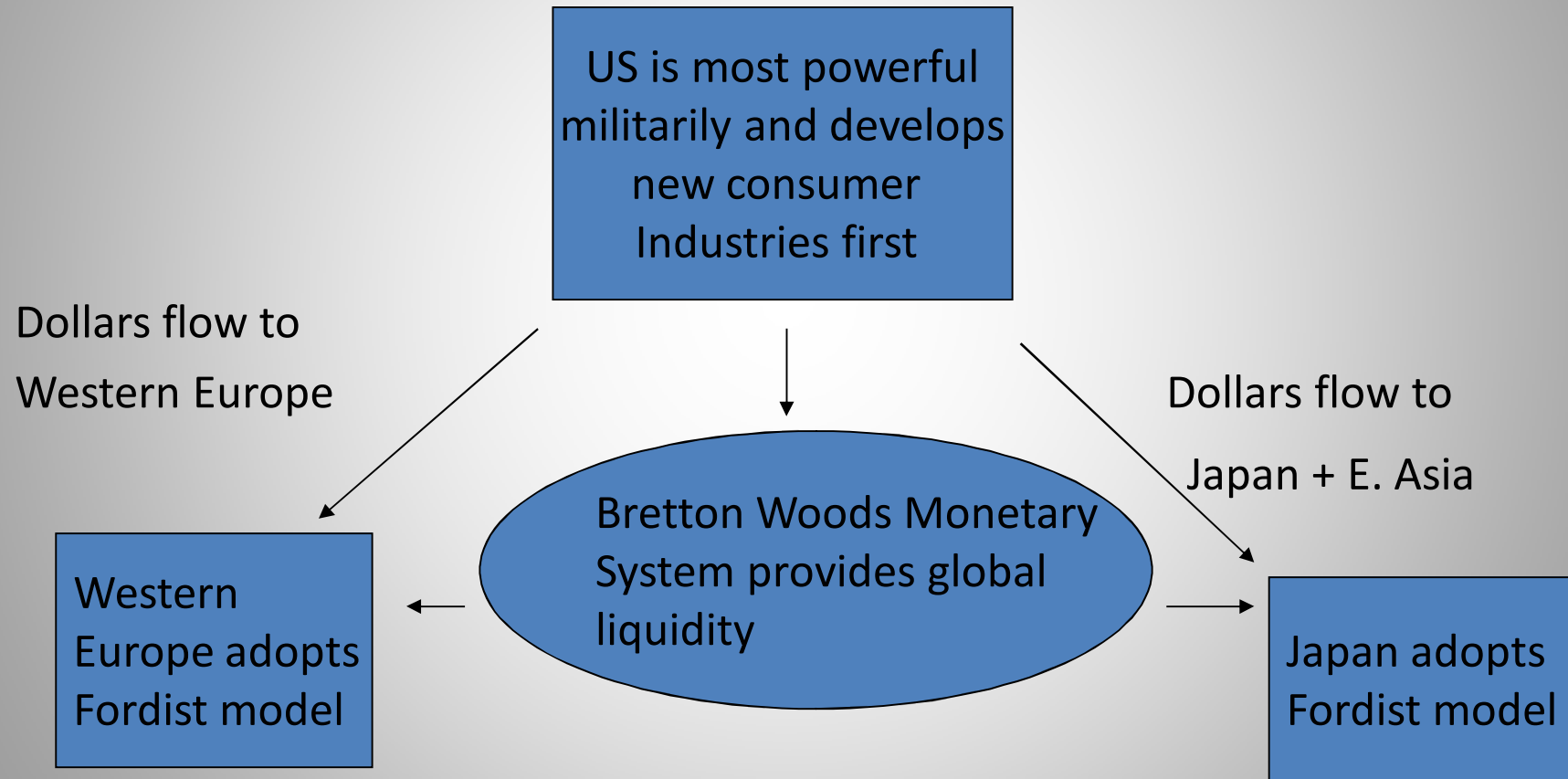
Marshall Plan and the Cold War

- Marshall aid to Western Europe + Japan totaled a full 5% of US GNP in 1948 (equivalent of US 2000 GDP = \$500 billion!)
- Aid solved catch-22 of having to export in order to pay for imports but being unable to produce for export without first importing materials and machinery
- Marshall Plan involved severing of links between Western Europe and Soviet Union + political reconstruction and integration of Western Europe into a common area

“Dodge Plan” Reconstructs Japan

- “Reverse Course” sees US policy support for reconstituting Japan’s Zaibatsu as Keiretsu
- Between 1951 and 1974 there were 23,424 cases of technology imports into Japan from the US with a value of \$5 billion
- Anti-communist alliance with “Free World” pays handsome economic dividends as Japan essential support of US Korea war effort

Economic *TRIAD* in Early Post-WW2 Period



Political Management of the Global Economy

- Along with BWMS three further major new international multilateral institutions created to manage global economy
- United Nations (UN) adopted legal principles delimiting the form and scope of the conduct of all members of the international community
- International Monetary Fund (IMF) demanded policy compliance from member states to treat balance of payments difficulties
- World Bank (WB) an organization funded to lend money to individual states for development
- Political organization of world economy replete with supra-national institutions one of the most significant changes in history of capitalism