The Golden Age of Capitalism

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In the nineteenth century Western Europe and the United States experienced a remarkable economic and cultural progress but was tarnished by the domestic exploitation of the workers and by the reduction of the peoples of Asia and Africa to the condition of colonies. This was also a period of peace among the major potencies under the leadership of Britain, which had begun with its victory over the France of Napoleon. A period that end tragically with the irrational 1914-18 First World War, whose main cause was the resentment of Germany and Italy. The internal division of these two countries retarded their industrial revolution and lost the opportunity of building a colonial empire as The UK and France had been able to build. This war divided and fragilized Europe, opener room for the socialist 1917 Russian Revolution. and marked the transition of the dominant country from The UK to the United States. The post-war 1920s were euphoric years in the US, but, not surprisingly, ended up with the 1929 crash of the New York Stock Exchange and the 1930s' Great Depression. Followed a huge fall in GDP, mass unemployment, the discredit of the gold standard and of economic liberalism. The time was, now, for fascism in Italy and Germany, for Stalinism in the Soviet Union, which falsified the Democratic Revolution of the turn of the twentieth century, but was also the time for the New Deal in the United States, which showed that capitalism could be made democratic despite the power of capital and or organization – that a compromise was possible between capitalists, technobureaucrats and the workers.

The New Deal and the war

The West (the sum of the rich capitalist countries) found its way out of the crisis under the leadership of a statesman, Franklin Delano Roosevelt, and a genial economist and intellectual, John Maynard Keynes. Roosevelt, with the New Deal, launched an innovative and bold project of reform of the American economy out of economic liberalism, while Keynes, with *The General Theory*, offered the macroeconomic theory that turned economics into an operational science, instead of just a way of legitimizing this same economic liberalism. With New Deal's innovative institutions, the US was back to a developmental strategy – for sure, the moderate developmentalism of a mature capitalist economy, but a policy regime where the state had again a say. The 1944 Bretton Woods agreements, with the creation of the IMF, the World Bank, a system of fixed exchange rates and the convertibility of the dollar in gold at US$ 35.00 per ounce assured international financial stability in the economic side. Yet, the supposition that the US would continue to present indefinitely large current account surpluses was the foundation of the agreement – a foundation that, in the late 1960s, would prove to be wrong

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and lead Bretton Woods System to collapse.[1] The United Nations and its Security Council, the political side, assured political stability. A consensus was in the air – a developmental consensus – claiming that, first, that the state should have a bigger say in the growth process; second, that wages should and could grow with productivity while profits could remain satisfying to the companies to invest; and, third, that governments, via their central banks, should tightly regulate finance.

Technobureaucratic capitalism was replacing liberal capitalism, and technobureaucrats were assuming the management of the great corporations since the turn of the century, but with the Depression, the state had to act firmly and make the countercyclical investments that recovered effective demand and led the countries to reduce unemployment and resume growth. The increasing sophistication of production and the increasing control of corporations over their markets required an active coordination of these corporations and the national economies. Thus, the state got in, and capitalism turned naturally developmental, and, after the Second World War, also social democratic. This word was not available for the historians that analyzed the New Deal and the post-war Golden Year, but the active although moderate intervention of the state in building a welfare or social and developmental state was quite clear. The working class was getting more organized while turning into a lower middle-class. A class compromise between the capitalist and the working class was required, and the state and the public officials were ready to do this job.

The victory of the US in the Second World War was not the victory of liberalism. Was the victory of a great nation Americans built combining economic liberalism with a developmentalism, and political liberalism with republicanism (which, in the US, played the role that socialism would play in Europe in taming radical individualism. The time of liberal democracy was over. The time now was of a democracy where the liberal values were combined with social values and a developmental strategy. After the war, the Western European countries understood better this fact than the US, and they got immediately involved in building political regimes that were at the same time liberal politically, social and developmental. The liberal assumption that only the liberal state was consistent with the assurance of the rule of law proved false. Social democracy assured not only the civil and the political rights that define liberal democracy, but also the social rights. Which were assured in two ways: by assuring the workers and salaried classes legal entitlements included in the labour contracts, and by the state offering large social services in education, health care, social security, and basic income arrangements. In the former case the business enterprises financed the costs, which were passed through to prices, in the latter, the state took the responsibility for the social expenditures financed by taxes.

