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Challenges to Capital

> We all had the feeling it could come apart in quite a serious way. As I saw it, it was a choice between Britain remaining in the liberal financial system of the West as opposed to a radical change of course because we were concerned about Tony Benn precipitating a policy decision by Britain to turn its back on the IMF. I think if that had happened the whole system would have begun to come apart. God knows what Italy might have done; then France might have taken a radical change in the same direction. It would not only have had consequences for economic recovery, it would have had great political consequences. So we tended to see it in cosmic terms.
>
> (US State Department official recalling UK negotiations with the IMF in 1976, quoted in *Sunday Times*, 21 May 1978).

In the 1950s and 1960s the economies of the most developed capitalist countries (North America, Western Europe, Japan and Australasia)[1] enjoyed an unprecedented boom, combined with low unemployment, low inflation and rapidly growing living standards. This was soon to be designated the 'Golden Age', because in the second half of the 1960s and through the 1970s the whole structure of stable, profitable growth threatened to fall apart. As the comment at the top of the page indicates, the very stability of the capitalist system seemed to be under serious threat.

The rest of this chapter outlines the various strands of this story. The long boom of the 1950s and 1960s brought high employment and greatly strengthened the bargaining position of workers. This

led to wage increases and a profits squeeze and powerful unions challenged the freedom of employers to run their businesses and invest as they pleased. The relatively orderly international economic system, presided over by the USA after World War II, was unravelling as Europe and Japan were closing the gap in productive efficiency with the USA. Combined with different degrees of wage pressure in different economies, this led to a splintering of the fixed exchange rate system. Inflationary pressure was exacerbated by the rise in food and raw material prices in the early 1970s, a response to high demand and topped up by speculation. More ominous was the fourfold increase in oil prices at the end of 1973, initiated by the OPEC producers and reflecting the much more assertive stance of some ex-colonial countries. A further underlying problem, though this only became clear with the benefit of several years' hindsight, was a severe decline in the rate of productivity growth from the mid-1970s. Since productivity growth is the basic source of increased living standards and improved public services, a slower rate of expansion was bound to exacerbate conflicts over the distribution of national output.

The common theme to these apparently disparate problems was that the very success of the 'Golden Age' seemed to have undermined its basis. It brought extended full employment and thus the strengthening of labour; high demand for energy and other materials was pressing against available supplies; Europe and Japan were catching up with the USA thus disrupting international economic relations; productivity growth appeared to be running out of steam as the potential of existing technologies was used up. Moreover, although the USSR and the other planned economies had deep economic problems of their own, their continued existence still held out the possibility of an alternative path for development to that offered by free market capitalism. Although particularly important as a model for developing countries, the apparent viability of planned economies also made more credible a range of proposals from the labour movements of the rich countries for radical constraints on free market capitalism. The sections which follow consider the various aspects of the turmoil of the 1970s in a little more detail. The origins and nature of this widely heralded 'crisis of capitalism' are hotly debated and different authors ascribe varying weights to

the factors considered below.[2] The account given here follows the emphasis on profitability and capital-labour relations of Armstrong *et al.* (1991).

Organized Labour

The most striking employment trend in the highly developed economies during the long boom of the 1950s and 1960s was the decline in importance of agricultural employment and the corresponding rise in the number of wage workers in industry and services. Agricultural employment fell from 25% of total employment in OECD countries in 1950 to 9% in 1973[3] and the proportion of those working classified as self-employed fell from 31% in 1954 to 17% in 1973 as peasants shifted to the towns.[4]

In Europe the decline in agriculture was not quite as fast as in Japan but much greater than in the USA, which had far fewer farmers to start with. The exodus from agriculture contributed as much to the labour force available for work in industry and services as did the growing population of working age overall. Services employment rose more rapidly than industrial employment because of slower growth of labour productivity in services.[5] The proportion of men of working age (15–64) employed fell as more stayed on in education and fewer carried on working into retirement. This rise in 'inactivity' did not imply an overall shortage of jobs for men, however, as male unemployment was falling.

Women kept their rather small number of industrial jobs (14% of urban women worked in industry in 1950 and 1973 whilst 52% of urban men had industrial jobs in 1950 and 44% in 1973). However urban women's employment in Europe rose almost twice as fast as men's as large numbers moved from household work into jobs in services.[6]

Although net inward migration was significant, by the end of the 1960s and early 1970s, when labour markets had become very tight, it was only contributing 0.1% per year to the population of the

highly industrialized economies or a tenth of the total increase in population of working age. In Europe net inward migration was only one-fifth as important as a source of additional labour as the shift out of agriculture.

The motor behind the expansion of jobs in the modern industrial and services sector was the rapid accumulation of capital. Businesses increased their stock of capital equipment by about 5% a year in the 1960s and early 1970s.[7] Although capital per worker grew strongly, more workers were still required in the new factories and offices.

