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the 25 stagnant years

Like a slightly amended Biblical prophecy, the 25 good years of the immediate post-World War II era were followed by 25 bad years. With some interruptions for downturns in the business cycle, the Western industrial nations enjoyed continuous and reliable growth up to the early 1970s. But in the mid-1970s, something happened. The economies of the Western industrialized world changed abruptly. Before 1974, productivity increases ticked over regularly at about three percent, and real incomes grew more or less steadily, with a few interruptions for recessions or booms. But after 1974, growth in productivity collapsed to about one percent annually, barely keeping up with population growth. The result was static or declining real incomes.

In many Western countries, unemployment also began a seemingly inexorable spiral upward. In some countries, including Canada, this increase was a surprisingly steady step by step climb, as each recessionary downturn left the level of unemployment remaining in the subsequent recovery a few notches higher. In other countries, the increase was more sudden, most dramatically in Sweden where unemployment shot up virtually overnight from about two percent to more than 10 percent. Whatever the path, the cyclically adjusted level of unemployment in most Western countries is substantially higher in the late 1990s than in the late 1950s.

All of this has been retrospectively well-documented, although it took well over a decade for the realization to dawn that there had indeed been a sea-change. But while there is broad agreement on the fact of the change in Western economies, there is certainly anything but agreement as to its cause.

Some observers, such as the International Monetary Fund, see the explanation as residing primarily in the huge increases in petroleum prices subsequent to the Arab-Israeli War. The oil shock, it is argued, set off accelerating inflation as everyone tried to shift the cost increases onto everyone else, destabilizing all national economies as governments undertook inappropriate policy initiatives in an attempt to correct the problem, or at least to offset its consequences. According to this view, only when tight monetary policy stabilized prices and achieved widespread confidence in long-term stable prices, has the West been able to return to the golden years of steady, predictable growth with gradually declining unemployment. In this view, the golden years are here again - or almost, anyway.

Others see things differently. In this alternative view, the cause of the productivity collapse is to be found primarily in the unleashing of world capital markets, precipitated by the US withdrawal from the gold standard in the early 1970s. This represented the final step in the unravelling of the post-war Bretton Woods agreement that had aligned currencies and effectively contained capital markets. With the kick-start of the ‘recycling’ of petrol dollars (i.e., an obscure name for the borrowing back of petrol profits) and the US refusal to pay for the Vietnam War through taxes, the result was an explosion in borrowing and debt.

Coupled with new telecommunications technology, the new borrowing and debt spawned the development of an instantaneous electronic global capital market, through which flowed increasingly huge amounts of money, reaching today's level of trillions of dollars a year. But capital flows to the highest rate of return. Thus the globalization of world capital markets effectively raised the cost of capital around the world, as everyone increasingly had to meet the highest returns, adjusted for currency expectations. This development squelched investment and the productivity improvements that result from investment.

If this view is right, we have not yet turned the corner: High unemployment and the debilitating stagnation of incomes will continue for the foreseeable future until we somehow manage to re-regulate capital markets. The current upturn in Western economies is, in this perspective, only a cyclical phenomenon which will evaporate in a few years, leaving behind a situation just a little worse than the one in the last cycle.

The phenomenon of globalization includes not only the growth of world capital markets, but the increased quantity of world trade as well. Some observers see the problems of the past two decades as at least in part a consequence of this latter form of globalization, as workers in advanced economies are forced to compete with extremely low-paid workers in the third world.

Finally, some economists see the dead decades of the last quarter of the twentieth century as a consequence of longer-term structural faults. One suspect is technology which, according to some, failed to provide the enormous leaps in productivity of the immediate post-war period. Ironically, others argue the problem is exactly the opposite: Technology has provided such huge increases in productivity that many of today's workers have been rendered obsolete and the whole pre-war mass production model of workers mindlessly applying manual skills in repetitive production is now out of date. According to this latter argument, the result has been escalating mass unemployment and the inability to sustain consumption demand for the products of the new technological wonders.

financing the state in a period of stagnant incomes

Whatever the cause of the stagnation of economic growth, a result was a dramatic intensification of the struggle for personal economic well-being. No longer could everyone be made a little better off: With total income more or less stagnant, now one person's gain would translate into another's loss.

One consequence was a change in the trade-off between personal income and social spending in support of collective objectives. Governments could not just happily skim the social dividend of growth to pay for expanded programs. In the immediate postwar period, as long as taxes went up less rapidly than incomes, increased taxes could be levied relatively painlessly by taking a little off the top of rising incomes. But from 1974 on, increased government costs could come only from two sources - borrowing or reducing personal income to pay higher taxes. Since borrowing could go on only for so long before debt servicing charges started to eat into the ability to finance programs, governments had to keep their costs from going up, or face the prospect of increasing taxes on declining personal income.