After the war, capitalist countries, particularly the Western European, experienced, for around 30 years, fast growth, economic stability, and some reduction of inequality. This period came to be called the Golden Age, or Les 30 Glorieux. They were years of social progress and great expectations; it was a time of reconstruction and catching up for Europe and Japan; the time of building the European Union; the time when the United States achieved the top of its power and ideological hegemony. At this time, American politicians, public intellectuals and the public opinion viewed America as *the model* for the rest of the world – a model of wealth, mass consumption, and of democracy. In 1960, Walt W. Rostow published an emblematic small book, *The Stages of Economic Growth*, where the final stage, the utopia turned true, was the phase of mass consumption. In 1971, John Rawls published *The Theory of Justice* – a book where the unstated assumption was the United States was a society near the ideal of a just society.

This was also a time of rethinking. The Americans acknowledged their main social problem was the racial problem, while the Afro-Americans were getting organized and the Supreme Court was taking the first steps to eliminate segregation. Although a large part of the European left was critical of the Soviet Union, in no other moment Marxism was so influential. Nevertheless, besides rejecting communism, the working class gradually abandoned the idea of a short-term socialist revolution. The leading political idea of the time was the transformation of the liberal-democratic into a social democratic state. The basic class coalition was Fordism – a broad class which was able to integrate the business entrepreneurs, the managerial class, the high or traditional middle-class, which is usually conservative, and the working class, at that time, well organized in large unions. The strategy was moderate state intervention or "indicative planning". The objective, following the German designation, was to build a "Social Market Economy", was to combine free market and social solidarity. Mainly in Europe, the social democratic and the conservative political parties have sewn a social democratic compromise which supposed a developmental strategy. The time of growth with concentration of income was over; now we would have growth with distribution. Andrew Shonfield, who wrote in 1969 *Modern Capitalism*, a pioneering analysis of this period, saw in it three elements: "First, economic growth has been much steadier than in the past… Secondly, the growth of production over the period has been extremely rapid… Thirdly, the benefits of the new prosperity were widely diffused" (1969: 61).

The Golden Age

The economic theory of Keynes contributed decisively to explain and legitimize the intervention of the state the 1929 Crash, the neoclassical policies prevailed even social democratic political coalitions.[2] After it, social-democratic administrations implemented intuitively countercyclical policies, as occurred in Sweden in 1932 and in the beginning of the Roosevelt administration. After the Keynesian macroeconomics turned dominant, political coalitions, independently of being on centre-left or in the centre-right, adopted countercyclical policies.

According to Hobsbawm (1994: 259-261), "the Golden Age was a worldwide phenomenon, even though general affluence never came within sight of the majority of the world's population". But growth was stronger in Western Europe and in Japan, which were involved in rebuilding their manufacturing industry destroyed by the war. The industrialized European economies, which historically had experienced a modest per capita growth rate since respective industrial revolution (around 1 percent a year), doubled this growth rate, converging to the level existing in the U.S. From the mid 1970s, the rich countries returned to the "normal" and modest long-term growth. Heterodox economists Philip Armstrong, Andrew Glyn, and John Harrison (1984 [1991]), Stephen Marglin (1990), Robert Brenner (1998) studied the Golden

Age, viewed it as a moment of high growth, and offered as explanations the high profit rates, the reconstruction effort, and the institutions that reduced social conflict giving to the state role an intermediary and increased the international stability. I would only add the Keynesian macroeconomic policies and the construction of the welfare state. Fernando Rugitsky (2014) showed that the neoclassical economists[3] who studied the period agreed on the fast growth of the Golden Age, disregarded the profit explanation (what is not surprising because neoclassical economists have a curious difficulty with the rate of profit and the exchange rate), and shared the institutional explanations. According to Rugitsky (2014: 596), "Eichengreen maintains that the institutions in place during the Golden Age were able to generate cooperation between workers and capitalists, in the sense that the former moderated their wage demands, while the latter reinvested a significant share of its profits." Where is, then, the conflict? In the fact the neoclassical economists see the post-Golden Age growth rates as "normal", while the heterodox see them as sign of crisis of capitalism. I will discuss in chapter #@ the "secular stagnation" problem that the central capitalist economies face since 2008. It boils down in low growth rate and high instability, not in the collapse of capitalism. When I discuss the Golden Age of capitalism and stress how successful they were, my objective is to show that, despite the inefficiencies and injustice that define capitalism, this form of social organization reached a paradigmatic moment – the best society that it was possible to build at that moment within capitalism. Thus, in so far that a socialist revolution is not a realistic alternative, the challenge is to build a democratic, social and developmental form of capitalism. As we will see ahead, the Golden Age collapsed due to its internal failures and due to the new competition coming from low-wage developing countries. Up to now, they were not restored in an improved way because a rentier-financier class coalition took hold of power from the 1980s, adopted neoliberalism as its ideology, and, since then, is engaged in reduction the autonomy of the state thus searching to dismantle the only institution which, well governed, may assure stability, growth, social peace, and reduced inequality.

