EnpRisk - Lecture Notes Week 9

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0.1 The Golden Age (1947-1968)

The **Golden Age** (1947-1968) describes the two decades after WWII, which were blessed with *extraordinary economic growth:*

- Mean reversion: Recovery of the economy to its full potential after WWII
- Stimulus: Reconstruction of infrastructure and industry
- Productivity: Increase from technical innovations and capital investments

There was a *social contract* between workers and owners on:

- The parallel growth of real wages and Productivity
- The ensuring that fruits of the economic progress were equitably shared
- This led to wealth accumulation and spare time, which in turn led to **consumerism**

The first shift led to a collapse of inequality, which stayed low during the Golden Age. If we define r to be the pure rate of return to capital, and g the growth rate of world output, then T. Piketty (2014) stated that $r < g$ leads to inequality. However, our proposition is that inequality leads to $r > g$.

Free time and wealth accumulation created a *consumer society* with new demand for consumer goods like electrical apparel, automobiles and entertainment services.

0.2 The Second Shift (1969-1979)

The **Second Shift** (1969-1979) was a direct consequence of the Nixon shock and the end of Bretton Woods (1971):

- At a certain point there were more dollars in the hands of foreign countries (so-called eurodollars) than the total gold stock of the US
- Trust in the US Dollars, which was the keystone of the Bretton Woods system, evaporated
- Whereas the gold reserves of the US were reduced from 65% (1952) to 29% (1967), the opposite happened in Europe, where the gold reserves went from 6% (1952) to 26%(1967)
- This dynamic ended in 1971 with the *Nixon Shock*, when the US President Nixon unilaterally ended the convertibility of the Dollars to gold. This was the end of the Bretton Woods system

0.3 The Fool's Golden Age (1980-2019)

The **Fool's Golden Age** may also be described as the illusion of the perpetual money machine:

- Consumption, not founded by savings but by debt, and by wealth extracted from the stock and the housing market

- Economic growth, not driven by productivity increase in the real economy, but by growth of the financial sector
- Further supported by a climate of deregulation and a massive growth in financial derivatives
- Resulting in a succession of bubbles and crashes, feeding upon each other and culminating the CFG of 2008

0.4 The Third Shift (2019-)