The great expansion of urban population brought with it a strengthening of trade unionism and legislative changes supporting labour's bargaining position. Table 1.1 shows a number of relevant indicators. The proportion of those at work who were union members increased in the average OECD country. The increase was modest since employment in services was expanding and service workers (apart from the growing group of public sector employees) tended to be much less unionized than industrial workers. However, with unemployment low over a prolonged period, union organization was strengthened. The table also shows that the level of unemployment benefits rose substantially compared to pay, and eligibility for benefit became more relaxed. Unemployment, as well as being less likely, was also less costly financially to those affected, thus reducing the pressure to take the first job that became available regardless of conditions. Employment protection legislation (EPL), against arbitrary dismissal and generally limiting employer prerogatives over hiring

Table 1.1 **Labour Market Trends, 1960–1979**

Average for 19 OECD countries	Union Membership % of employment	Employment protection legislation index	Unemployment benefit as % of average pay	Unemployment rate (%)
1960–4	38.8	0.79	28.0	2.1
1965–9	39.1	0.85	31.0	2.1
1970–4	41.4	0.99	34.6	2.5
1975–9	44.8	1.09	43.2	4.3

Sources: Baker *et al*. (2005). See Data Appendix.

and firing, was also extended in this period, as shown in the OECD's index. Another very significant gain for workers was a sharp fall in average hours worked from around 2000 per year in 1950 to 1750 in 1973—the equivalent of more than a half day less work per week.[8]

An important manifestation of labour's stronger position, and employers' resistance to workers' demands, was the high level of industrial conflict. The most spectacular examples of labour militancy were the strike waves of the late 1960s. Some 150 million days were taken in strikes in France in May–June 1968 as workers occupied the factories, initially in protest at the suppression of student demonstrations. Radical demands for workers' control were channelled by the trade union leadership into negotiations which settled for a 10% wage increase, an increase in the minimum wage, and some extension of trade union rights. In 1969 60 million days in Italy were taken by successive strike waves, originating on the shop floor. These culminated in another 10% pay increase, combined with reductions in working hours, parity of treatment when sick for blue and white-collar workers and eventually a major extension of trade union rights at the factory level. Nearly 25 million working days were given over to strikes in the UK during 1970/71 after a national incomes policy broke down.[9] Even normally peaceful German industrial relations were ruffled by a wave of unofficial strikes and the United States topped the OECD league table in days on strike per worker in 1970 (as it had done in 1954, 1955, 1959, 1960 and 1967).

Figure 1.1 shows the longer-run trend in strikes for OECD countries, with year to year fluctuations ironed out by using a five-year average. Strikes are measured as days on strike per 1,000 workers in industry. Strikes build up from the later 1960s to the mid-1970s and then decline dramatically through the 1980s and 1990s. The 1990s appear very quiet in terms of open industrial conflict even as compared to the golden years of the 1950s and 1960s.

In each of the European countries the rate of money wage increases more or less doubled after the major strike movements[10] and the trend of real wage increases rose steadily to reach over 4% per year in the early 1970s in the OECD countries (see Fig. 1.2). The sharp rise in money wages also contributed to the upward trend in inflation in the second part of the 1960s. Inflation rose more

sharply in the early 1970s with the rise in oil and commodity prices (see below); when inflation reaches 12% a year the real value of pay packets is falling by 1% a month—fast enough to be very noticeable and a source of increased social tension. The rise in inflation reined in the rate of real wage increases, especially towards the end of the 1970s.

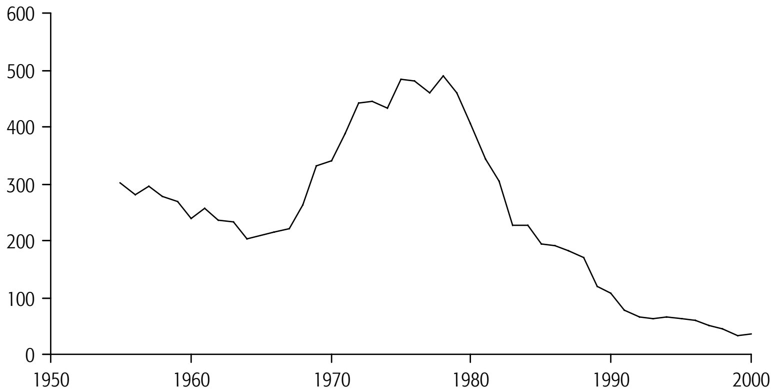

Fig. 1.1. **Strikes: Days on Strike per 1,000 Industrial Workers, 1953–2003**
Source: Office of National Statistics. See Data Appendix. 16 countries.

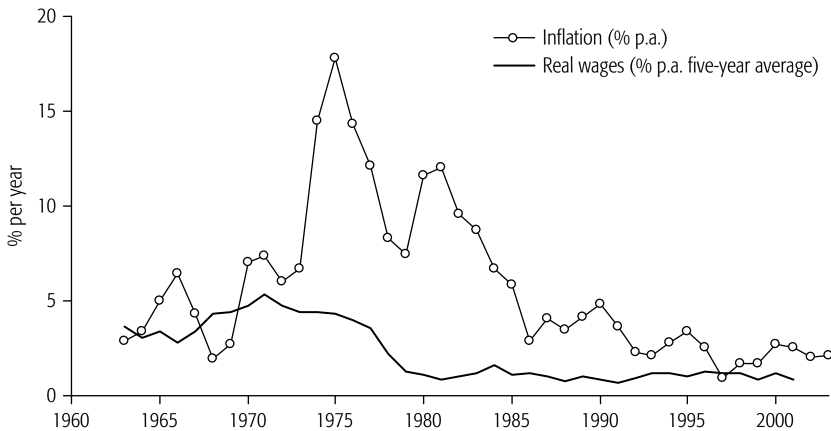

Fig. 1.2. **Inflation and Real Wage Increases, 1963–2003**
Source: IMF. See Data Appendix. 13 countries.