The decisive role that the Bretton Woods institutions and the developmental character of the Golden Age become clear when we see the remarkable financial stability in this time. Capitalist economies are prone to financial crisis but between 1947 and 1975 they have fallen dramatically. Boyer, Dehove and Plihon (2004) observed that the resumption of financial crisis was directly related to 1980s financial liberalization: "The parallelism between the financial liberalization and this long pandemia of banking crises suggests the later are a consequence of the former."[4] Reinhart and Rogoff (2008: 6) identified just one banking crisis from 1947 to 1975, and 31 from 1976 to 2008. Figure 2, presenting data from these same authors, shows the proportion of countries with a banking crisis, from 1900 to 2008, weighted by share in world income: the contrast between the stability in the Bretton Wood years and the instability after financial liberalization is striking. Based on these authors' book (Rogoff and Reinhart 2009: 74, Fig. 5.3), I calculated the percentage of years in which countries faced a banking crisis in these two periods of an equal number of years. The result confirms the absolute difference between the 30 glorious years and the financialized years: in the period 1949–75, this sum of percentage points was 18; in the period 1976, 361 percentage points! This was really an amazing stability that the Bretton Woods agreements and the Keynesian macroeconomic policies assured. All this would collapse in the 1970s.

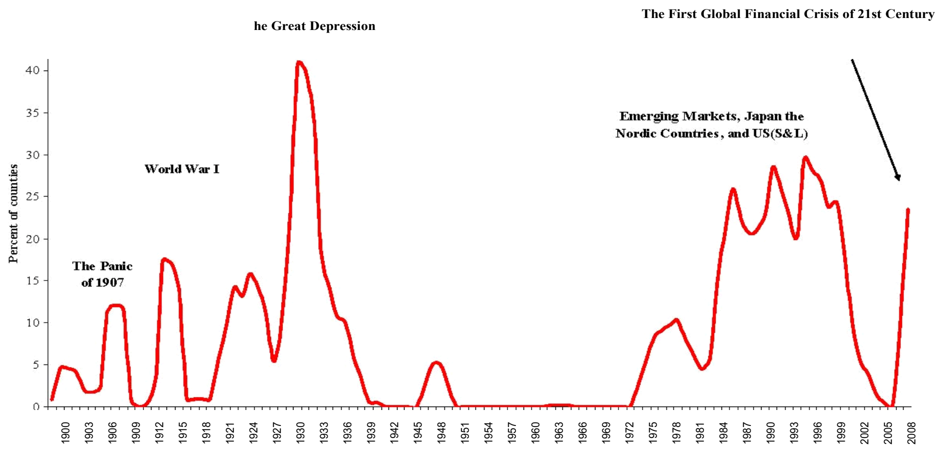

Figure 6.1: Proportion of countries with a banking crisis, 100-2008. Sources: Reinhart and Rogoff (2008: 6). Notes: Sample size includes all 66 countries (listed in the paper) that were independent states in the given years. Crises weighted by share in world income.

The social-democratic compromise

The Golden Age were founded on a social compromise, which was possible because the social classes, although aware of their conflicting interests, chose to negotiate instead of confronting each other. People were optimist with the end of the war, governments were committed to a common project, the economy was growing fast, and there was opportunity of advancement not for all but for many. The economic foundations of this compromise the capital-labour agreement that wages would grow with the increase of productivity and the construction of the welfare state. While liberal economic theory assumed that the increase in productivity would cause fall of prices, and the increase of wages would be an indirect consequence of the reduction of the cost of the consumption goods, after the war the demand of workers of benefiting directly from the increase of productivity became part of the capital-labour negotiations. The 1948 agreement between the automotive industry and the United Auto Workers is the classical moment of this compromise. On the other hand, the assurance of the social rights – of assuring universal health care, universal basic education, and social security – is costly as is costly the protection of civil rights but had before the war a different treatment. The protection of the rule of law, which is on the interest of all but mainly of the rich, had priority in relation to the guarantee of the social rights. Nevertheless, in the 1950s and in 1960s, the political parties on the left and on the right and the respective political elites didn't hesitate in assuming the costs of the social rights. The social democratic coalition was so hegemonic that building of the welfare state happened independently of the social party in office was a conservative political party (for instance, the Christian-democratic parties in Germany and Italy) or a social democratic political party. How can we explain such behaviour? Essentially, the countries were growing so fast that the extra cost incurred by the companies as well as the greater tax burden were not threatening the profit rates and the investments. The national societies were relatively cohesive, the political centre had moved clearly to the left, the centre-left and centre-right political parties alternated in government.

