

## The Golden Years

The wealth of those societies in which the capitalist mode of production prevails presents itself as an 'immense accumulation of commodities'.

Those opening words from Marx's *Capital* could have been written about the long postwar boom, the most striking feature of which was a quite breathtaking growth in production.

By 1973 output in the advanced capitalist countries (ACCs) was 180 per cent higher than in 1950 – almost three times as great. More was produced in that quarter century than in the previous three quarters, and many times more than in any comparable period in human history (table 8.1).

Table 8.1 Long-term growth, 1820–1973 (average annual percentage growth rates<sup>a</sup>)

	Output	Output per head of population	Stock of fixed capital	Exports
1820–1870	2.2	1.0	n.a.	4.0
1870–1913	2.5	1.4	2.9	3.9
1913–1950	1.9	1.2	1.7	1.0
1950–1973	4.9	3.8	5.5	8.6

<sup>a</sup> Arithmetic averages of individual country figures.

Source: Maddison, 1982, p. 91

With growth on that scale, output doubles every sixteen years. If these rates were maintained then, with population growing at the rate of 1 per cent a year, each generation could expect to be roughly twice as well off as its parents and four times as well off as its grandparents.

Moreover, figures of this sort understate the pace of development. Being purely quantitative measures, they fail to illuminate qualitative advances. People not only had more than their forebears; they also had revolutionary new products. By 1969 millions of people were able to watch on colour TV as the first human set foot on the moon.

The fifties and sixties were capitalism's golden age. As a British prime minister remarked at the time, people had never had it so good.

### Workers and means of production

The increase in output was out of all proportion to the growth of employment. The number of people classified as in civilian employment rose by only 29 per cent between 1952 and 1973. So most of the extra production represented an increase in output per worker. Annual productivity doubled, a growth rate of 3.3 per cent a year. (See figure 8.1.)

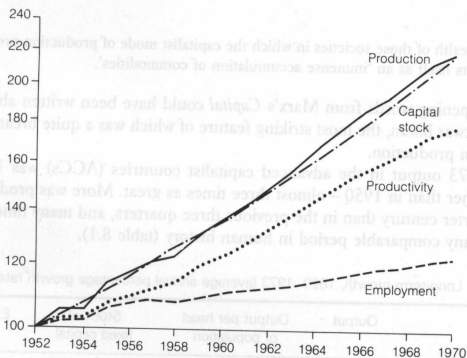


Figure 8.1 ACC production, capital stock, productivity and employment, 1952–70 (index numbers, 1952 = 100, log scale)

Source: see Appendix.

Longer working hours do not account for the increase, because on the whole the 'normal' working week was reduced and holidays grew longer. The number of married women employed on a part-time basis also grew rapidly. The Organization for Economic Cooperation and Development (OECD, expanded from the OEEC) has suggested that hours of work decreased by about 0.3 per cent a year during the 1950s, and by 0.8 per cent a year during the 1960s. Overall, therefore, hourly productivity probably rose significantly faster than yearly productivity, though measuring hours of work is difficult, especially in the self-employed sector.

The main cause of spiralling productivity was a phenomenal increase in the quantity and quality of means of production. The stock of these means of production was 2½ times as great in 1973 as it was in 1952. Since employment

growth was relatively modest, the mass of means of production per worker more than doubled over the period. It was as though each worker was confronted by two machines where one had stood before.

The machines changed as well. Technological advances meant that the new generations of machinery embodied important innovations. By the end of the boom the machines confronting the average worker not only were more numerous than before but also bore little resemblance to those in use two decades previously.

These developments were accompanied by changes in work practices, shaped partly by the nature of the new machinery and partly by struggle on the factory floor. Since such changes are inherently unquantifiable, it is impossible to say whether or not people were generally working harder by the end of the boom. But there is no doubt that most were working differently, and that changes in the labour process were part and parcel of the explosion in productive potential.

### Profits

A dissection of the relationship between employment, means of production and output does not, of course, explain the boom in any other than a purely statistical sense. Since the production of more goods and services is never an end in itself under capitalism but always a means to making profit, any attempt at an explanation of the boom must centre around the returns capitalists received on their outlays.

In Part I we examined in detail the ways in which the conditions for profitable production were reconstituted in the aftermath of the war. How did the rate of profit fare during the boom itself?

To answer this question we have constructed figures for the advanced capitalist countries' rate of profit (a weighted average of the best estimates available for the seven biggest capitalist countries). As described in the Appendix, we have done this both for the corporate business sector as a whole and for the crucial, and sensitive, manufacturing sector.

Profitability displays no trend between the mid-fifties and the mid-sixties, although it dipped in the recession of the late fifties (figure 8.2). From the mid-sixties onwards it moves into decline. This latter fall is discussed at length in later chapters. Here the focus is on how profitability was maintained until then.

