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6 Making sense of the rise and demise of capitalism's golden age

Each of the three long swing theories sketched out in the previous chapter have been applied to capitalism's post-Second World War 'golden years'.

This chapter reviews some of the work that has been done.

The first section sets out some methodological problems with historical explanations. The second section presents some long swing explanations of the end of the post-Second World War boom. The third section briefly goes more deeply into the methodological problems.

6.1 The trouble with historical explanations

What constitutes a good historical explanation? If we are confronted with different historical explanations, as is often the case, how do we know which one is true? North (1968) has a rather optimistic view of these questions. In his view, the primary objective of the economic historian is explanation, and the way in which (s)he provides an explanation of historical phenomena is a 'process of give-and-take between the development of generalizations, the specification of background

1 The term 'golden age' or 'golden years' of capitalism is used in this work for convenience's sake, but this terminology should not be interpreted as an idealization of the period. The following statement by Standing (1999: 55) may serve as a caveat: 'From 1945 to the mid-1970s could be characterized as the era of statutory regulation. It deserves to be called that rather than the golden Age or one of "social consensus", because it was based on an inequitable and unsustainable international division of labour, and because there was much strife led by workers wanting progress to continue or be speeded up. There was a spurt in economic growth in the post-war period, once stability had been restored, but it was a period of tension, in which employers typically made concessions to workers, and in which distributional conflict was extended to other forms of conflict in Asia, Africa and Latin America.'
conditions, and the testing of the generalizations against systemic empirical evidence.' How does this work concretely?

To begin with North (1968: 471) posits that it is impossible to separate out relevant facts from irrelevant ones without a theory about how an economy operates. That seems fair enough, and probably nobody will disagree. However, the difficulty is that there is not one generally accepted, let alone unchallenged, theory of how economies work. North (1968: 469) argues that the theory an economic historian employs 'rests upon a number of basic axioms and postulates from which are derived subsidiary propositions that express the general form of the functions used in constructing models. These models represent broad generalizations of economic behavior.' Again, the problem is that very few if any natural-law-like axioms and postulates are generally accepted, including about economic behavior or the functioning of capitalist economies. But even if there were, these could be combined in various ways in competing models to constitute generalizations of economic behavior. These would be based on different bodies of evidences and convictions.

The next step in North's method is the application of his models of economic behavior to given historical situations. This requires 'the specification of the particular functional forms, parameters or changes in parameters which may not be known to the economic historian', so that the model that (s)he constructs 'is one in which these forms and shifts of functions must be discovered and specified.' Once again, no royal route to such specifications exists in economics and other social sciences, so that different concrete models can and will be put together. By the time North tests the 'functional relationships implicitly or explicitly embodied in the explanation in order to see whether the parameters of these equations are consistent with available data', he is testing one specific — and we hope specified — explanation, based on a whole range of decisions, assumptions and beliefs. His conviction that it 'is a relatively easy task for any well-trained economic historian to test (and typically in recent research to destroy) a specific explanation about the past' is therefore over-optimistic.

For Caldwell (1982: 241) the fact that a wide variety of models may be constructed to represent any theory is one of the reasons why 'the empirical falsification of any single model does not imply the falsification of the theory. Falsification of theories, as opposed to models, is thus impossible in economics.' For a similar point see Klant 1972, chapter 5.
Or should we say a bit naive? Blaug (1992: 11) definitely has a point when he argues that even if historical explanations, like scientific explanations, are subject to empirical testing on the basis of factual evidence,

‘the evidence is usually so sparse and so ambiguous as to be compatible with a large number of alternative and even conflicting explanations. It is difficult therefore to resist Hempel’s (1942) argument that virtually all historical explanations are pseudo-explanations: they may be true or they may be false but we will rarely know which is the case and the historian is not typically prepared to help us distinguish one from the other.’

Blaug is particularly suspicious of explanations that come after the event, warning of ‘the famous fallacy of post hoc, ergo propter hoc, that is, inferring causation from mere causal conjunction’. To reduce the possibility of spurious explanations he argues that explanations have to yield testable predictions that can be falsified, arguing that ‘we ought to be on our guard when offered an explanation that does not yield a prediction, that is, when instead of an explanation we are offered “understanding”’.3

Obviously even that prescription does not solve all problems; there will always be the difficulty that contingencies are unpredictable. The most important thing is not ‘to pretend that there is on deposit somewhere a perfectly objective method, that is, an intersubjectively demonstrated method, that will positively compel agreement on what are or are not acceptable scientific theories’ (Blaug 1992: 16). We should therefore be profoundly skeptical of historical explanations, because with ex-post-facto rationalizations it is easy to ‘explain’ anything.

