Taken from:
Sidney Pollard, *The International Economy Since 1945*, London and New York: Routledge (1997).

Rising wages did not merely squeeze profits: they also tended to put pressure on prices. Employers, unwilling to risk losing orders, were prepared to accede to wage demands, hoping to recoup themselves without too much trouble by raising their own prices in a buoyant market. Indeed, the question presents itself why the freedom to raise money wages and costs in a full employment economy did not lead to faster inflation from the start. A major cause was the success of the system itself: the tangible improvement in real incomes and living standards achieved year by year by wage and salary earners could be accommodated by the economy without significant inflationary pressure as long as its real output rose by a similar rate of 4–6 per cent per annum.

The 'Golden Age' of 1950–73 was not entirely without such inflationary pressure, but it was at a low rate and seemed a small price to pay for rising wealth and prosperity. After two decades, towards the end of the 1960s, however, the inflation rate showed signs of creeping up. Possibly trade unions were becoming over-confident; more likely, the high rate of growth was coming to an end as the technological catching-up phase tapered off, so that a gap began to open out gradually between the declining productivity increases and the continued high annual wage increases expected and fought for at the wonted rate.

TURNING POINT AND DEPRESSION

Into this unstable situation burst the shock of the OPEC oil price rise of 1973, to be followed by a second in 1979–80. A cut in output allowed the oil-producing countries to force the price of crude oil up fivefold in dollar terms from an index of 146.3 in 1972 (1970 = 100) to 752.1 in 1974, with another threefold rise to 2,209.9 in 1980 and 2,505.8 in 1981: this meant a seventeenfold increase in nine years. In consequence, $64 billion additional money flowed into the coffers of the oil states in the very first year. While the OECD countries' balance of payments deteriorated by $37 billion, much of the rest of the burden had to be carried by the world's poorest countries. It was these Arab oil funds which largely fed the borrowings and the later debt crises of the Third World described in Chapter 6 above. As far as the industrialized world was concerned, it coped remarkably well with the shocks, by carrying through drastic cuts in its oil consumption and at the same time recycling some of the Arab oil money swilling round by absorbing it in the form of capital imports.

However, this successful adjustment to the oil crisis was not without cost. In the given circumstances, there could not simply be a curb on oil imports alone. Since one symptom of the crisis was a sudden deterioration in the balance of payments of the non-oil producers, there had to be a curb on *all* imports, achieved by traditional restrictive policies, mainly by monetary restrictions, but also by fiscal (taxation) measures. There had, in any case, been a short-term acceleration of inflation, a mini-boom, in 1972. Now the axe fell, and real GDP growth of the leading industrial countries slumped from a rate of 8 per cent in the first half of 1973 to one of 3 per cent in the second half. Unemployment shot up, but the incipient inflation was not held back because it was boosted by the oil price rise itself. The world learned to face a new phenomenon: 'stagflation', the appearance together of *both* stagnation and inflation, which, it was thought, had never been suffered together before.

A further negative factor to emerge at precisely that time was the end of the ability of the United States to feed the world's economic expansion by pumping out her dollars to pay for her unfavourable trade balance. Her deficits began to be absorbed by the vast surpluses earned by Japan and Germany. These tended to cancel out the expansionary effects of the dollar flood, which had up to then been used as a base for enlarging credit and monetary circulation in other countries.

In a remarkable switch of world opinion, one country after another, some openly, some shamefacedly, turned away from employment and growth as their main aims of policy, to make containment of inflation their chief target instead. The adoption of that priority was inevitably linked, whether as cause or as effect, by the adoption of monetarist notions in place of Keynesianism, for monetarists not only made the reduction of inflation their main aim, but also claimed that it was Keynesian policies which had caused the inflationary crisis in the first place.

Rising inflation on a global scale appeared to prove them right. Monetarist theory held that price rises could be modified by an appropriately high rate of unemployment: a high level of employment thus not only ceased to be an end of policy, but on the contrary, unemployment became a weapon in the armoury of monetarist targeting, together with other, purely monetary methods of attempting to hold down price rises. In their extreme form, as practised in the USA and in Britain, these policies came to be known as Reaganomics and Thatcherism, respectively. Their result, as we have seen, was falling employment, slower growth, and a growing section of the population condemned to poverty and idleness.

Looking back over the past twenty years, one may legitimately wonder why anyone should wish the Golden Age to come to an end, and be so eager to reverse a policy which had been successful beyond all expectation for almost a whole generation. At an abstract, theoretical level, there were no doubt those who, with some of the disastrous experiences of hyper-inflation on the European continent in the immediate post-war years and in Latin America in mind, genuinely thought that inflation, if not curbed, would bring to an end any hope of prosperity and social peace.

However, there was, in the advanced world, no sign of such hyper-inflation, and in any case, few politicians are swayed by purely abstract theory or hypothetical dangers. The cause of the reversal of the *Zeitgeist* may safely be sought in more mundane considerations. It is worth remembering in this context that not everyone benefited by the Golden Age. It included, let us recall, the profit squeeze, and with the decline of profit was associated a loss of power over the labour market, and over their own work force, on the part of the owners and controllers of capital.