Wage pressure also contributed to a squeeze on profitability. By the mid-1970s the gross profit share in manufacturing, a sensitive and readily available indicator of returns on investment in the sector of the economy most exposed to the vicissitudes of industrial strife and competition, had sunk by more than one-quarter in a decade (see Fig. 1.3) having been pretty stable until the late 1960s. Gross profits are calculated before deduction of depreciation on capital employed. Depreciation was tending to rise as a share of value added, in part because more of the capital stock was machinery, which depreciates faster than factory building. Thus the fall in net profits was proportionately considerably greater than the fall in the gross share. Further, employers are most concerned with the rate of profits compared to their capital outlays rather than output produced, and these outlays were rising faster than output. Allowing for this, the net rate of profit on capital employed in manufacturing had fallen by nearly one-half by the end of the 1970s.[11] It was apparent that the profits squeeze was reflecting a combination of militant wage pressure pushing up earnings and international competition restraining price increases.[12] The rise in imported material costs and weakening of productivity growth (see below) further exacerbated the distributional struggle.

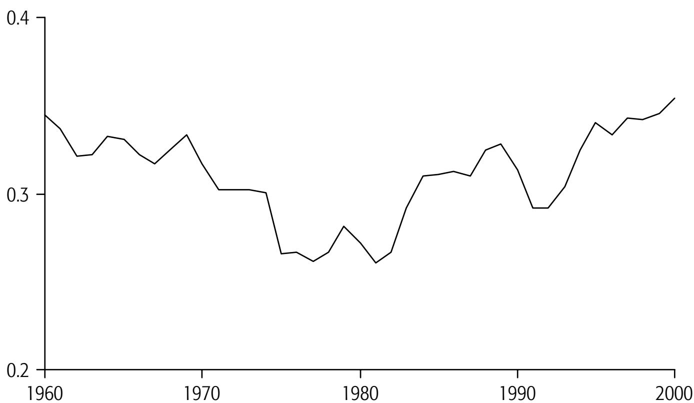

Fig. 1.3. **Manufacturing Gross Profit Share of Value Added, 1960–2000**
Source: OECD. See Data Appendix. 15 countries.

It is hard, 30 years or so later, to appreciate the sense of alarm engendered by the industrial strife and distributional conflict of the late 1960s and 1970s. In the UK the defeat of the Conservative government in early 1974, after a second successful miners' strike, provoked an article in *The Times* (5 Aug. 1974) headlined 'Could Britain be heading for a military takeover' by Lord Chalfont, a Defence Minister in a previous Labour government. In it he wrote of 'the massive power and often ruthless action of the great industrial trades unions' and noted that 'Large industrial concerns are beginning to talk in terms of a co-ordinated defence against industrial action or wholesale nationalisation'. A reply shortly thereafter (16 Aug. 1974) by the then Defence Correspondent of *The Times*, appeared under the headline 'It would not take a coup to bring British troops onto the streets', where he envisaged a scenario when 'an annual rate of inflation of 20 per cent would soon bring us to a point where there had to be a stabilization plan involving great hardship to most of the country or—even without a stabilization plan—the effects of rising prices and shortages had caused such chaos that conventional economic and social life was being overthrown'. He went on to discuss scenarios in which the forces would be called in to break strikes, which could escalate to a situation where 'normal legal administration is impossible and the only authority left is the military commander'. Such a scenario, he wrote is 'still *nearly* inconceivable' (his emphasis).

International Disorganization

At the end of World War II the USA was in an unrivalled position of economic and political leadership of the OECD countries. In 1950, with the bulk of post-war reconstruction completed, the USA still produced about 60% of the total output of the biggest seven capitalist countries, and its manufacturing industry was about twice as productive, per person employed, as that of the UK, three times as productive as German manufacturing and nine times as productive as Japanese manufacturing.[13] The economic power of the USA placed

the dollar at the centre of the international financial system, and other countries fixed the value of their currencies to the dollar at rates which were competitive after devaluations in 1949.

The long boom of the 1950s and 1960s was much stronger in Japan and Europe than in the USA. Faster growth of the capital stock, encouraged by plentiful supplies of relatively cheap labour and taking advantage of new technologies and management practices developed in the USA over the previous decades, eroded the productivity gap of European and Japanese manufacturing whilst lower wage levels kept their exports highly competitive. Between 1955 and 1970 hourly labour productivity in manufacturing grew by 10.3% per year in Japan and 6.7% in Germany, as compared to 2.3% per year in the USA.[14] Although money (and real) wages grew more slowly in the USA this was not sufficient to maintain export competitiveness. The US share of world manufactured exports halved between 1950 and 1970 (from 33% to 16%). Japan, having excelled in heavy industry (basic metals including steel was estimated as 60% more productive per hour worked in Japan than in the USA by 1980), was rapidly developing world leadership in mass production industries. In electrical machinery and instruments Japanese productivity exceeded the US level by 1980.[15] The US trade account moved into deficit by the end of the 1960s compounding the weakness of the dollar caused by heavy outflows of 'direct investment' as US corporations expanded their production activities abroad, mainly in other OECD countries.