### Profit shares and rates

We shall examine the development of the rate of profit in terms of two statistical components. One is the share of profits in the value of output. The other is the ratio of output to capital.

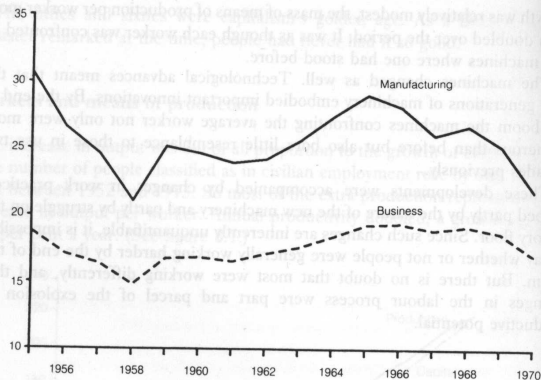


Figure 8.2 ACC profit rates, 1955–70 (percentage).

Source: see Appendix.

Changes in the profit share register relative changes in the costs of employing labour (wages inclusive of all taxes on labour incomes and employment) and the value of output produced. If real product wages rise more slowly than productivity then the profit share rises. If the growth of labour costs exceeds that of productivity, the profit share is squeezed. There was virtually no change in the profit share between the mid-fifties and mid-sixties. In other words, the real cost of employing labour rose at the same rate as productivity – over 3 per cent a year (figure 8.3).

Since the rate of profit is the percentage return on capital employed, a constant profit share maintains a constant profit rate only if the ratio of output to capital remains constant. This ratio in turn depends on the relative rate of growth of capital employed and of output produced.

We have already seen that both the quantity of means of production in use and the output produced by their operation grew enormously. In manufacturing and business, the two grew very closely in parallel until the mid-sixties, so that the ratio of output to capital remained fairly constant (figure 8.4).

### Production and realization

Thus far, the account remains a statistical description of certain features of the boom. To get beyond this, and to try to understand the processes involved, we return to the basic requirements for profitable production. We have already

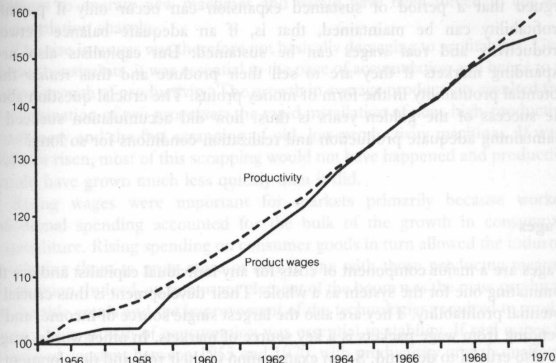


Figure 8.3 ACC business productivity and product wages, 1955–70 (index numbers, 1955 = 100, log scale).

Source: see Appendix.

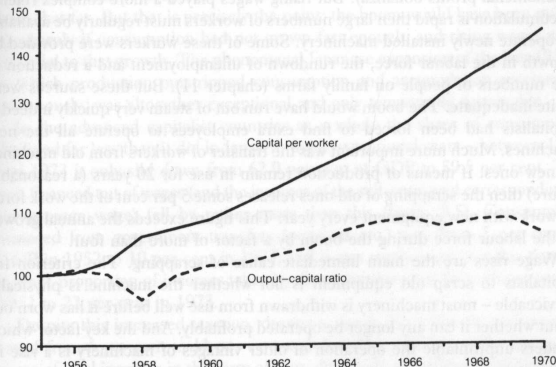


Figure 8.4 ACC business capital per worker and output-capital ratio, 1955–70 (index numbers, 1955 = 100, log scale).

Source: see Appendix.

argued that a period of sustained expansion can occur only if potential profitability can be maintained, that is, if an adequate balance between productivity and real wages can be sustained. But capitalists also need expanding markets if they are to sell their produce and thus *realize* their potential profitability in the form of money profits. The crucial question about the success of the golden years is thus: how did accumulation succeed in maintaining adequate production and realization conditions for so long?

## Wages

Wages are a major component of costs for any individual capitalist and are the dominating one for the system as a whole. Their development is thus crucial to potential profitability. They are also the largest single source of income, and so spending from wage packets is a key source of markets. In other words, wages are also crucial to demand. So an examination of their role and development in the boom provides an obvious starting point.