In the transition to the Golden Age, the Scandinavian countries were the front runners. As John D. Stephens (1995: 1) observed, these countries "seemed to have achieved the elusive combination of social equality and economic efficiency". Their economic and social achievements supposed the formation of a democratic, developmental, and social quasi-consensus, and could not be credited only to the social-democratic political parties because the conservative parties also participated actively of the construction of the welfare state. In the US the progress toward social democracy was more modest, and one of the explanations for that is that this country never had a truly social democratic political party. Only after the Democratic Party ceased to host the conservative elites in the South, it could have changed into a social democratic party, but when this happened was already too late. In the 1970s the great time of social democracy was over.

Adam Przeworski (1985) made the definitive analysis of a simple but relative surprising fact: even before the collapse of Soviet Union, already in the 1970s, the working class proved not so interested in the socialist revolution as socialists supposed. According to him, workers in advanced democracies had good motives to feel no attraction for a revolution expropriating the rich. The assumption that once workers won the right to vote, they would rationally vote for socialist political parties committed to the socialist revolution, but this assumption proved false. Workers don't have the assurance that moving to socialism would immediately improve their material conditions – and this is what interest them most. They are not certain that socialism is more efficient than capitalism and, even if it is, the transition to socialism may involve a short-term deterioration of their welfare. Thus, Przeworski (1985: @) concludes: since "workers have the option of improving their material condition by cooperating with capitalists, the socialist orientation cannot be deduced from the material interests of workers".

Class compromise was central in the Golden Age. Przeworski criticizes the model of irreconcilable class conflict in democratic capitalist societies, arguing that the strength of social democracy derives from the fact that an association between a fraction of the bourgeoisie and the working class is often a rational choice:

> Moreover, it is indeed in the interest of the workers, given again capitalist organization of social relations, that the largest possible share of surplus be retained by capitalists and allocated to accumulation, since in this way future total product is increased. Hence, there exist objective bases for a political alliance between the narrowly defined industrial proletariat and the modern, expansionist fraction of the bourgeoisie. This was true most likely for the 1924-28 alliance between the S.P.D. and the dynamic sector of German industry, not improbably for the Roosevelt's New Deal coalition, and perhaps for the current alliance between the Communist Party and the Christian Democrats in Italy. This would also have been the nature of the often rumoured agreements between the Communist Party and the Christian Democrats in Chile. (1985: 90-91)

According to Przeworski, the class coalition between capitalists and workers in democratic contexts is not limited to social democratic governments; he extends the applicability of the concept of class compromise to conservative governments, as the conservative governments of Germany and Italy involved in building the welfare state after Second World War, and to the US of the New Deal. It was under the New Deal that the social security and the statutory minimum wage were implemented, with the political support of the New Deal Coalition, the broad class coalition formed in the USA, between 1932 and 1968, which, with the exception of the election and re-election of Republican Eisenhower in 1952 and 1956, gave the Democratic Party electoral victories. This extension of the concept of class compromise associated with the Golden Age is consistent to what the French Regulation School called the "Fordist class coalition", and it has a structural dimension that helps to understand the argument that the reaction of the rich against the policies of full employment and welfare adopted in these years is among the political causes of neoliberal class coalition that turns dominant in the 1980s.