A second disorganizing influence on the international economic relations of the OECD countries was the rise in the cost of raw materials, food and energy imported from outside the OECD. Figure 1.4 shows oil and non-energy commodity prices in real terms, that is as compared to US domestic inflation. It shows the very sharp rise in all commodity prices in 1974, especially oil. The combined index for food, agricultural materials (like cotton) and metals has been on a pretty continuous slide since then. Oil prices, however, kept up with US inflation after 1974 before nearly doubling again in 1979/80 to a real level about seven times as high as during the 1960s and early 1970s.

The OPEC price increases at the end of 1973 were precipitated by political developments in the Middle East but the underlying factor

was rapidly increasing demand for oil. Energy and metals consumption by the OECD countries were both growing at 5–6% per year over the period 1960–73 and the rapid price increases of the period seemed to confirm the message of the influential Club of Rome 1972 report, *Limits to Growth*.[16] This popularized the idea that the existing pattern of growth was unsustainable as the world was running out of non-renewable resources. It became commonplace to point out that the discovery of new reserves equivalent to Libya's production would be necessary every year to prevent the 'depletion horizon' for oil from shrinking inexorably.

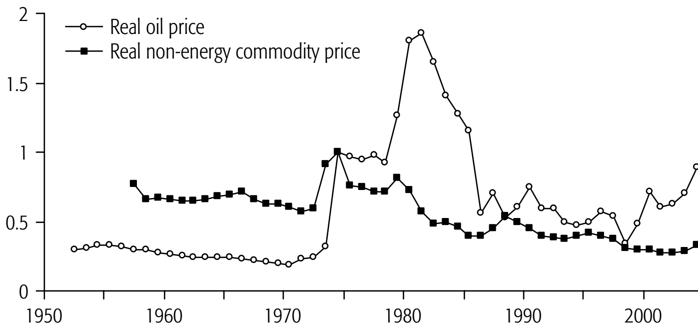

Fig. 1.4. **Real Commodity Prices, 1952–2004**
Source: IMF. See Data Appendix. 1974 = 1.

The rise in commodity prices, especially oil, added a vicious twist to the inflationary pressure which had been bubbling away since the mid-1960s. Workers found their real wage increases constrained (see Fig. 1.2), but were able to pass part of the burden of reduced real incomes onto the employers via the lower profit share (see Fig. 1.3).

The post-war international monetary system formulated at Bretton Woods was supposed to keep exchange rates between other currencies and the dollar fixed unless countries moved into 'fundamental disequilibrium' on the balance of payments. This did not rule out exchange rate changes but these were few and far between (devaluations of the French franc in 1958 and 1959; minor revaluations of the German mark and Swiss franc in the early 1960s). Somewhat

surprisingly, countries were equally reluctant to devalue or revalue. Devaluation added more pressure to inflation as import prices rose and real wages were cut. In the case of the UK, forced to devalue in 1967, there were the added fears that this would undermine the reserve role of sterling and the position of the City of London as a financial centre, though in fact the City adapted by dealing in other currencies (notably Eurodollars). At the same time, countries with balance of payments surpluses were very reluctant to revalue as this reduced the profitability and thus the competitiveness of their powerful export industries.

However, differences in inflation rates tended to undermine the fixed exchange rate system. In the 1960s inflation was at relatively similar rates across the OECD countries and the desire to keep a fixed exchange rate against the dollar put pressure on countries with high inflation to cut demand and squeeze down on their economies. However, the combination of the wage explosions, at different times and intensities across the most industrialized countries, and the varying impacts of the commodity price increases, brought an increasing divergence of inflation rates in the 1970s. Over the period 1973–9 the degree of dispersion of inflation rates across the OECD more than trebled. Figure 1.5 illustrates this dispersion by comparing Germany, which established its anti-inflationary credentials in the 1970s, with Italy, the most notoriously inflation-prone of the larger OECD economies. In the 1960s neither of their inflation rates significantly diverged from that of the USA, which was the anchor of the system. In the 1970s faster inflation pushed the nominal price level in Italy higher and higher compared to the USA, whereas in Germany low inflation brought steady falls in the price level relative to that of the USA.

The combination of diverging productivity growth and inflation rates generated persistent payments imbalances which undermined the fixed exchange system. Exchange rate depreciations then reflected, but also perpetuated or even increased, inflation differentials. Figure 1.6 shows how the value of the mark and lira moved against the dollar; the mark appreciated strongly whilst the value of the lira declined, reflecting the relatively low inflation in Germany (relative to the USA) and the high inflation rate in Italy.