But government costs had to go up just to stand still. Governments faced a number of pressures which drove up costs, including rising unemployment, the demographics of increasing single-parent families and elderly, needed improvements in the quality of public services such as education and health, and the requirement for more and better infrastructure. These demands meant that governments which froze spending would be seen instead by their populations as reducing the level of their services, at least relative to the quality of services in society as a whole. With rising demands, a freeze would be felt as a cut.

However, government spending on goods and services accounts for roughly 20 to 25 percent of national income. Government's capacity to counter rising marketplace-generated inequality varies from one country to another. In Canada, income transfers and income taxes have managed to offset increasing inequality in market incomes, though recent cuts to social programs threaten to weaken this vital redistributive function. But the struggle over government programs was really about the residual after the more important battle over the 75 or 80 percent of income allocated by the private market. In this contest, what counted was power: power over the marketplace and the workplace. In the bad years it was an increasingly uneven struggle for power, as higher unemployment steadily eroded workers' bargaining power and ever more fickle capital moved more easily from site to site.

the two models of capitalism

How the Western world responded to the dilemmas born in 1974 depended by and large on what *type* of capitalism prevailed in each country's economy.

Among Western developed countries there are two basic models of economic organization. One is 'co-ordinated market capitalism' (CMC) in which institutions exist to co-ordinate many of the most important economic decisions and functions (synonyms include 'social capitalism,' 'continentalism' or even nowadays 'stakeholder capitalism'). These institutions may include, for example, national wage-setting or bargaining, business-labour management of social programs and close government-business-university co-operation on research and development. The other model is 'neo-liberal.' In the neo-liberal model, the state uses its powers to keep the markets as free of any intervention as possible - particularly the labour market.

In the CMC economies, the preservation of existing social consensus has, at least until very recently, been more important than the preservation of personal incomes. The result has been substantial protection of labour's power and rising taxation levels. Of course, the application of this 'solution' to the dilemma is uneven. Most countries also have scaled back somewhat their social supports and reduced some of the power of labour, but the basic structures remain intact. In the neo-liberal countries, by contrast, the decision has been to reduce the power of organized labour and cut back on government programs. Again, the results are uneven.

CMC countries include most of continental Europe, Japan and most of the emerging Asian countries. Of course, the form and nature of the model differs significantly in each country, reflecting its specific history and development. In Germany, many of the institutions of CMC are formalized and legally recognized. In Japan, CMC is achieved mainly through strong cultural conventions. Moreover, CMC is a dynamic model which can collapse (as it did for a time in Sweden) and may often have to change rapidly (as it has in Germany to absorb the East).

the Anglo-Saxon tradition

While there is huge cultural and linguistic diversity among the CMC countries, what is striking about the neo-liberal countries is that they have all sprung out of the same Anglo-Saxon tradition and are all primarily English speaking - namely, the UK as the mother country, the US, Australia, New Zealand and Canada (excepting Quebec).

The roots of the neo-liberalism in Anglo-Saxon countries is to be found in the political, cultural and economic history of Britain. In asking why capitalism did not arise in China or the Middle East, Heilbroner and others argue that one explanation may lie in the unique confluence of conditions in the West that occurred when the Roman Empire dissolved. Heilbroner (citing Immanuel Wallerstein and Fernand Braudel) neatly summarizes his view in *Economics Explained*: "...the collapse of the Roman

Empire left many towns without any allegiance to anyone. In time these towns, which were naturally centres of trading and artisan work, grew powerful and were able to bargain for privileges with kings and lords. Capitalism thus grew up in the interstices of the medieval system. A similar opportunity and stimulus did not present itself elsewhere" [Heilbroner and Thurow 1994: 16].

Essentially, the collapse of the Roman Empire allowed the growth of mercantile forces inside the towns to a point where they became a substantial power in their own right, able to resist, militarily if necessary, the encroachments of feudal 'state' powers. Before this, the aristocracy would never permit the growth of mercantile forces to the extent that they became an effective countervailing power. Their wealth would be expropriated through military force long before that could happen.

Of all the former Roman Empire, the decolonization of Britain lead to the longest and most pronounced period without strong central authority and significant periods without even strong local authorities. Indeed, it could be argued it was not really until the Norman conquest and recolonization of Britain that the anarchy came to some kind of definitive end - a period of about 600 years.

Without effective feudal power, the mercantile and town class grew stronger in England than elsewhere on the continent. Consequently when technological, population and organizational abilities finally combined to allow the first stirring of capitalism in the 1700s, it was the mercantile class of England that lead the charge. Combined with the dissenting religions developed primarily by these same mercantile classes in the 1600s, the result was a rejection of state and established church regulation of the individual. In the new colony of America, it was also the Puritans and other dissenters who provided much of the charter values for that nation's eventual founding. 'In God We Trust' is a slogan not about religion: Rather, it means that the new nation did *not* trust in state, established church and King.

