Mark Blyth on Post-WWII Economics, 1944-2017

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*Mark, we talked about this before we went on air. This is an ambitious project we are going to **commence**. Help our audience understand post-World War II economic order, America and Europe, the **prosperity** that came with it, and how that transformed in the 1970s and 80s and 90s to the economy we have now that leaves many Americans and many Europeans not only dissatisfied but **enraged**.*

Alright, let's get started. In 1943, in the basement of the London School of Economics, there was a Hungarian economist by the name of Michal Kalecki and he wrote a seven-page essay about how what they were planning to do after the war—which was to make **full employment** the most important thing—was going **come apart at the seams**, and he **predicted** the 1970s. So that's our theory, and I'm going to explain that to you in terms of what happened.

So imagine you're in 1945, maybe even 1946, and the world is in ruins. 50 million are dead just from World War II, plus 20 million dead from World War I, the chaos of the 1920s, the 30s, the rise of **fascism**. Everything had fallen apart. The U.S. was 60% of the world GDP, 60 % of world finance, or 50% of GDP, 60% of finance. It's huge. Everyone else was dollar-short, so what did the United States decide to do? Along with its allies at the Bretton Woods conference in 1944 they said, "We can't go back to just **free markets** and people doing whatever they want because that was disastrous." If you let money, particularly finance, just do whatever it wants, it causes huge **instabilities**. It chases profits in the wrong places.

*It creates **rivalries**.*

Create **rivalries**. So what we needed to do was create national economies. Those national economies would restrict the flow of finance and would enable us to tax and spend, and create a kind of **hothouse** that will force **domestic investment** to a higher level. And the policy target became **full employment**. We were not going to allow the ***un*employment** of

the **Great Depression** (1929-1941) to come back because that leads to communism and fascism, and that ultimately is bad, bad, bad for business, so that was the target.

Now what did Kalecki say? He said if you do this, you've got a problem because if you isolate the economy and you close it off to **financial flows** and you make people invest at home, you're going to create a hothouse, and what that's going to do to labor markets is it's going to make **wages** more and more expensive over time. You're going to **bed up** the wages and people at the top end of the wages are going to be able to say, "Hey, full employment! It doesn't cost me anything to move job to job and I'm just going to ask for more and more and money." Well, the only way that business can deal with this is if it pushes up prices to match, so what started to happen in the 1970s was exactly what Kalecki predicted: that wages and prices would rise together in a spiral. We called it inflation, and the problem with inflation is if you're an investor, it's a tax on what you do because it lowers your profitability. It increases uncertainty over the **returns** you're going to get in five years or ten years. So, essentially, the business classes of the West went on an investment strike. They stopped investing because of inflation, and when that happened, you had this **simultaneous** increase in unemployment and inflation, the classic stagflation of the 1970s. All of this was in this seven-page piece in a political quarterly in 1943. He **predicted** the whole thing.

Now that takes us to the 1970s. What happened: this was the Reagan and Thatcher revolution. If you want to think about capitalism as hardware, computer hardware, it can run various software programs, and the 1945 to 75 software program was all about full employment, and that created inflation, and that created the investment collapse, and that created the conditions for businesses to say we need new software. The new software was the **neoliberal** software. We were going to do the exact opposite. We were going to target price stability. We're going to care about inflation more than anything else. We're going to allow banks to do whatever the hell they want. Get rid of the **New Deal** regulations. Get rid of **silos**. Get rid of all that stuff, and we're going to create a world of globalized markets, and capital flows, and supply chains, and it's going to be **awesome**. It was awesome, but that system too had a **flaw**.

*What was that **flaw**?*

Well, the **flaw** was the same as the one before. Once you allow capital to seek its return, it will try and seek its return, and if that means that you shut down industries in your areas and then move them abroad, then so be it. And if that's a market dynamic, and one firm does that, and makes profits, and investors buy their stock because they're making more profits, if you don't do the same thing, you're going to get **thumped**.

And that empowered central banks, disempowered parliaments, congresses and the people.

Absolutely, because at the end of the day, **capitalism** is run by investors and firms. And once those firms go global as they did beginning in the 1980s and increasingly in the 1990s, then the ability of domestic labor to demand their share of the profit split with capital really declines, and that begins the **wage stagnation** that we saw in 1979, which continues all the way through the present day, such that 60% of Americans, in **real terms adjusted for inflation**, haven't really had a wage rise in over 30 years.

*So was that period right after World War II an **anomaly**?*

Total **anomaly**. Nothing like that...

We look back on it as if that was the natural order of things. It was not the natural order.