The broadly offsetting movements of inflation and exchange rates noted above for the examples of Italy, Germany and the USA did not mean that floating exchange rates painlessly eliminated all problems of international competitiveness. On the contrary, the *real* exchange rate of an average OECD country fluctuated by an average of 6% per year in the 1970s, twice the rate of fluctuation in the

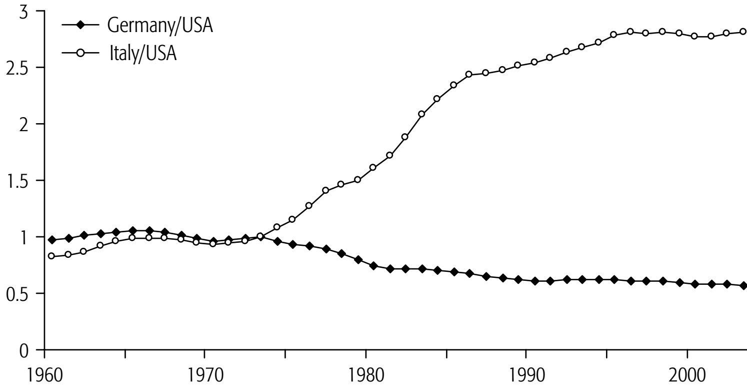

Fig. 1.5. **Consumer Prices in Germany and Italy relative to USA, 1960–2003**
Source: IMF. See Data Appendix. 1973 = 1.

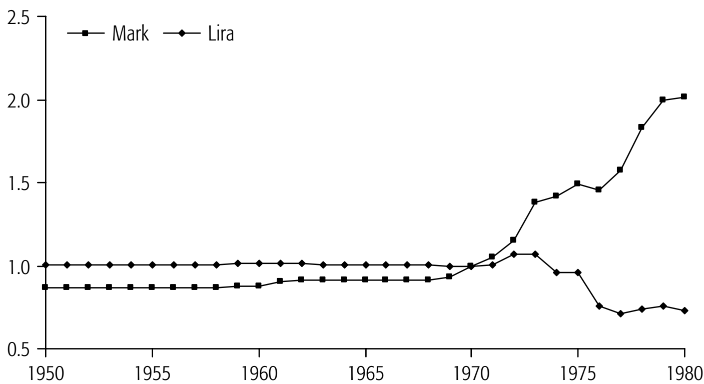

Fig. 1.6. **Deutschemark and Lira Exchange Rates versus Dollar, 1950–1980**
Source: IMF. See Data Appendix. 1970 = 1.

1960s.[17] In the 1970s fluctuations in nominal exchange rates were daily occurrences rather than the rare events of the 1960s, but they did not simply iron out the effect of inflation differentials. Such large year to year changes in the competitiveness of a country's traded goods sectors were probably important in discouraging longer-term investments in manufacturing.

Productivity Slowdown

The slowdown in productivity growth which occurred in the early 1970s was not widely recognized at the time. For example the McCracken Report, an expert review of recent developments for the OECD, concluded that 'We see nothing on the supply side to prevent potential output in the OECD from growing almost as fast in the next five to ten years as it did in the 1960s' (OECD 1977: 16). Given the slack generated by the recession of 1974/5 they believed that output could grow by some 5.5% per year over the period 1975–80. However the slowdown proved to be lasting and made a significant contribution to the turmoil of the 1970s and the form of the stabilization which followed.

The most basic indicator of productivity is output per hour worked (see Fig. 1.7). In the USA labour productivity growth halved after 1973 and stayed very low until the 1990s, when the new economy boom sparked a productivity revival—discussed further in Chapter 6. In Europe and Japan labour productivity growth, which had been much faster than in the USA during the 1960s, nearly halved after 1973 and fell again in the 1980s.

One contributory factor to the productivity slowdown was the lower level of investment. Between 1973 and 1990 the rate of growth of the capital stock in both Europe and Japan fell by more than one-third compared to the period 1960–73 and from the later 1960s business capital accumulation has been on a downward trend in the USA (see Fig. 6.3). The decline in accumulation reflected business anxieties about the decline in profitability, the rise in inflation and the other indicators of instability. The precise effects of slower

growth of capital on labour productivity are hard to determine. A very detailed study for the USA estimated that about a half of the slowdown in labour productivity growth could be explained by slower growth of the capital stock.[18] However other factors were certainly involved as well.

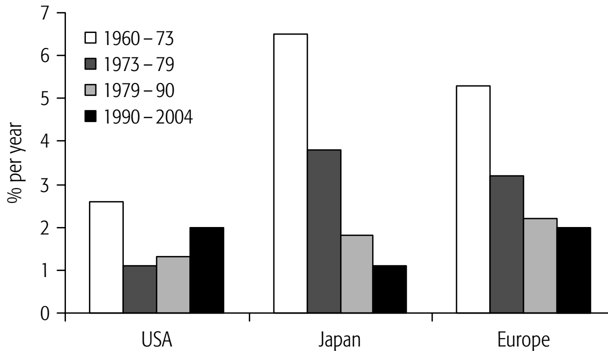

Fig. 1.7. **Growth in Labour Productivity, Whole Economy, 1960–2004**
Source: Groningen Growth and Development Centre. See Appendix.

An obvious influence making for weaker productivity growth in Europe and Japan was that the scope for their catching up with US productivity levels had declined. The boom of the 1950s and 1960s had narrowed the productivity lead of the USA over Japan and Germany as the technologies developed earlier in the USA were rapidly introduced by European and Japanese firms. This could explain a gradual convergence of growth rates in the follower countries on that of the leader (USA). But it could not explain the sharpness of the productivity slowdown after 1973. Moreover catch-up cannot explain the sharp decline in labour productivity growth in the USA, still the productivity leader in most sectors.

The broadest explanation of productivity slowdown, which should apply particularly to the USA as leader country, was that the mass production system known as 'Fordism'—assembly line production with workers performing repeated tasks—was reaching its limits. This would imply that additional investment yielded smaller productivity gains which in turn tended to discourage investment.