We have already seen that real wage costs rose roughly in line with productivity at over 3 per cent a year – an extremely rapid rate by historical standards. It might seem at first sight that this pace was unambiguously beneficial to demand (being crucial to market growth) and equally unambiguously detrimental to profitability (being the only thing preventing a phenomenal profits bonanza). But rising wages played a more complex role. If accumulation is rapid then large numbers of workers must regularly be available to operate newly installed machinery. Some of these workers were provided by growth in the labour force, the rundown of unemployment and a reduction in the numbers of people on family farms (chapter 11). But these sources were quite inadequate. The boom would have run out of steam very quickly indeed if capitalists had been forced to find extra employees to operate all the new machines. Much more important was the transfer of workers from old machines to new ones. If means of production remain in use for 20 years (a reasonable figure) then the scrapping of old ones releases some 5 per cent of the work force to work with new equipment every year. This figure exceeds the annual growth in the labour force during the boom by a factor of more than four.

Wage rises are the main immediate cause of scrapping. The criterion for capitalists to scrap old equipment is not whether the machine is physically serviceable – most machinery is withdrawn from use well before it has worn out – but whether it can any longer be operated profitably. And the key factor which renders unprofitable the operation of older vintages of machinery is a rise in wage costs.

Thus, paradoxical as it may seem, the rapid growth of means of production during the boom depended upon much scrapping of means of production. If this scrapping had not occurred then capitalists would have been unable to find

workers to operate new machines and would have been forced to cut back accumulation sharply.

The rise in wages was therefore not basically damaging to profitability. Given labour constraints, it was essential to the pace of accumulation and hence to the rate of growth of productivity. The growth in average productivity resulted from a combination of two processes: the rapid installation of new, high-productivity machinery and the fast scrapping of old, low-productivity machines. If wages had not risen, most of this scrapping would not have happened and productivity would have grown much less quickly than it did. ★

Rising wages were important for markets primarily because workers' additional spending accounted for the bulk of the growth in consumption expenditure. Rising spending on consumer goods in turn allowed the industries producing them to grow more or less in line with those producing means of production. Indeed, an important element of the boom was the mass production of durable goods and the improvement of the technologies required to produce them. This growth of consumption was essential to stability. If real wages had remained constant between 1955 and 1970, with productivity growth unaffected, then the share of profits would have doubled to around one-half of the value of output. With consumption growing at only about 1 per cent a year (the rate of growth of the labour force), the system would have become one in which machines were being installed at hectic rates in order to produce other machines.

The example is absurd because, apart from anything else, workers would not have been available to operate the new machines. The process could never have gone that far. But that is precisely the point: the boom would have been pulled up sharply if consumption had not grown fast enough, and rising wages were essential to that growth. The phenomenal Japanese expansion of the late 1950s, in which production outstripped consumption and accumulation accelerated enormously, was altogether exceptional and only temporarily sustainable.

In the advanced capitalist countries as a whole the share of consumption declined far less than it did in Japan in those exceptional years – between 1952 and 1973 it only slid down from 62.9 per cent of GDP to 59.5 per cent. The part financed out of wages (and the incomes of the self-employed corresponding to the average wage) fell by rather more than this (figure 8.5). Consumption financed from government transfers (pensions etc.) rose from 5 per cent of GDP in 1952 to 10 per cent in 1973, and it was partly to pay for this that the average proportion of incomes taken by direct taxation rose from 16 per cent in 1952 to 22 per cent in 1973.

Despite this increased taxation, despite a rise in the proportion of incomes saved from 6 per cent to 11 per cent and despite a probable slight rise in the share of total incomes in the form of rent, dividends and interest and high self-employment earnings, consumption out of wages still constituted some 45 per cent of GDP in 1970. If wages per head had not increased, the share of GDP accounted for by consumption out of wage earnings would have fallen from 52

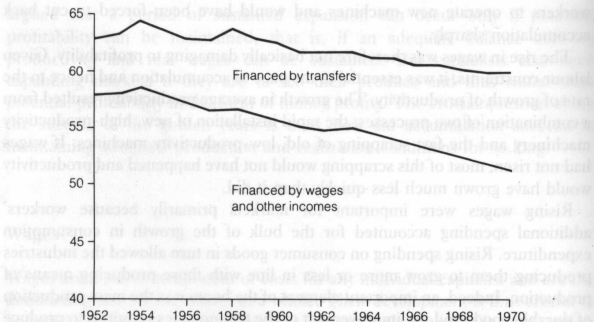


Figure 8.5 ACC consumption, 1952–70 (percentage of GDP).

Source: see Appendix.

per cent in 1952 to 31 per cent in 1970; this would have required an inconceivable rise in other types of spending (by capitalists and government) if the increase in production was to be sold.

Regardless of their importance in sustaining accumulation by providing a growing market for consumer goods, wages must be regarded as a basically passive element in the process of realization. The development of wages is largely a product of the process of accumulation itself.

A capitalist boom requires potential profits to be realized. Workers' spending as a whole provides the demand which realizes the profits of capitalists producing consumer goods. But the pay of their employees is an expense which reduces profits, not a source of demand which realizes them. Only the spending of workers employed elsewhere realizes profits in the consumer goods industries. These workers will only be employed if there is demand for the products they make – for export, from the government or from the employers themselves. So the realization of all the potential profits ultimately depends on sufficient spending by the employers (on investment or consumption), by the government or by those purchasing exports.