With that important consideration in mind, we can now take a look at some long swing explanations of the end of the post-Second World War boom.

3 Earlier Blaug (1968: 673) wrote that a “‘theory’ is not to be condemned merely because it is as yet untestable, not even if it is so framed as to preclude testing, provided it draws attention to a significant problem and provides a framework for its discussion from which a testable implication may some day emerge. It cannot be denied that many so-called “theories” in economics have no empirical content and serve merely as filing systems for classifying information. To demand the removal of all such heuristic postulates and theories in the desire to press the principle of falsifiability to the limit is to proscribe further research in many branches of economics.’
6.2 Analyzing the post-Second World War long boom

The purpose of this section is not to judge the historical correctness of different explanations of the end of capitalism's golden age, for such an judgment can only be the outcome of a specific research program. This section's aim is therefore much more modest: to present some of these explanations so as to illustrate the way the theories presented in the previous chapter have been applied concretely.

Followers of the various different long swing schools all have their specific emphases, which are partially explicable as consequences of their origins or main areas of research. But there is considerable agreement among them that 'a particular set of institutions produced unusually rapid and stable accumulation in the industrialized capitalist countries from the mid-1940s through the 1960s' (Kotz 1994: 93), and that this happy period ended with the long period of stagnation that opened up in the mid-1970s. Compared with the earlier 1920s and '30s and the succeeding 1980s and '90s, the expansionist 'golden decades' particular characteristics are almost non-controversial: higher growth rates, lower levels of unemployment, significant increases in productivity, an extension of social and public services, and regular real wage increases for workers. Long swing researchers generally present a number of institutional pillars as characteristic of this expansionist long phase, although different schools

4 Of course, such general statements need qualification. As Webber and Rigby (1996: 6) rightly register, 'the golden age was only partly golden: it was more golden in some place than others, for some people than others (...) Yet there was growth and it was expected to continue.'

5 In Mandel's words (1995: 63): 'there occurred a tremendous leap forward in material production (...), (...) the productivity of labor increased significantly, (...) the level of employment was significantly higher in the imperialist countries than in the interwar period, (...) the standard of living of the mass of the population in the West rose in an important way, (...) many important social reforms that represent real social progress (...) could therefore be conquered by the workers. And if the mass of the people in semicolonial and colonial countries did not profit from these reforms, one can point out that their existence certainly was not more happy in the 1920s and 1930s, when there was massive unemployment in the West.'
categorize and weigh the institutional environment for capitalist accumulation in different ways.\(^6\)

More or less following the classifications used in the Regulation approach, Guttman (1994: 55-56) for example identifies five institutional forms that combine to determine the conditions that allow the economic system to reproduce itself in a stable manner:

- A monetary regime, which comprises money creation, credit extension, and their respective management by the state’s monetary authorities.
- Forms of competition (e.g. price coordination, advertising and product differentiation), which depend on corporate organization and the structure of industries.
- A sociotechnical system, which covers all aspects of the labor-capital relationship, including the means to control the work process, the social and technical division of labor, and wage determinants, as well as wage-earners’ living standards and consumption norms.
- State intervention, because the very existence of markets has always depended on government for enforcement of contracts, protection of private property, maintenance of social order, and representation of national interests in international relations.
- An international policy regime (multilateral trade agreements and the international monetary system), which regulates economic relations among competing nation-states, so as to ensure a required minimum of cooperation.

And Barsoc (1994: 54-55), combining categories from that same Regulation approach with the long wave approach, specifies four domains in which stable and coherent responses have to be provided in order to make an expansive long swing or ‘productive order’ possible. The institutional forms suggested by Guttmann are integrated in this listing in a slightly different combination, with technological innovations taken more explicitly into account:

1. A mode of accumulation of capital, including competitive relationships (industrial and financial structure, extent of monopolies in the economy, relationship between banking and industrial capital, modalities of state intervention in the economy), and relationships

\(^6\) Brenner and Glick (1991) have challenged the application of the Regulation School’s approach to the postwar US, but their extensive criticism falls outside the framework of this exposition.
between capital and labor (organization of labor, wage structure and the working class's type of consumption).

2. **A type of material forces of production**, in which major technological innovations (such as in chronological order steam engines, electric and combustion engines, and computers) play an essential role.