One aspect of these limits could be the erosion of factory discipline as the stronger bargaining position of workers allowed them to limit the speed of work. The rather widespread productivity slowdown in the motor industry could be taken as symptomatic of these problems.[19] Again, however, such effects would tend to explain a more gradual deceleration rather than the sharp fall-off in productivity growth which occurred, that also extended beyond the classic assembly line industries.

What particularly distinguished the years after 1973 was the slow growth in demand which resulted from the macroeconomic uncertainties discussed above. Consumers and business were hesitant, real incomes were reduced as oil and other commodities cost more and, even if interest rates failed to keep up with inflation, in nominal percentage terms they were forbiddingly high. With unions still relatively strong after the long period of high employment it was difficult for firms to rationalize production and make workers redundant on the scale needed to keep productivity growing rapidly. In the USA two thirds of the slowdown in productivity in all those sectors where it can be reliably measured took place in pipelines, oil extraction, utilities, motor vehicles and air transport—sectors that were hardest hit by the energy price shocks of the 1970s. The industries with the largest decline in productivity growth suffered declines in output growth of around 5 % per year during the two decades after 1973, four times the average decline. 'This suggests that at least part of the productivity slowdown stemmed from slower output growth in industries characterised by economies of scale' (Nordhaus 2004: 14).

An Alternative System?

Tight labour markets, industrial militancy, commodity price hikes, inflation, profit squeeze, and even productivity slowdown and instability in the international financial system could just be seen as symptoms of a particularly buoyant burst of capital accumulation. Surely things would calm down after a period of financial discipline and demand restraint. But were these problems also symptomatic of,

and even encouraging to, a more fundamental challenge to the capitalist system itself?

First of all, as noted earlier, the existence of the Soviet Union and the planned economies of East Europe and China, together with their influence over newly decolonized countries, represented an alternative economic system to one dominated by market forces and private ownership. Although the communist system was bitterly attacked by much of the New Left in the OECD countries for its undemocratic nature, it still appeared to demonstrate that public ownership and centralized planning could work. Growth per head of the population was respectable in the Soviet Union over the period 1960–73—3.4% per year as compared to 4.4% per year in Europe and only 3.0% growth in the USA.[20] Indeed with democratic setting of priorities, and active worker involvement in enterprise operation, why should a planned economy not work better than in 'actually existing socialism' (not to mention actually existing capitalism)?

More than a decade after the collapse of the Soviet system this may seem rather fanciful. However experts on the Soviet economy in the 1970s and into the 1980s were indeed comparing it to Western capitalism by no means wholly unfavourably. Thus Alec Nove, the leading British authority on the Soviet economy, wrote in 1977:

> [However] in the last few years the Western industrialised economies have been shaken by inflation and recession. The Soviet-type economies have appeared to be relatively stable in an increasingly unstable world. If their centralized economy, with the help of computers, can continue to grow, even at a modest rate, whilst our own economies decline or are threatened with disintegration, this seems an important advantage, to set against the many micro-irrationalities of Soviet planning. (Nove 1977: 8)

Nearly ten years later, a prominent US textbook called *Soviet Economic Performance and Structure* argued that:

> Soviet performance leaves much to be desired, but the bottom line is the extent to which Soviet consumers can be satisfied with *some* increases in the standard of living. Soviet consumers, just like their counterparts everywhere, complain, but why will this form the basis of meaningful pressure when there *is* improvement and the vast bulk of the population has a strong, basic admiration for the system? (Gregory and Stuart 1986: 430)

The final paragraph of their book pointed out that a 'bright spot' for the Soviet leadership amongst rather gloomy economic forecasts was that 'the Western world enters the 1980s with significant troubles of its own. Productivity growth is a problem, high rates of inflation coexist with high rates of unemployment, and real wages are actually declining in some countries.' (ibid. 432).

There was one trend within the rich countries themselves which already seemed to be nudging them away from free market capitalism—the rise in the share of the state in GDP. Total state spending as a share of GDP had not changed much in the 1950s as declining military spending offset some increase in civil expenditure (see Fig. 1.8). In the 1960s the share rose by about 4 percentage points to reach 31% of GDP in 1970 and had exceeded one third in 1974. During the turbulent period which followed the share of state spending lurched up and reached 40% in 1980, as ambitious spending programs collided with a slowdown in GDP growth. In Europe the share was considerably higher (more than 45%), with social democratic Sweden leading the way at 59.8% and the Netherlands close behind.

The total of state spending includes a very large element of government redistribution of spending power (taxes raised to pay pensions,

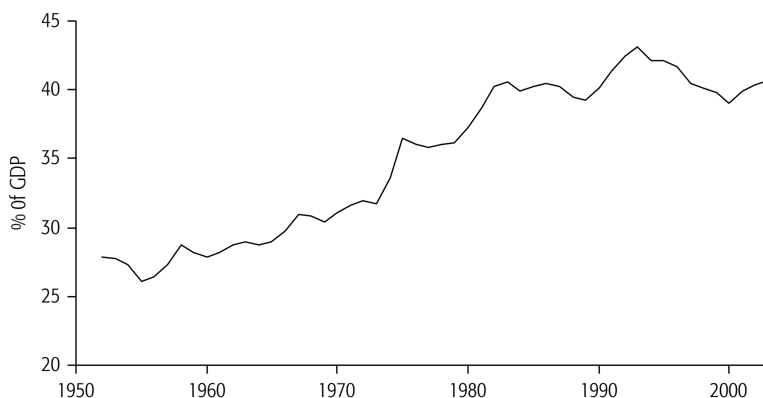

Fig. 1.8. **OECD Government Expenditure, 1952–2003**
Source: OECD. See Data Appendix.