### Why wages rose

It is one thing to describe the key role played by rising labour costs and another to explain why they rose. But the functions provide clues to the mechanisms. On the production side, labour constraints in the context of rapid accumulation will tend to pull up wages as capitalists compete for workers. Those with new, more productive equipment are prepared to pay higher wages to attract labour

than are those with older machinery because the former can operate profitably at higher wage levels than the latter. And they may need to pay more if enough workers are to be available – unless sufficient old machines are forced out of operation there will be a shortage of workers to operate the new.

On the demand side, firms with new capacity will tend to cut prices in an attempt to win markets from their rivals with older equipment. Productivity gains on the new equipment allow such cuts without a fall in profits. The effect is for labour costs to rise relative to the price of the product. Real wage rises were thus a product of the competitive process whereby more efficient firms drove out weaker rivals to obtain both labour and markets, which less efficient producers would otherwise have hung on to.

A question which arises from this analysis is whether competition for labour or for markets was the more fundamental in pulling up wages. Real wages vary according to the net outcome of competition in the labour market, which determines changes in money wages, and competition in the product markets, which determines price changes. At any point in time a shortage of either labour or markets is likely to be the dominant factor constraining accumulation at the existing real wage level. It then makes sense to ascribe the subsequent rise in real wages primarily to whichever of the two markets sees the more intense competition.

In a number of countries a distinct shift took place during the course of the boom. Labour markets tightened noticeably as reserves of unemployed labour and underemployment on family farms were progressively exhausted (this development is discussed in later chapters). As a broad generalization, it is thus reasonable to say that the role of tight labour markets in driving up real wages eclipsed that of competition in product markets as the boom progressed. But that is a generalization. There was considerable variation between countries and between industries.

Emphasizing the role of competition between firms in raising real wages may appear to fly in the face of the everyday reality of pay negotiations. But in the golden years institutionalized pay bargaining constituted one of the transmission mechanisms through which the requirements of accumulation, and the competitive struggles bred by them, generated the necessary real wage increases.

Negotiations over pay are about changes in money wages. What happens to real wages depends on changes in both money wages and prices. Unions do not negotiate with employers about the prices of the products they produce. So they can only raise real wages if product markets are tight enough to prevent the employers from passing all money wage increases on to higher prices. And the tightness of product markets is out of union control.

The need for a certain amount of scrapping if accumulation is to proceed smoothly determines a necessary rise in product wages. If collective bargaining yields less than the required rise then firms will not be able to find enough workers to operate all newly installed machines and will have to pay above the

settlement. This will result in a further rise in wages. If negotiations yield more than the required rise then too much scrapping may result, generating unemployment. This did not happen significantly during the boom; the trend was for unemployment to fall. Alternatively, firms will pass on the 'excess' component of the settlement in higher prices, and real wages will rise by less than expected. This was a factor in the development of inflation from around the mid-1960s.

### Exports

If wages cannot realize the potential profits, this leaves sales of exports, and spending by the government or the employers themselves, as sources of demand. The advanced capitalist bloc could have realized profits by running a positive trade balance with the rest of the world (i.e. the less developed countries and the Eastern bloc). By selling more outside the advanced bloc than was bought in, capitalists could have increased their assets (in the form of third world factories, gold or financial assets) without accumulating means of production at home.

Exports to less developed countries rose from \$20 billion in 1958 (the earliest year for which data are available) to \$42 billion in 1970, and those to centrally planned economies from \$2 billion to \$8 billion. The 1970 total represents only 2½ per cent of OECD GDP, a slightly smaller proportion than in 1958. And most of the money coming in was offset by spending on imports into the bloc. The export surplus of the industrial countries in 1970, for example, was only \$9 billion. This represented less than ½ per cent of OECD output, or 3 per cent of investment. So it was of trivial significance as a means of realizing surplus.

### Government spending

Civil spending on goods and services (health, education and so on) increased by 50 per cent more than total output, and grants to persons (e.g. pensions) grew twice as fast. Both rose by some 4 per cent of GDP. More than half of this increase was offset by a declining share of military expenditure. The share of government investment was fairly steady (figure 8.6). The effect was a more rapid rise in government spending than in output.