3. **A mode of social regulation**, that is the (para-)state institutions that structure and organize reproduction, 'social peace', and the work force's subordination to the ruling order: the system of political representation, the educational system (important in the 'production' of the labor force), the right to work, a social security system and the maintenance of order.

4. **A type of international division of labor**, including: the hierarchical order of military and political power, the place of different economies in the productive process, the international role of currencies (is there a generally accepted international reserve currency?) and the direction in which international financial flows go.

The productive order that came into existence after the Second World War can thus be interpreted as a concrete and coherent combination of developments in these general domains. Summed up in a few well-known key terms, the postwar expansive phase rested on four pillars (Barsoc 1994: 56):

- **Taylorism**: A scientific organization of labor with an unprecedented intensification of rhythms of work, with as one major result a steady increase in labor productivity.
- **Fordism**: As Keynes had predicted, including wage earners in the dynamic of consumer markets turned out to be the best medicine for traditional crises of overproduction, as long as mass consumption did not increase more quickly than productivity and did not interfere with profits.
- **Keynesianism**: In place of laissez-faire liberalism, active state intervention in the economy by means of automatic stabilizers (such as for example the social security system) and with budgetary and monetary policy in order to prevent destabilizing stock exchange crashes and recessions.
- **US hegemony**: Expressed at Bretton Woods, where the dollar acquired the status of international reserve currency. The Bretton Woods system
did not arise spontaneously but was prepared during the course of the war."

But these ‘golden years’ did not last forever. Long swing theorists argue that conflicts, which had been building up during the expansionary period, provoked a sharp turn in economic development at the beginning of the 1970s. For most economists and policymakers this change came as a big surprise. The fact that many of them saw the 1973 oil crisis as the cause of the economic turn is a good example of post hoc, ergo propter hoc. As Mankiw (2000: 117) says in his introduction to macroeconomics:

‘When the productivity slowdown began around 1973, the obvious hypothesis to explain it was the large increase in oil prices caused by the actions of the OPEC oil cartel. (...) Over time, however, this explanation has appeared less likely. (...) If this explanation were right, productivity should have sped up when political turmoil in OPEC caused oil prices to plummet in 1986.’

This is of course not what happened. The initial response by economic policymakers in the OECD countries was linked to this analysis. What seemed logical to many of them at the time was therefore relying on Keynesian recipes, which had shown their usefulness during the preceding decades. Concretely, they tried to soften the blow of falling output by increasing government spending and borrowing, rather than by reducing state revenues to bring expenses into line with state revenues, as the orthodox approach that reached prominence again afterwards would have demanded. However this did not work out as expected because, as Webber and Rigby (1996: 10) conclude,

‘accumulation faltered for internal, inherent reasons rather than because of external events than can be blamed on others. It is not so much that we made mistakes spending too much, protecting industries, permitting workers to become too powerful, letting the rate of productivity slow; instead, growth would in any rate have slowed, because sustained rapid rates of growth must be followed by slower growth and disarray.’

When it became increasingly clear that previously adequate policies were no longer effective because of the structural character of the new economic

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7 For more on this see the next chapter.

8 As Guttmann (1994: 120) says, ‘just as earlier expansion phases of long waves inevitably exhausted themselves after two or three decades of rapid growth, so also did the postwar boom eventually come to a close.’

9 See for example Shutt 1998 and Went 2000.
problems, a long period of fundamental restructuring and reorganization opened up. Developments since then are the subject of the next chapter.

The discussion of the exact causes of this turn in the mid-1970s is not closed, and there exists a panorama of interpretations and contributing factors. Nuances or different emphases can sometimes be derived from divergent evaluations of the concrete (combination of) factors that had led to the decades of expansion. There are also disagreements, partially linked to distinct theoretical approaches and traditions – with their own methods of analysis and specific terminology – and divergent levels of abstraction. Incidentally, it is interesting to note that mainstream economists have a much harder time understanding the end of the postwar boom. In his macroeconomics textbook for undergraduates cited earlier, Mankiw (2000: 116-8) writes that ‘(o)ne of the most perplexing problems that policymakers have faced in recent decades is the worldwide slowdown in