unemployment benefits and so forth); this category of state spending left production (of the goods and services bought by pensioners for example) in the hands of the private sector. Even so there was also rapid growth of welfare state programs that *did* involve the state in producing the services by employing teachers, doctors, social workers etc. These people working for the government were not producing to make a profit for their employer and comprised around one-fifth of total employees in many countries. Thus growing state employment represented a shrinkage of the profit-oriented sector of the economy. In addition most of the taxation to finance state spending had to be paid by taxation on profits and wages in the private sector and this tended to exacerbate distributional struggle as workers sought wage increases to offset rising tax bills and employers sought higher prices to maintain profit margins in the face of rising wages.[21]

On top of the seemingly inexorable rise in government spending came proposals from the labour movement to restrict the prerogatives of capital within its own sphere—private business. A range of plans emerged in the later 1960s and 1970s going well beyond the customary collective bargaining issues of jobs and working conditions. To give a flavour of what was involved a brief discussion follows of German co-determination, Swedish wage-earner funds, the British Labour Party's ideas for planning agreements and finally the French Socialist government's plans for extensive nationalizations in the early 1980s.

In Germany workers had achieved a system of co-determination in the early 1950s with equal representation of employees and shareholders on boards of iron and steel companies. They secured lesser representation within other companies but had the right to appoint the labour director responsible for personnel affairs. In the 1970s there was strong pressure to increase co-determination rights, which resulted in an extension to cover employment contracts and training, and in 1976 the proportion of worker representatives was increased from one-third to a half for larger companies (though with a shareholder-appointed chair having a casting vote). These extensions were strongly resisted by employers, politically and in the courts. German co-determination may have had fairly modest effects on managerial freedom,[22] but a comment in 1984 by a prominent

American economist, Armen Alchian, shows how it was viewed by advocates of shareholder sovereignty: 'The campaign for . . . codetermination on boards of directors appears to be attempts to control the wealth of shareholders' specialised assets . . . a wealth confiscation scheme' (quoted by Gorton and Schmid 2000: 1).

Co-determination was feared for its potential to limit management prerogatives and thus transfer value added to workers, in the form of security or better conditions. The Swedish scheme for wage-earner funds proposed by the trades unions in 1976 had potentially more radical implications:

> Firms above a certain size (fifty or a hundred employees) should be required to issue new stocks corresponding to 20 per cent of annual profits and . . . these stocks should be owned by funds representing wage earners as a collective group . . . . Such a reform . . . would also counteract the tendency towards increased concentration of wealth and complement industrial democracy legislation . . . .Under this scheme the higher the rate of profit, the more quickly collectivisation would occur. The committee calculated that it would take thirty-five years for the wage-earner collective to acquire forty-nine per cent of stocks in a firm operating at a ten per cent profit rate. (Pontusson 1987: 13)

Rudolph Meidner, the chair of the committee which drew up the proposals, said in an interview, 'we want to deprive the capitalists of the power that they exercise by virtue of ownership' (Pontusson 1987: 14). The committee also envisaged that wage-earner ownership could chivvy firms into following government industrial policies. Dividends would be used in part to finance 'adult education, wage-earner consultants and various other programs to help wage-earners, and union activists in particular, take advantage of the new labor laws and exercise their ownership role. The gradual transfer of ownership would thus be accompanied by a new competence within the ranks of the union movement.' (Pontusson 1992: 192).

It is important to appreciate just how seriously these proposals were taken at the time. In a lengthy dissection of the 'Rise and Fall of the Swedish Model' in the *Journal of Economic Literature*, a very prominent Swedish economist Erik Lundberg argued in 1985 that the wage-earner funds represented a decisive move away from the

Social Democrats' tradition of pragmatism, which had previously seen radical proposals for socialization or central planning abandoned rather quickly. 'At the present time the socialist goals are more serious and against the background of a crisis in the functioning of the Swedish economy, the plans are more appealing, at least to a strong minority of Social Democrats' (Lundberg 1985: 31). He noted also that 'the bourgeois parties have refused emphatically, to accept the proposal for collective funds in any form. The Opposition includes the entrepreneurial organizations of private corporations, as well as those of small firms. Their antagonism is complete' (ibid. 31). The opposition was largely successful and only a highly diluted form of the plan was implemented, but the point to underline here is that the project was viewed by business with great alarm.

In the early 1970s the British Labour Party formulated an interventionist strategy aimed at industrial modernization. The 1973 Party Conference approved a plan for the next Labour government to compulsorily nationalize 20–25 of the largest manufacturing companies, around one third of manufacturing output. The idea was to take over a leading and profitable firm in each sector and use it to introduce new products or processes forcing, through competitive pressure, the other firms in the industry to follow suit. The other firms would be obliged to sign planning agreements with the government detailing their plans for output, investment and employment which were to be consistent with the government's overall economic objectives. In the event the programme was watered down before Labour came to power and no major firms were nationalized and no serious planning agreement signed.