The impact of an increased share of government expenditure depends on the way it is financed. If the money is borrowed, then capitalists can accumulate without investing in means of production. They stock up on financial assets such as government bonds, and the government realizes profits by spending its borrowings on buying commodities. Demand rises and, providing higher real wages do not cut into profits, the economy expands, justifying higher investment. This Keynesian process of governments pumping up demand for

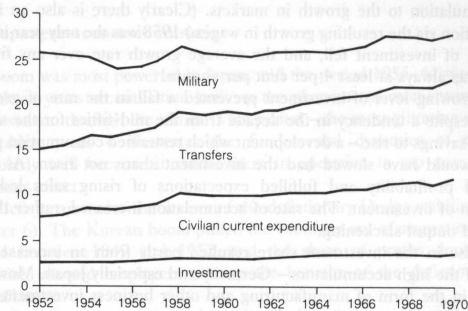


Figure 8.6 ACC components of government spending, 1952–70 (percentage of GDP)

Source: see Appendix.

commodities has disadvantages: government interest payments grow and attempts to finance them by taxation tend eventually to threaten profits. But these problems are not immediately apparent, and so need not inhibit accumulation for some time.

In any case, this was not, by and large, the way state spending was financed in the boom. Total government deficits fluctuated between 1 per cent of output in the recession years of 1958 and 1967 and minus 1 per cent in the boom years of 1955, 1960 and 1969. Despite rising interest rates, debt interest rose only from 2¼ per cent of personal income in 1952 to 2½ per cent in 1973. So, contrary to those who ascribe great importance to Keynesian policies, the boom was in no sense based on government deficits.

The overwhelming bulk of state spending, then, was financed by taxation. So increases in state spending were largely offset by corresponding reductions by taxpayers. With workers' real gross incomes determined primarily by accumulation, higher taxes bit into take-home pay. But the balanced-budget method of financing extra expenditure by higher taxation is still expansionary to the limited extent that tax bills are met by reduced saving rather than by cutbacks in spending. So increased state spending did increase demand. Without it, even higher investment would have been needed to achieve the same growth of demand.

### Investment

Since the level of investment measures the level of demand for means of production, the growth in the investment level measures the direct contribution

of accumulation to the growth in markets. (Clearly there is also an indirect contribution via the resulting growth in wages.) 1958 was the only year in which the level of investment fell, and the average growth rate over any five-year period was always at least 4 per cent per annum.

The growing level of investment prevented a fall in the rate of growth of output despite a tendency in the decade from the mid-fifties for the share of workers' savings to rise – a development which restrained consumption growth. Output would have slowed had the investment share not risen. As it was, improved profitability and fulfilled expectations of rising sales led to an expansion of investment. The rate of accumulation increased, rather than the growth of output slackening.

The rise in the investment share resulted partly from an increase in the weight of the high accumulators – Germany and especially Japan. Most of the rise was in the form of manufacturing and other business investment (figure 8.7).

In 1961, 78 per cent of corporate business investment was financed by retained earnings. The remainder, equivalent to 2.8 per cent of GDP, was paid for by borrowing from the personal sector (i.e. workers' savings and rentier incomes). By 1973 this self-financing ratio had fallen to 64 per cent, and 5.6 per cent of GDP was borrowed by firms to cover the shortfall. This offset the tendency towards stagnation generated by increased workers' savings.

So accumulation played the decisive role in maintaining favourable demand conditions. The boom in accumulation was essentially self-sustaining. It simultaneously increased the surplus produced by the working class and ensured that this surplus found a market, generating steadily rising profits for the employers.

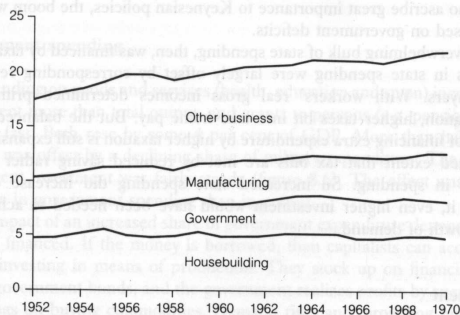


Figure 8.7 ACC components of investment, 1952–70 (percentage of GDP).

Source: see Appendix.

## The Japanese economic miracle

The boom was most powerful in Japan, and the period 1955–61 was decisive. Over those years accumulation built up the phenomenal momentum which it was to sustain through the sixties. This period – the most glittering episode of the golden years – illustrates the fundamental dynamics of the boom particularly well because it shows them in operation in top gear and with enormous effect.

We left Japan under the screws of the deflationary Dodge stabilization plan (chapter 6). The Korean boom pulled the economy out of stagnation. Exports trebled between 1949 and 1952, and the share of profits doubled. The expansion allowed employers to reap the benefits of the deflation-induced rationalization.

But the expansion was pulled up sharply by a balance of payments crisis. Imports rose by one-third while exports stagnated. The problem was Japanese capital's competitive weakness. The government's *Economic Survey of Japan* for 1952 noted that the products of heavy industry were typically 30–40 per cent more expensive than in other countries, because of high materials costs and low productivity. It also reported that 'equipment is often old-fashioned, decrepit and inefficient and will not easily permit standardization and mass production' (p. 114). Modernization of the industrial structure had hardly begun. Only 7 per cent of machine tools were less than five years old, and under one-third less than ten.