10 Proof of this non-conclusiveness is Brenner (1998), a comprehensive new interpretation of how the boom came to an end, which has given rise to a number of debates, such as for example in two voluminous issues of Historical Materialism (no. 4 [Summer 1999] and no. 5 [Winter 1999]). He takes ‘as point of departure the unplanned, uncoordinated and competitive nature of capitalist production, and in particular individual investors’ unconcern for and inability to take account of the effects of their own profit-seeking on the profitability of other producers and the economy as a whole’. Brenner then argues that ‘the fall in aggregate profitability that was responsible for the long downturn was the result of not so much an autonomous vertical squeeze by labor on capital, as of the over-capacity and over-production which resulted from intensified, horizontal inter-capitalist competition. (...) The long downturn, from this standpoint, has persisted largely because the advanced capitalist economics have proved unable to accomplish profitably sufficient reductions and reallocations of productive power so as to overcome over-capacity and over-production in manufacturing lines, and thereby to restore profitability.’ Although the work as a whole is rich in data and interpretations, the core of the analysis is in my opinion partial and rather one-dimensional – and therefore less attractive – in comparison with the approaches under review (see also Husson 1999a). A similar point is made by Williams (2001: 2), who argues in his presentation of a paper by Brenner (2001) on the future trajectory for the world economy that Brenner has a ‘macro-economic, mechanistic view of the world economy which is apparently driven by variations in profit and exchange rate, with central bankers and treasury policy makers the only human agents’. Brenner also mainly looks at over-capacity and overproduction in manufacturing. See also Brenner 2000.
economic growth that began in the early 1970s', concluding that the 'worldwide slowdown in economic growth largely remains a mystery.'

(a) A Social Structure of Accumulation interpretation
David Gordon (1994: 294-5), leading theorist of the Social Structure of Accumulation approach, argues that three institutional features of the world economy were crucial to the postwar boom:

- Growth and access to trade were based on a tightly structured and carefully negotiated relationship between productivity growth and wage growth.
- State policy, which itself was grounded in the security provided by the Bretton Woods system and the central role of the US dollar, led to an increase in international trade among the developed countries.
- These two trends together contributed to a close relationship between movements in the relative unit labor costs of advanced capitalist countries and changes in their relative shares of world markets and trade growth.

However, the foundations of the postwar system began to be eroded from the mid-1960s on, when five interrelated and mutually reinforcing global tendencies became more and more pronounced.

- As corporate profits on fixed direct investment fell in most advanced countries, uncertainty and hesitation about real productive investment increased. Consequently there was an increasing tendency toward paper investments, that is to increases in financial assets.
- After the collapse of the Bretton Woods system there was a movement towards flexible exchange rates. As a consequence business cycles among the advanced countries became increasingly synchronized, and fluctuations of economic activity became increasingly volatile.11
- Uncertainty about global conditions and expectations was reinforced, because the exchange rate fluctuations became increasingly volatile.
- Governments were therefore induced to intervene more in the money market, to try to insulate their economies from these exchange rate fluctuations. The effect of these interventions on short-term interest rates was, however, to increase volatility and international variance over time.

11 ‘When one economy sneezed, others echoed’ (Gordon 1994: 294).
Finally, this outcome strengthened further the preoccupation with paper investments, and stimulated the increasingly rapid movement of short-term financial capital across international borders. The resulting increase in global instability, Gordon argues, gave rise to generalized (expectations of) stagnation, to a search by multinational corporations for protection against falling profits and instability in enclaves with special privileges and higher rates of exploitation, and to a search by transnational corporations for political and institutional protection in newly industrializing countries.

(b) A long wave interpretation
Long wave theorist Ernest Mandel identifies a number of developments that determined the end of the long postwar boom (Mandel 1995: 63-75):

- During the whole postwar expansive long wave, there was a steady rise of the organic composition of capital and a consequent fall in the rate of profit.\(^\text{12}\)

- The specific circumstances of a beginning technological revolution and of new industrial sectors that developed because of it – and the excess profits that they guaranteed for leading firms – gradually disappeared as the technological revolution was generalized.

- It became more and more difficult to achieve new increases in capital's turnover time. A revolution continued in the telecommunications sector, but further progress in sectors such as transport, sales of goods and turnover of liquid holdings was very limited in the late 1960s and 1970s.

- The long period of rapid growth created the conditions for a growing disproportionality between the rate of growth of production capacity for capital and consumer goods and the rate of growth in the raw materials sector, which is more directly linked to natural circumstances and therefore less flexible. As a result it was impossible for the relative decline of raw materials prices, which had been going on for almost twenty years (1952-71), to continue. The 1973 'oil crisis' was an example.\(^\text{13}\)

\(^{12}\) Or: 'the profit rate fell because increases in the amount of plant, equipment, and raw materials per worker were not offset by improvements in efficiency even though the rate of exploitation and the speed at which capital is turned were both tending to raise profitability' (Webber and Rigby 1996: 499).
A potential capacity for overproduction was built up during the whole expansive long wave, because productive capacity grew more quickly than consumer buying power.