Labour's plan was neither well worked in terms of how the leverage acquired over the private sector would be used, nor did it have the political support and resolve required to push it through. However it was still seen as a serious threat by the employers. The Confederation of British Industry told the Labour Prime Minister that 'there was absolutely no room for compromise or negotiation about further state intervention in industry and further nationalisation' (*Financial Times*, 16 Sept. 1974).

During the Labour government's 1976 negotiations over a loan from the IMF, the left wing of the Labour Party, led by Tony Benn,

pushed unsuccessfully in the cabinet for import controls and other measures as an alternative to spending cuts and deflation. They hoped to maintain economic expansion and help secure the election manifesto objective of a 'fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families'.

Two years after the fall of the Labour government in the UK the French Socialist government of François Mitterrand came to power in 1981 with the plan to double, from 11% to 22%, the share of nationalized industries in industrial employment by taking over five major groups in electronics and chemicals, the largest two steel groups, 39 banks (bringing the share of public ownership of banks to 90%) and a major firm in a number of other sectors. As in the UK, the plans called for these nationalized groups to spearhead industrial modernization, within the context of five-year 'plan contracts' between the management and government.

The extent to which the nationalizations threatened private capital should not be exaggerated. Shareholders in the big five industrial groups received compensation described by the *Financial Times* as 'far too generous' (24 May 1982), and Mitterrand reassured business that he wanted the economy merely 'a little more mixed' (*Financial Times*, 3 Oct. 1981). The Minister for Planning was credited with the view that the market is 'all embracing and irreplaceable' (*Financial Times*, 22 July 1981). Nevertheless the nationalization plans did reflect the belief that private industry was incapable of adequately modernizing the French economy and that this process needed to be strongly state-led. In the event the nationalized firms, many of which were loss making, were given large amounts of capital by the government and they carried out major programmes of rationalization of their activities, which paved the way for their return to the private sector (see Chapter 2).

Challenges Repulsed?

If nothing else, the level of stock market prices is a good indicator of the degree of optimism amongst industrialists, financiers and

investment managers. Equity prices reflect prospects for profit making and in extreme cases even prospects for the survival of capitalism itself. A sharp way, therefore, of comparing the fortunes of capital and labour is to examine how equity prices move in relation to a worker's wage. Figure 1.9 tells a remarkable story. By the mid-1970s share prices had fallen by about three-quarters relative to average wages from the peak in the early 1960s as the Golden Age was getting into full swing. The fall was sharpest in Europe, where in the late 1970s share prices had declined in relative terms by about five-sixths. However even in Japan and the USA the falls were by around one-half. This collapse in confidence in financial markets reflected all the developments discussed above—uncertainties raised by industrial conflict, rising inflation, profits squeeze, productivity slowdown, international disorganization, industrial conflict and threats of deeper state involvement in industry.

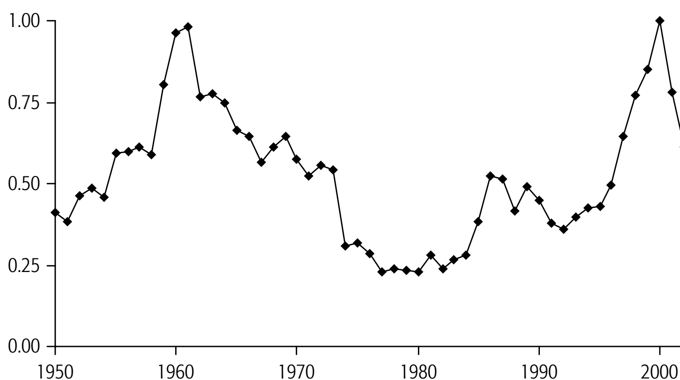

Fig. 1.9. **Share Prices compared to Average Wages, 1950–2002**
Source: IMF. See Data Appendix. 2000 = 1.

By 2000, however, share prices had regained all their previous losses (Fig. 1.9), strikes had declined towards insignificance (Fig. 1.1), the inflationary surge had been suppressed and real wages were creeping up at a quite unthreatening rate (Fig. 1.2), profits had made a substantial recovery (Fig. 1.3), commodity and oil prices had fallen back to real levels not significantly higher than in the 1960s (Fig. 1.4), the dollar appeared to be riding high and a zone of exchange

rate stability was about to be created by the formation of the Eurozone, the rise in government spending had been halted (Fig. 1.8), the Soviet Union, together with its economic system based on state ownership and central planning, had collapsed and radical moves to threaten the dominance of private capital had been abandoned. Whilst new threats were to emerge, as recounted in later chapters, the challenges of the 1970s seemed to have been decisively repulsed.

The four chapters which follow analyse the key components of this decisive recovery in capitalism's strength and stability. The next chapter recounts the dramatic shifts in government policy, followed by an analysis of the growth of the power of the finance sector and the dominance of shareholder profit in the operation of firms. The retreat from government intervention and return to reliance on market forces can be seen as the reassertion of the 'fundamental workings of the capitalist economy'. In Makoto Itoh's vivid formulation 'capitalism seems to be running the film of history backwards by "melting down" the sustained trend of a century, and returning to an older stage of liberalism' (Itoh 1990: 14).