In the creation of their capitalist traditions and cultures, the English were more successful than any continental power in kicking aside the traces of feudalism, and even more so in the colonies they founded. On the continent, by contrast, much of early capitalism was the creature of the feudal aristocracy, learning from the English example that the concentration of capital to develop new means of production could yield fantastic returns. But many of the traditions of pre-existing feudalism were maintained in the newly-developing capitalist institutions, particularly in the relation between capital and labour.

Nowhere was this more pronounced than in Japan, where the development of capitalism was in many ways a conscious decision on the part of the feudal aristocracy. While the two island nations of Japan and the UK share some attributes, the contrast in the development of their modern economies could not be more stark. The consequences are evident in everything from the human resource strategies of individual firms (where Japanese firms see their employees as their primary resource instead of another cost factor as in the UK) to the relation of capital and labour (where the Japanese assume that labour and capital will co-operate for the greater good, rather than be adversaries as in the UK) and the relation between capital and the state (where capital willingly follows the lead of the Japanese state, much to the continued chagrin of most Anglo-Saxon companies).

So it is the five English-speaking countries that share a common neo-liberal heritage. It is not surprising that, to varying degrees, all have reacted similarly to the trials of the last decades.

In the US, Reagan began his reign by smashing the air traffic controllers' union, a seemingly impregnable group with irreplaceable skills, and continued his regime with the implementation of zany supply-side theories - in reality, thinly-veiled rationales to redistribute income to the wealthy. In New Zealand, the Labour party undertook the most massive reforms of all, virtually remaking that small country into a paragon of new model neo-liberal capitalism. All relations were to be reduced to contractual forms, including the relation between capital and labour. In Australia, the development of neo-liberal responses was delayed by the more traditionally-minded Labour Party. But now that Labour is out, the process has begun there too, with a vengeance. In Canada, the NAFTA and the years of cutbacks have revolutionized labour-capital relations. With the election of a far right government in Ontario, neo-liberal policies are escalating in the central industrial heartland of Canada.

the next 25 years

The question now is: What happens next?

The answer may depend upon the causes of the 25 bad years, as discussed above. Let us sketch two scenarios.

In the first scenario, the economic upturn we are now experiencing is merely cyclical, soon to be followed by another period of still higher unemployment. In this scenario, the policies and politics of Western countries are certain to become even more extreme, leading to the adoption of what today would seem unthinkable policies. But the latter will come to be seen as 'ordinary' by the time they are implemented - much as today such policies as 'three strikes and you're out' or 'lifetime limited welfare' are seen in the US as nothing too extraordinary, when only a decade earlier they would have been impossible even to mention in polite company.

The CMC countries have shown that their populations will not accept ordinary working people bearing the full brunt of economic dislocation, as for example in the recent French elections or in the inability of Germany to implement 'flexible' labour market policies. However, further economic dislocation will not necessarily result in a left-wing hegemony. Rather, the real opposition is likely to come from populist right-wing parties which already have a strong following in Europe (and, to a lesser extent, in Japan). The contest in the CMC countries is likely to be between these right-wing parties and broad coalitions of all moderate parties, including the social democrats and more traditional centrist parties - similar to the political landscape in Austria today.

The question for the Anglo-Saxon countries is whether right-wing populism could ever take root here, where it is contrary to our neo-liberal traditions. From the tangible ground swell in response to Pat Buchanan's early campaign in the US, the next downturn could see the first powerful right-wing populism take root. This development would disassociate the extreme right from free market policies, breaking the mould of neo-liberal politics on the right, much as the Great Depression temporarily changed the face of neo-liberal politics on the left to give it a slightly social democratic tinge. Unfortunately, right-wing populism, especially in the US as it faces declining relative economic power, can be extraordinarily dangerous and well beyond the moderating control of the major corporations. In

Canada, without the incendiary mixtures of race and jingoism, instead of a turn to populism the response is more likely to be an entrenched neo-liberalism by parties such as Reform or the Conservatives, espousing tax cuts and cutbacks in the state. This turn of events may seem benign compared to other countries. Of course, if things heat up regarding the future of Quebec, the result could be quite different.

In the second scenario, the economic upturn is secular and we are now in for another 25 good years as unemployment slowly decreases, punctuated by the occasional temporary cyclical downturn. In this model, the question for the Anglo-Saxon countries is whether they will return to their softer, slightly social democratic ways when the pressures on the state recede. This will likely be the defining political battle in the Anglo-Saxon countries as long as the economic upturn lasts. In Canada, it will take the form of a simple query: What should be done with the fiscal surplus?

It will be interesting - possibly frightening - to watch both CMC and Anglo-Saxon models respond as history unfolds over the next decades.

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