Given the factors mentioned, an erosion of profitability could only be prevented through an ongoing, substantial increase in the rate of exploitation. That was certainly achieved in the first phase of the expansive long wave, but became steadily more difficult because technological changes lost their momentum and a situation of almost full employment arose. Just at the moment that the increase in organic composition accelerated, the rise in the rate of exploitation levelled off. This made a fall in the rate of profit unavoidable.

In a situation of increasing difficulties of realization and declining profitability, inflation could only fulfill its function of putting off the day of reckoning as long as it rose higher and higher in each successive cycle. But in practice as in theory, after a certain point a permanent rise in inflation turned out to be counterproductive for economic expansion. This was the case among other reasons because of the snowball effect of anticipatory wage and price hikes, the negative real rate of interest, and the fact that long-term rates of return became harder to calculate.

The permanent growth of multinationals increasingly undermined the effectiveness of state economic intervention. Together these eight factors explain for Mandel why capitalism’s ‘golden years’ came to an end: permanent inflation temporarily reduced but was unable to indefinitely bridge over the conflicts inherent in the expansion.

(c) A Regulationist interpretation
Regulation theorist Alan Lipietz (1999) summarizes in a contribution for an OECD conference what most researchers consider the three pillars of Fordism, the postwar development model:

13 A positive effect of this turn of events was that it stimulated the search for alternative raw materials and energy sources. It made the productivist, polluting character of capitalism more visible, along with the need to use raw materials and energy more sparingly and tackle waste and pollution at their sources.

14 Mandel argues that the combination of these last two factors — a different inflation rate in each country and nation-states’ declining ability to deal with multinationals — helps us understand why the Bretton Woods monetary system collapsed, leading to increasing international monetary anarchy.
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- 'Scientific organization of labor (Taylorism), designed by engineers, relying on automation and mass production, and characterized by impressive gains in apparent labor productivity.'
- 'Distribution of productivity gains to the workers, granting them access to mass consumption and, via the sustaining of effective demand, guaranteeing full employment.'
- 'A thicket of labor agreements and social legislation, combined with a strong welfare-state system, ensured that mass production and mass consumption would run in tandem.'

For thirty years (1945-1975) this model seemed to have banished major economic crises (and ecological crises), but it ran into serious trouble in the 1970s. The third pillar was shaken by the increasing internationalization of economies and companies, while the first pillar eroded because the Taylorist model of labor organization became exhausted, with a drastic reduction of the yearly increases of productivity as the result.

Researchers working within the Regulation approach have often integrated monetary developments into their analyses. Robert Guttman (1994: 119-137) for his part emphasizes that the 'stable growth pattern of the postwar boom was very much contingent on increasing debt and regular liquidity injections via endogenous money creation'.

The spreading stagnation of the 1970s coincided with a trend of accelerating inflation.

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15 For a discussion of the contribution in this respect of Aglietta, one of the founders of the Regulation approach, see Grahl 2000.

16 Guttman (1994: 199 - 120) puts considerable emphasis on the extent to which the postwar monetary regime contributed to the economic boom: 'Its institutional provision of continuous credit extension and automatic "monetization" of debt helped to finance various channels for spending in excess of current income. The most important sources of excess spending were depreciation charges of industrial capital, consumer purchases of large-ticket items, regular budget deficits, and America's seigniorage benefit. The resulting stimulation on the demand side combined with monopolistic price regulation on the supply side to support real wage growth in line with productivity gains. This combination relaxed the monetary constraint in the production economy, as illustrated by the ability of firms to avoid deflationary price adjustments and to turn the devaluation of their plant and equipment into a source of cash flow.'
Slower growth and an accelerating shift in resources from manufacturing to services contributed to stagnant productivity levels throughout the 1970s. Since at the same time nominal wages began to rise more rapidly (unions won automatic cost-of-living adjustments in contracts) this resulted in rising unit labor costs. Whenever market conditions permitted, firms then increased their output prices to prevent their profit margins’ shrinking too much. Since in addition cost pressures resulted from the explosive price increases for raw materials in global commodities markets during 1972-73 and 1978-79, inflation increased strongly.

Spreading stagnation and accelerating inflation thus became two features of a deepening structural crisis, in which tendencies toward overproduction and credit overextention became dominant. A structural crisis, Guttmann posits, ‘denotes a long-term process of institutional erosion and policy failure. The tensions set off in its wake cause the existing accumulation regime to disintegrate in a series of interdependent ruptures. These in turn trigger forces of reorganization which may eventually lead to a new and more viable regime.’