The government responded to the payments crisis with a credit squeeze. This prompted further rationalization. By 1955 export prices were down to world levels, a development which must have accelerated the scrapping of old plant. And while investment stopped growing, it remained at quite a high level. The accumulation rate remained about 4 per cent, implying substantial further modernization. By the mid-1950s productivity in steel was around half the US level. But wages were still only around one-fifth of US rates. So Japanese wage costs per unit of output were less than half of those in the United States, and below European levels. Productivity in cotton-spinning was almost equal to the US level, and much higher than that in Europe. Without this productivity increase exports could not have expanded fast enough to balance the additional imports required to sustain the 1955–61 expansion.

Over those six years non-agricultural business investment tripled, boosting the rate of accumulation from around 4 per cent a year to 10 per cent. Business investment grew to absorb about one-quarter of GDP. Production of investment goods trebled, while consumption (public and private) rose by less than 50 per cent. The rate of accumulation in those branches most closely tied to investment (machinery, metals, construction) reached 25–35 per cent per year, implying a doubling of the capital stock every three years or less. No industrialized country had ever achieved such a burst of accumulation before.

Myth has it that the accumulation was financed by frugal Japanese workers. Their savings were indeed high by Western standards (largely because of poor government welfare provision and high and escalating housing costs), and they rose over the period from 9 to 16 per cent of their income. But as a share of GDP, workers' savings rose by only 3 per cent while investment leaped up by 13 per cent. The rise in the share of fixed investment, from 19 per cent of GDP in 1955 to 33 per cent in 1961, was paralleled by one in the share of (pre-tax) gross profit incomes, up from 31 to 39 per cent. This latter rise generated much of the necessary finance.

The share of profits was able to rise quickly because real wages did not need to grow in line with productivity. Rapid accumulation maintained expanding markets – much extra output consisted of means of production bought by capitalists – so that demand shortage did not pull down prices and hence push up real wages. Since labour reserves were adequate, there was no need, either, for an acceleration of wages and faster scrapping in order to release workers for employment on new machines.

Employment rose by about one-tenth. Employment in industry and services, which gained 2½ million workers from agriculture, grew by only around one-quarter, which seems modest in relation to the increase in the capital stock. But the extra workers imparted a decisive flexibility to accumulation. Employment in construction rose by two-thirds over the six years, increasing its share of non-agricultural employment by more than half a million. Employment in electrical machinery trebled, again increasing its share by half a million. Such employment leaps in particular industries could not have occurred in a tight labour market with slow labour-force growth.

The labour market tightened considerably over six years. The unemployment rate and the ratio of job-seekers to vacancies both fell precipitately. By 1961 they had reached levels which were to persist, with minor ups and downs, for the remainder of the decade. Labour turnover rose, as did voluntary quits. Annual money wage increases rose to about twice those of the mid-fifties, and product wages (real wages in terms of the product) accelerated as well. The upswing of accumulation partially absorbed the huge pool of labour in backward sectors (including ex-agricultural workers drawn into service industries in the early fifties). As the labour market tightened, faster product wage growth limited the expansion of the backward sector, and thereby ensured an elastic labour supply for the dynamic modern sectors. This effect was accentuated by a squeezing of differentials, especially in large manufacturing firms. Product wages probably accelerated only about half as much in the largest firms as in the smallest, thus facilitating the expansion of the former as the latter were knocked out.

These developments prevented newly accumulated means of production from being starved of labour. They ensured that few of the extra workers entering the market were trapped in small-scale operations and provided an elasticity of labour supply essential to very rapid accumulation in advanced

sectors. In 1955 one-third of manufacturing workers were employed in enterprises with less than 20 workers. By 1961 the proportion had fallen to one-quarter. The number of manufacturing plants with more than 30 workers had risen by two-thirds. Small-scale industry constituted a huge 'tail' of ancient means of production which could be scrapped without jeopardizing profits in modern enterprises. So the rise in product wages was both the clearest expression of tightening labour markets and the mechanism which prevented it from inhibiting accumulation.

New techniques of production were introduced at an accelerating rate. Initially, the rapid run-down of agriculture allowed employment to rise in line with the capital stock. But as accumulation accelerated, capital intensity increased. The rate of introduction of new techniques from overseas trebled in 1960. By the next year more than half of manufacturing production used foreign technology. The proportion was higher in the fastest growing sectors, such as electrical machinery, transport equipment and iron and steel. By the end of the six years Japan possessed a younger stock of machine tools than the United Kingdom or the United States: 40 per cent was less than five years old. Productivity had more than doubled in the chemicals, transport equipment and electrical machinery industries.