Just as Keynesianism combined some of the ideals of the Left, monetarism easily became an ideology embraced by the political Right. Apart from restoring the power of capital and management over labour, it had other desirable features from their point of view. Since, according to its teaching, inflation was best curbed by monetary means, and since it is governments which are responsible for creating money inflation by excessive borrowing which itself is due to unbalanced budgets, that is, spending more than they collected in taxes, cuts in government expenditure became a main ingredient of monetarist policy. What better element to cut than social welfare programmes? It was indeed believed that it was generous unemployment benefit which allowed unions to hold up wages despite the army of the unemployed outside in the cold looking for work. The cutting back of out-of-work benefits, together with other welfare payments, would relieve the taxpayer, reduce inflationary pressure, and at the same time turn the labour market more in favour of the employer.

A drive also began in almost every country to reverse the process of nationalization, by privatizing socialized enterprises. Some impetus for this was derived clearly from the somewhat doctrinaire notion, held with various degrees of conviction, that private business was always run more efficiently than enterprises in public ownership.

But it could not be overlooked that their transfer to private ownership would also increase the opportunities for making profits.

Cuts in wages, the weakening of unions, cuts in taxes, the widening of the sphere of profit-making: all these together increased once more the share of profits and the incomes of the rich. This second phase of our period was thus accompanied by greater inequality of incomes, leading in some cases to an absolute decline in the standard of living of the poorest, at a time when total national income per head was still going up. There were here traditional differences between countries. Thus, according to the World Bank's *Development Report* for 1994, the share of the top *10* per cent of incomes was $2\frac{1}{2}$–3 times as large as that of the bottom *20* per cent about the year 1980 in the Scandinavian and Low Countries, the German figure was 3.49 times, the American 5.32 times, with Britain at the top with 6.04 times. Within the wage sector alone, the wage differential between those at the top 10 per cent and bottom 10 per cent of the income distribution, *widened* between 1979 and 1989 by 34 per cent in the United Kingdom and by 16 per cent in the USA. In other countries the shift was smaller, but still in the direction of greater inequality, except for Belgium and the Netherlands, Norway and Germany.

Another measure may be derived from the differential between the average wages of the highest and worst-paid industries in each country. Data for some countries are provided in Table 8.1.

Overall, in the industrialized world, GDP continued to rise, though at a more modest rate than before. Behind that rise, as we have seen in Chapter 2, was a seemingly inexorable technological advance which, even though it originated only in a few main regions, yet benefited all the advanced countries. It failed, however, to percolate to the poorest countries which, as shown above, actually lost out on average in the 1980s and 1990s.

Worst of all was the fate of the planned economies, the former Soviet Union and her eastern neighbours or 'satellites'. With the political collapse of their erstwhile communist governments, the basis of their economies also came to be overturned. The necessary change might have been carried through in a variety of different ways, aided by the willingness of the advanced market economies to help out with public as well as private funds. The method actually chosen reflected the ascendancy of extreme market-oriented doctrines in the west. Instead of adapting the functioning, even though creaking, economic control mechanisms which had at least provided full employment, broad welfare provisions and a modicum of prosperity, it was scrapped virtually overnight together with the

Table 8.1 Ratios of wages in the highest to the lowest paid industrial sectors, 1970–1993

	1970	1979	1985	1993
Canada	2.16	2.16	2.57	3.03
USA	1.79	2.22	2.76	2.82
Japan	2.52	2.49	2.76	3.18
Belgium	2.28	2.42	2.11	2.32
Finland	1.53	1.60	1.62	1.76
Germany (West)	1.62	1.57	1.92	2.02
Netherlands	1.54	1.34	2.04	2.12
Switzerland*	1.28	1.42	1.47	1.51
United Kingdom	1.39	1.43	2.27	2.39
Unweighted Averages	1.79	1.85	2.17	2.39

* Males only
Source: *Yearbook of Labour Statistics*

associated system of subsidies and taxation, in favour of unfettered private, profit-seeking enterprise at all levels. Some western firms did indeed launch their enterprises in eastern Europe, and others also came to pick out the plums, but the bulk of the economic structure, including the linkages between producers, suppliers and customers, was allowed to be scrapped, with nothing comparable put in its place.

The catastrophic drop in output noted in Chapter 4 above, accompanied as it was by massive unemployment, was perhaps to be expected in a transitional period, but even after six years there was, outside the former German Democratic Republic into which western Germany was pouring hundreds of billions of D-Marks, little sign of any permanent recovery. Hungary and the Czech Republic had done best, the Russian Commonwealth of Independent States probably worst. There the inability of the state even to find regular pay for the armed forces may have as yet unforeseen political consequences. It is therefore not entirely surprising that after some years of experimenting with a market economy, ever larger numbers of people in these countries came to use their new-found democratic freedoms to give their votes once more to communists for political office.

It is too early to say whether the present monetarist phase is nearing its end. It is a fairly safe prediction, however, that the conjunction of favourable circumstances which created the Golden Age of 1950–73 is likely to remain a unique and unrepeatable episode in world history.