6.3 The need for further clarification

In section 1 we have indicated some methodological problems with historical explanations in general. In this final section we briefly provide some indication of how some leading ‘long swing’ theorists themselves regard these and similar problems.

Long wave theorist Husson is himself aware of the difficulties of distinguishing between good and bad historical explanations:

‘What accounts for the end of the long expansion? We have here a major theoretical problem. Concretely history has to be made compatible with theoretical schemas integrating both the possibility of phases of expansion and the ineluctability of crises. The articulation is extremely complex, since the theories must not “explain too well”. There are “catastrophist” readings for instance that explain the crisis so well that it becomes difficult to understand why the crisis is not permanent. On the other hand, “harmonicist” approaches lead us to ask how such a well-oiled machine could have ever derailed. Nor can we demand that theoretical explanations provide a universal, timeless interpretative matrix, applicable to all crisis situations; this would mean denying their historic dimension. Another way of expressing the same difficulty is to emphasize the contradiction that exists between the
structural causes of the crisis and the forms in which it suddenly appears' (Husson 1999b: 90).

One specific problem with the three theories under review is that they are relatively new and demanding. As Louça (1999: 108) argues, Mandel's theory is original because it incorporates the autonomy of the political and social processes. This made Mandel 'one of the first authors in the research programme on long waves to consider the necessity for a historically integrated explanation, and in fact to define it as the very condition for the viability of the programme.' The same is the case with works of the Social Structure of Accumulation school and of Regulationists, while the large majority of long wave researchers 'based their inquiries in smoothing techniques derived from trend-deviation analysis and in order to decompose the series in a trend and cyclic movement', and others 'abandoned the domain of data analysis and suggested that model simulation could replace the inductive proof'.

Empirical and quantitative research in the framework of the research program on historically integrated explanations of long swings is still in its infancy, assesses Louça (1999: 114), who is himself working in this field: the methods are not robust, there is a lack of information, and hypotheses are still being defined.17 These difficulties are underlined by Webber and Rigby, who published in 1996 the result of a research project that began in the early 1980s on the dynamics of the world capitalist system over the postwar period. One problem they found themselves confronted with was determining 'which are cause and which are consequence? It is insufficient to demonstrate that changes in productivity or wages or regulation have occurred. Rather, we need to demonstrate that some factors are more clearly cause and others more clearly consequence' (Webber and Rigby 1996: 80-1).

One of these questions concerns the relation between productivity growth and accumulation. Webber and Rigby (1996: 496) conclude that the evidence they found

17 Louça (1999: 114) argues that two tools are essential to better explanations: 'political economy, i.e. history, and the complexity approach, i.e. the formalization of the nonlinear, structurally unstable and creative relations in economies. Both methods challenge the certainties of neoclassical economics and attack its equilibrium mystique. Their combination is needed in order to develop both the programme's analytical capacity and its ability to explain real evolutionary processes.'
‘broadly accords with the views of Mandel and of Piore and Sabel: (i) productivity slowed in the 1970s, after profitability had already begun to fall and after rates of accumulation had tumbled; (ii) the productivity slowdown originated in lower rates of investment (which slowed innovation and imitation) and in inflation (which spurred the entry of inefficient firms); (iii) productivity and innovation or imitation are positively correlated across different industries; (iv) faster gains in productivity since 1981 have not been reflected in rates of profit. Freeman and Perez and Lipietz seem to have their pattern of causation wrong and so their timing.’

Studies such as Webber and Rigby’s are important building blocks of a research project evaluating the still largely inconclusive debate about different explanations for the end of the golden age.

Summary and conclusion

In this chapter we have introduced some explanations that long swing theorists give of the end of capitalism’s golden years. Followers of different approaches argue that a particular set of institutions, which gave way to a period of expansion during roughly the three decades after the Second World War, ran out of steam. Although there is agreement on a number of issues, the debate on exactly why this golden age did not last and on the causes of the end of the long post-Second World War boom is not settled.

It was argued that a project of assessing the various theories will be confronted with a number of difficult methodological problems. In general we lack sufficient methodological criteria for evaluating historical explanations. For the time being, therefore, we need to be skeptical of historical explanations. Especially with ex-post-facto rationalizations, anything can be ‘explained’. More specifically, the research on historical explanations of long swings is still in its infancy: the methods are not robust, there is a lack of information, and hypotheses are still being defined.