Fast productivity growth in the sectors producing means of production ensured a rapid reduction in the real cost of capital goods. This offset the effect of rising mechanization on capital costs, and, combined with a rise in capacity utilization, pushed the output–capital ratio up. So the profit rate rose faster than the share. The pretax rate of profit for business rose from about 17 per cent in 1955 to 24 per cent in 1961.

In sum, accelerating accumulation pushed up employment quite rapidly, but not as fast as the stock of capital rose, since mechanization proceeded apace (figure 8.8).

Ample labour supplies permitted the operation of new machines without the need for product wages to rise as fast as productivity. The situation was also eased by rapid mechanization (figure 8.9). Capitalists realized the rising share of profits by increasing investment at a faster rate than production (figure 8.10).

Since productivity rose faster than mechanization, the output–capital ratio rose, boosting the profit rate still further. By the end of the period, however, the tighter labour market forced product wages to rise as fast as productivity to ensure sufficient scrapping to provide labour to operate newly installed equipment. The share and rate of profit and the accumulation rate more or less stabilized at the very high levels established over the previous six years.

The speed and economic mechanics of this burst of accumulation were dazzling. But it is important not to become so mesmerized by them as to lose sight of the underlying social processes. The extra output was produced on the shop floor. Here the employers consolidated an industrial relations system which ensured maximum control. Relatively strong private sector unions were picked off one by one. The resulting disputes were bitter. But by the close of



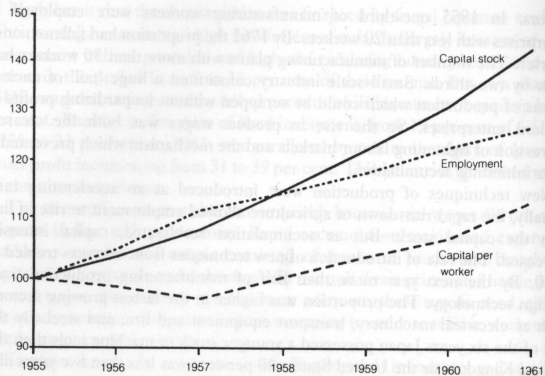


Figure 8.8 Japanese business capital stock, capital per worker and employment, 1955–61 (index numbers, 1955 = 100, log scale).  
Source: see Appendix.

the decade militant trade unionism had been literally eradicated in the private sector.

At Nissan, management felt especially threatened by a shopfloor system whereby each group of 10 workers elected delegates to a shop committee. 'While the committees normally held meetings in working hours with management's permission, when disputes arose, chairmen frequently convened unauthorized meetings and excluded staff representatives if they disagreed with the positions of the union leadership' (Cusumano, 1985, p. 148). These committees assumed the authority to grant or refuse overtime requests. In the summer of 1953 the union carried out strikes and go-slows in support of a wage claim, but were locked out. The management had the financial support of the Industrial Bank of Japan, the Employers Federation ensured that Nissan's subcontractors would receive alternative orders, and its rivals guaranteed that they would not steal its markets while the firm was out of production. After the management fired the union leadership, initially 86 per cent of workers voted to go on with the strike, but eventually they were cajoled into a 'second union' started by white collar staff who wanted to cooperate with the company (and many of whom were to receive rapid promotions from the grateful management – see also chapter 16).

A year later a major steel plant announced the dismissal of 901 of its 3700 workers:

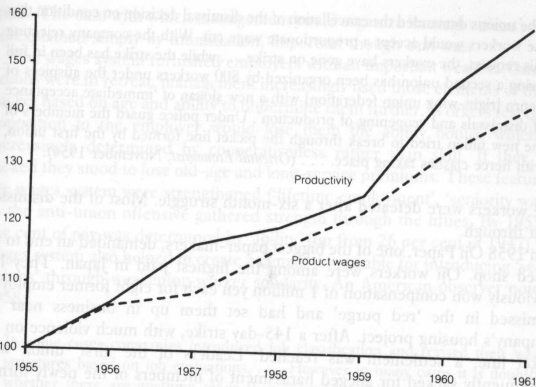


Figure 8.9 Japanese business productivity and product wages, 1955–61 (index numbers, 1955 = 100, log scale).  
Source: see Appendix.

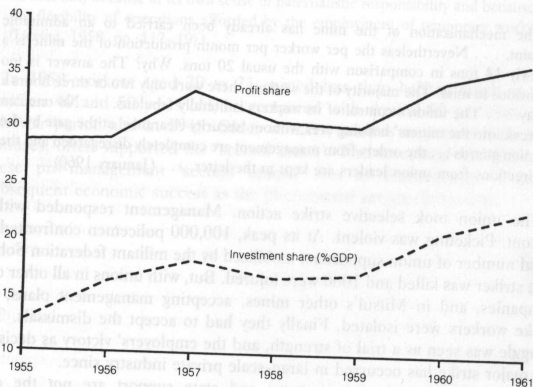


Figure 8.10 Japanese business investment and profits, 1955–61 (percentage).  
Source: see Appendix.