Przeworski (1985: 202) underlies the role of the state: "class compromise implies a particular organization of the state as an institution and the policies pursued by this institution constitute an expression of a specific class compromise". Although he does not address the social corporatism, this is an important institutional arrangement that is more clearly developmental than the social democratic arrangement. Philippe Schmitter, in his classical 1974 paper on corporatism, showed the role of the state in mediating the class compromise between the workers and the business enterprises. The objective was mostly developmental because it involved full employment: whereas the unions accepted some wage restraint, the business enterprises accepted not to dismiss personnel. The corporatist collective bargaining was most developed in the Nordic countries, Denmark, Norway and Sweden, and also in Germany, where social democratic capitalism was successful in combining social equality and economic efficiency. The concertation involving trade unions and employers' associations is a typical practice of social corporatism. But the recurrence to corporatist arrangements in the framework of democracy and the emergence of class compromise varies in importance and degree according to the different national experiences, and according to the time. There are situations in which the partisan agreements fulfil this role, and there are also relatively frequent cases in which both institutions of social corporatism, partisan negotiation and the parliament, engage in concertation, as occurred in the Moncloa Pact, which played a foundational role in the Spanish transition to democracy in the late 1970s. In this case, the informal class coalition and the political coalition involving the political parties were together. The kick-off of the agreements was given by the political parties, especially in relation to the return of democracy, but various social and economic agreements were made in the sphere of tripartite concertation, bringing together government and the top organizations of business entrepreneurs and workers (Schmitter and Grote 1997).

In the Golden Age, the progressive compromise involved a certain social and political consensus which Przeworski (2001) called a "policy regime": the political parties adopted similar policies independent of the ideological leanings of the political party in office in each moment. In this case, the class coalition turned ideologically hegemonic, shares common political narratives and political objectives which were common to the political parties. The capitalist class remained dominant, but now it combined political power with the managerial class, and share revenues with the working class and the clerical or lower managerial class. While the profit rate was kept satisfying for real the companies to invest, wages increased as the productivity of labour increased, and indirect wages increased with the large universal services of education and health care.

The collapse of Bretton Woods

The Vietnam War ended in April 1975 with the capture of Saigon by the North Vietnamese Army. This defeat of the US was one of reasons why the 1970s were a decade of loss of prestige and international hegemony for this country, similar to the loss of international legitimacy that it suffered in the 2000s with the Iraq war. But the 1970s were for the rich countries and particularly for the US a time of economic slowdown and falling rate of profit. The crisis of the 1970s began with the demise of the institution which had had a key positive role in the Golden Age. In 1971, the US voided 1944 Bretton Woods agreements as it cancelled the convertibility of the other governments credits in dollars to gold at a fixed rate of US $ 35 an ounce. This clause had been included in the agreement by its two chief negotiators, Harry D. White and John M. Keynes, representing respectively the US and the United Kingdom, on the assumption that the US would continue to present high current account surpluses. This major attempt to limit international financial instability depended on the assumption that the US would continue to achieve current account surpluses. In 1944, when the Bretton Woods agreement as convened, this seemed a reasonable assumption. In the late 1960s, however, it proved not to be true. In this decade, American politicians realized that that current-account deficits made more sense, at least in the short-run, because they assured higher acquisitive power for consumers. As the issuer of the hegemonic money, the US has the privilege of printing dollars whenever it needs – as it counts with a "exorbitant privilege" in the famous words of Giscard d'Estaing) [5] – they could engage in current-account deficits with no cost as long as they may issue money to pay their foreign debts whenever this is required. Thus, from the late 1960s, the US engaged in current-account deficits. This killed the Bretton Woods system. The central banks of the other rich countries had made an informal commitment not to turn their credit into gold, which was viable only if these countries adopted firm policies to avoid their own current-account surpluses. The new US current-account deficits made difficult to the other countries, mainly to Germany and France, to honor this commitment. Thus, in August 14, 1971, President Nixon did not hesitate, and suspended the convertibility of the dollar (or, more precisely, of other countries' current account surpluses in dollars) into gold.

The 1971 collapse of the Bretton Woods System was a signal that the Golden Age were ending. Hard economic liberalism was making its comeback at the expenses of the mild and successful post-war developmentalism. The deregulation of financial markets was beginning to pave the way for a renewed financial instability. Capitalism is intrinsically instable; the economic history of capitalism is also a history of financial crises. The direct causes of the crises in rich countries are always the same: a great increase in the private debt coupled with a strong elevation of the prices of assets: stocks, real-estate, and the national currency. The increase of public debt per se cannot cause a financial crisis since the state may always print money and pay the debt. It may, however, cause a currency balance of payment crisis if the public expenditures increase the demand for goods and services, which augments the demand for foreign money and causes foreign private indebtedness. As the asset prices increase, a bubble in on the way. Which eventually breaks up when the banks, which were lending irresponsibly, attracted by the high interest rate, realize that the borrowers had been irresponsible, lose confidence, and suspend the rollover of the debt, thus unleashing the financial crisis. Considering the high incidence of balance of payments crises, the Bretton Woods negotiators opted for a fix exchange rate regime (a relative return to the gold standard), where the countries' current-account deficits counted with the formal guarantee of IMF, instituted as the lender of last resort, and of the convertibility of current account surpluses into gold.