Absolutely it was not, and something else we do then is we also generalize from the inflation of the 1970s and say, "Well, we always have to guard against inflation," but look what's happened since the financial crisis (2008). Central banks around the world have **chucked** about 13 trillion dollars in the global money supply, and there's no inflation anywhere. Both the way the world worked from the 1940s to the 70s and the inflation of the 70s were unique, weird, historical events. Where we are now is more like where capitalism has always been.

*Translate that into the politics of our day, both right and left, in this sense of **revulsion** or dissatisfaction with the economic hardware you just spoke of?*

So think about it this way: If you have a system whereby profits will go to the highest return,

if you have a system whereby capital is free to move around wherever it does, it's going to go global. It's going to seek the highest return. That's going to basically mean that there's going to be disproportionate rewards for people who are on the right end of that trade, and less rewards for those on the other. That's the **wage stagnation** problem.

Now let's bring this down to sort of a basic level everyone can relate to. If you were around in 2005 and 2006, you probably had the same problem I had, which was getting through the front door because I had so many damn credit card offers blocking up the doorway because what we did was... finance's assets are our liabilities. We forget this: It all sums to zero, right? So I have a **condo** in Boston. The **mortgage** is what the bank likes. They don't want the condo. I hate the mortgage; I like the condo, right?

*Your debt is their **asset**.*

Your debt is their **asset**. So what happens when wages get stagnant is we fill it in with credit. We become credit-card nation and so long as credit is free, so long as it's easy, and everybody's under the illusion that you'll always have more money in the future and jobs will always give you more etc., etc., everyone loads up on private debt, and in the financial crisis we found out how **fragile** that was, so what we're seeing now is the collapse of that second **regime**, that second order that went from 1980 through to the financial crisis. It wasn't allowed to fail in the same way the crisis of the 1970s was. There was no reset because the central banks stepped in and **bailed out** the whole system, and what we've been doing is basically keeping a system that's been on **life support** for 10 years chugging along, hoping we can make it out of **intensive care**. The problem with that is that the people whose wages haven't grown are still in debt, and the ones who have made off with the most have even more. That's what's behind this politics. It's not about left. It's not about right. It's about the fact that wages haven't grown, debts have gone up, there's no inflation to eat away the debt this time, and that's what creates this politics.

Source: Economist Mark Blyth, Post-WWII Economics, 1944-2017, CBS News podcast *Takeout*, July 14, 2017

The two "software programs" that can operate on capitalism's "hardware"	
Program 1 (1946-1972)	**Program 2 (1972-)**
Goal: Full employment, national economies, restricted trade and restricted flow of investment capital.	Goal: Global economy, free trade, free flow of investment capital, full employment is not a goal.
RESULTS	**RESULTS**
Higher wages, higher prices (inflation), strong national industries, lower profits, less conflict between countries. ⇩	Lower wages, no inflation, deflation may occur, higher profits, fewer jobs, rivalry and competition between countries for investments and jobs—the race to the bottom for workers. ⇩
High interest rates to stop inflation. ⇩	Low interest rates because there is no inflation. Governments want people to borrow and spend. ⇩
Consumers and businesses borrow less money because interest rates are high. Future prices become unpredictable. ⇩	Because there are low interest rates and low salaries and profits, people borrow too much to get what they need or want. ⇩
Less borrowing means less investment in the productive sectors of the economy—factories, new businesses, infrastructure. ⇩	People who have money invest in the non-productive part of the economy—speculative investments in real estate, stock, art. This leads to inflation in these sectors only, not in salaries and consumer goods. ⇩
The economy worsens for everyone—workers, companies, investors. ⇩	The lending bubble eventually explodes when the number of people not paying their loans reaches a critical level. ⇩
In each country, the financial and industrial sector wants to go back to Program 2, "the natural state of capitalism"—free trade, a global market. The working class is afraid of more inflation and unemployment, so they are convinced by the wealthy class to support Program 2 (neoliberalism).	The economy worsens for everyone—workers, companies, investors. There is shrinking domestic industry, no growth in jobs. Investors can only hope to earn profits through more speculation in the non-productive sectors of the economy. Upper middle class people hope the value of their homes will give them economic security, but speculation has made their homes rise to an unrealistic level. A price correction is sure to come. ⇩
	Tension between countries increases. War is a possibility. In each country people resent neoliberalism and want to go back to Program 1.
This is the cycle of capitalism. Program 2 preceded Program 1 before 1946, and Program 2 came into effect after 1972. The two programs are parts of one cycle that always leads to a crisis, but it is not necessarily the reality that humanity must live with. Is there an alternative? Does survival depend on finding an alternative to this deadly cycle?	