The 1970s' economic crisis

The collapse of the Bretton Woods agreements created the conditions for the fall of the profit rates and the low growth rates of the 1970s. Armstrong, Glyn and Harrison (1991), who analyzed the crisis of the 1970s in depth, called it the "great slow down." While the annual GDP growth rate between 1960 and 1973 had been 4.0 per cent in the US and 4.7 per cent in Europe, between 1973 and 1979 these rates fell respectively to 2.6 and 2.2 per cent. This strong decrease in the growth rate was due to the fall in the investment rate, which in turn was due to the fall in the expected rate of profit. This fall is strong in the recession of 1974-75, then recovers, to, with the second oil shock, in 1979, fall again. The rate of profit in rich countries or OECD countries, in the manufacturing industry, which reached an unsustainable 18 per cent in 1965, began to fall from then on, deepened from 1973, reached a fund in 1982 (12 per cent), and only from the following year it recovered again. The rate of capital accumulation dutifully followed the fall in the rate of profit. In the economy as a whole the fall of the two rates was similar, but less pronounced, because the process of deindustrialization was already beginning in those countries. This slowdown signaled the declining phase of a long cycle.

A second cause of the 1970's crisis was the fall in the productivity of capital. Ignacio Rangel (1972) realized the coming of the crisis before it erupted in 1973, arguing that the expansive phase of the fourth long cycle of Kondratieff – which peaked in the late 1960s – suggested that a new important crisis was underway. The 1973 first oil shock, which unleashed the crisis, confirmed his prediction. As Schumpeter taught, innovation are the basic source of profits above the interest rate. Long cycles come to an end when a wave of innovations loses momentum and the profit rate falls. This was the case. The great post-war prosperity involved extensive innovations and satisfying profits in the automotive, the television sets and other domestic durable goods, and the aviation industries, but from the 1970s the growth rates have dropped considerably.

At that time, the information and communication technology revolution was beginning, but it had little influence in the expansion of demand, while caused a fall in the profit rates. The new technology was capital-intensive, involving a new phase of "mechanization", i.e., of substitution of capital for labour. Thus, it increased the productivity of labour. But, in these circumstances, a central question is what happens with the productivity of capital or marginal output-capital rate. As the negative weight of the substitution of capital for labour is bigger than the substitution of new and more efficient machines for old machines (which increases the productivity of capital), the overall productivity of capital will fall in the medium-term, the expected profit rate and the corresponding investments opportunities will fall. Thus, the economy will tend do stagnation, unless the corporations reach to compensate this fall of the productivity of capital with the reduction of competition or the increase of monopolist power via mergers and acquisitions of companies. In the 1970s, the information and communication technology was already strong enough to cause the fall of the productivity of capital and the fall of the expected profit rate, but the corporations still lacked capacity of increasing their monopolist power.

A third cause of the fall of the rate of profit in the 1970s was the strengthening of the labour unions and the rise in real wages in the preceding decade, which was associated to the full employment of the Golden Age. Wages continued high in the 1970s and turned relatively indexed, which led the American economy to "stagflation" (the name of the inflation caused by the informal indexation of wages received at that time) and to a "profit squeeze" – a fall in the margins of profit and the rates of profit that was widely discussed at the time. A last cause was the 1973 first oil chock, which led the countries to current-account deficits and made them adopt foreign adjustment policies which reduced demand and the expected profit rate.

Ready to the neoliberal turn

The fall of the profit rates and the economic slowdown in the 1970s opened the opportunity to neoclassical economics to return to the "mainstream", and neoliberalism to become the hegemonic ideology. Neoclassical economics and neoliberalism are closely related. The first is to be a science but, given its disconnection with reality and its objective of showing how much the market is superior to the state in coordinating an economic system, neoclassical economics is more a "scientific ideology" than a science. To recover fully the dominant role in the universities, neoclassical economics had to defeat post-Keynesian economics. This was not so difficult, not only for its ideological attractiveness, but also because it never had been really abandoned by the academy. It is a more general, abstract and formalized theory than post-Keynesian economics, because it uses the hypothetic-deductive method, while the Keynesian thinking is essentially historical, and, for that reason, not so subject to mathematical treatment. To the neoliberal ideology achieve hegemony, the neoliberal elites of rentier-capitalists and financiers, who identify themselves as "liberal democrats", had to defeat social democracy in Europe and developmentalism in developing countries. Instead of defeating social democracy, they coopted it. As to developmental strategies in developing countries, they got the support of local elites and led their governments, except in East Asia and India, to fully forsake them.

The main argument neoclassical economics used against the Keynesian ideas was that the trade-off between inflation and growth didn't exist. Countries would not avoid crises and grow faster with Keynesian expansionary fiscal policy. More specifically, that the Philips curve (the inverse correlation between employment and inflation) does not explain stagflation. That only in the short-term an increase in employment would cause the rise of inflation; in the long-term, the curve relating the two variables s vertical. In fact, in Keynesian demand theory of inflation does not explain the combination of unemployment (stagnation) and inflation. Neither does neoclassical economics and the absurd monetarist theory that neoclassical economists defended at that time.[6] To explain stagflation we needed a theory for a special case of inflation: when, as was the case of the US in the late 1970s, for some reason economic agents begin to index informally prices including wages.[7]

Considering the social classes, neoliberal attack was directed against the organized labour and, also, against the increasing power of the managerial class. Although the increase of wages above the increase of productivity (producing the "profit squeeze")[8] was effective only around the turn of the 1960s to the 1970s, the main objective of the rentier-financier class coalition was and is to reduce direct and indirect wages by changing the regulation of the labour contracts and shrinking the social services and social security. As to the technobureaucrats the attack was less evident. While in the case of the working class the class compromised was terminated, in the case of the technobureaucrats, who were "usurping shareholder power and property", compromise prevailed over rentiers and financier imposing their will.

The concerted attack of neoclassical economics and neoliberalism to post-Keynesian economics, social democracy and developmentalism was successful. The 1970s crisis, the rise of a new competition coming from the South, the gradual substitution of rentier-capitalists for business entrepreneurs in the ownership of the corporations, their pressure and of financiers on the top managers that run the corporations, the attractiveness that the idealist and mathematical character of neoclassic economics exerts over academics helped the Mont Pelerin priests, who had been working hard since the 1947 foundation of the Mont Pelerin Society, to make dominant the neoliberal fundamentalism. The rich world was ready for the 1980 neoliberal turn. In the second part of this book I will discuss the new world of Rentier-Financier and Neoliberal Capitalism. The next chapter is kind of parenthesis in this narrative: I will discuss the rise and fall of technobureaucracy in the "communist" countries.

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[1] See on that matter the very interesting analysis of Ianis Varoufakis (2016).

[2] Note that in this book I am using widely the concept of “social-class coalitions”, which is a sociological rather than a political science concept. In this phrase, I am speaking of “political coalitions”, which are the coalitions political parties form to achieve majority and govern. Both concepts are related, but the former, besides informal, are broad and relatively vague political pacts or historical blocks, while the political coalitions are formal and narrower.

[3] Eichengreen (1996) and Crafts and Toniolo (1996).

[4] Boyer, Dehove and Plihon (2005: 22).

[5] Giscard d'Estaing was president of France between May 1974 and May 1981, finance minister between 1969 à 1974.

[6] This theory, the theory of inertial inflation, was developed in the early 1980s, and is today is the good textbooks (Bresser-Pereira and Nakano, 1983). Before it, neoclassical monetarism explained inflation with the increase of the money supply. In the 1980s, central banks decided to adopt the theory and control firmly the money supply so that it increased, let us say, around 5 percent a year, half of this representing a real increase of the money supply to keep the ratio between it and GDP fix, the other half, to allow a 2.5 percent a year inflation. Given the full failure of the policy, ten years later the central banks rejected it, and turned to a more pragmatic inflation targeting policy. After the 2008 crisis, to stimulate the low recovery, the main central banks engaged in huge programs of "monetary easing", i.e., of expansion of the money supply. Not surprisingly, no inflation resulted from the policy.

[7] Bresser-Pereira and Nakano (1983; 1987).

[8] Boddy and Crotty (1975).