The unions demanded the cancellation of the dismissal decision on condition that the workers would accept a proportionate wage cut. With the company rejecting this request, the workers have gone on strike . . . while the strike has been in full swing a second union has been organized by 800 workers under the auspices of Zenro [right-wing union federation] with a new slogan of 'immediate acceptance of dismissals and reopening of production'. Under police guard the members of the new union tried to break through the picket line formed by the first union, with fierce clashes taking place. . . . (*Oriental Economist*, November 1954).

The workers were defeated after a six-month struggle. Most of the dismissals went through.

In 1958 Oji Paper, one of the biggest paper-makers, demanded an end to the closed shop. Oji workers were among the highest paid in Japan. They had previously won compensation of 1 million yen each for eight former employees dismissed in the 'red purge' and had set them up in business near the company's housing project. After a 145-day strike, with much violence on the picket line, a settlement was reached. Leaders of the 'first' union were subsequently sacked for alleged harassment of members of the newly formed 'second union'. Workers deserted the first union in droves.

These struggles culminated in a dispute at the Miike Coal Mines, owned by Mitsui Mining, the biggest mining firm in Japan. The company tried to sack 1300 workers, including 300 union leaders, for 'sabotage'. The *Oriental Economist* – whose sympathies mirror those of its occidental namesake – explained the situation:

The mechanization of the mine has already been carried to an admirable point. . . . Nevertheless the per worker per month production of the mine is a lowly 14 tons in comparison with the usual 20 tons. Why? The answer is too obvious to miss. The majority of the workers there work only two or three hours a day. . . . The union's control of its workers is literally fabulous. . . . No one can break into the miners' housing area without 'security clearance' at the gate by the union guards . . . the orders from management are completely disregarded and the directions from union leaders are kept to the letter. . . . (January 1960).

The union took selective strike action. Management responded with a lockout. Picketing was violent. At its peak, 100,000 policemen confronted an equal number of union supporters, mobilized by the militant federation Sohyo. One striker was killed and 1000 were injured. But, with unions in all other coal companies, and in Mitsui's other mines, accepting management plans, the Miike workers were isolated. Finally they had to accept the dismissals. The struggle was seen as a trial of strength, and the employers' victory as decisive. No major strike has occurred in large-scale private industry since.

Aggressive tactics by management and state support are not the only explanation for the employers' victory. The trade union movement was immature. Its roots among workers were shallow and the tactics of its leadership

weak. The ease with which management could organize 'second unions' cannot be explained simply by intimidation, important though that was.

The wages system furnished employers with an important weapon. Once the unions were in retreat, management increasingly used those elements of the pay packet based on age and ability to undermine them further. Workers feared that opposition to the employer would lose them the ability bonus, which was increasingly determined by cooperativeness rather than skill. If they were sacked they stood to lose old-age and long-service premiums. These features of the wages system were strengthened ('lifetime employment', 'seniority wages') as the anti-union offensive gathered strength through the fifties. By 1955, 39 per cent of pay was determined by 'ability' (up from 26 per cent in 1947). The wages system also helped to create a climate favourable for introducing 'second unions' through weakening worker solidarity. An American observer noted in 1958:

In some cases companies introduced job classification and revised their wage structures based on job evaluations. . . . However in many cases it is doubtful whether these are anything other than the traditional wage system in a new disguise – for 'merit', 'loyalty' and 'cooperation', which are often tied to length of service have been used as major criteria for wage increases granted in this fashion . . . managements have not proceeded hastily towards full-blown wage rationalization because of their own concern with preserving worker identification with the enterprise. . . . Management has not been insistent on displacing the permanent/temporary worker system with job seniority procedures (i.e. first in/first out) because of its own sense of paternalistic responsibility and because of the flexibility of operations afforded by the employment of temporary workers. (Levine, 1958, pp. 117–19).

In 1958 workers aged 20 to 25 earned less than half as much as those between 40 and 50 years old, as compared with around 60 per cent in the interwar period and in 1948. Older workers, anxious to protect their ability bonuses, often supported the 'second union'. The successful introduction of these pro-management 'second unions' was as fundamental to Japan's subsequent economic success as the phenomenal accumulation rate.

## 9

## A New, Managed Capitalism?

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The astonishing economic achievements of the golden years led many to conclude that capitalism had undergone a qualitative transformation – that the bad old days of slumps and class antagonisms had been transcended for ever. The most important expression of this view was the development in many countries of a broad political consensus, embracing the major parties of both left and right, and subscribed to by trade unions and employers' associations.

Its central feature was acceptance of the so-called mixed economy – that is, a capitalist framework within which state enterprise was tolerated and the government held responsible for managing the economy. Broadly speaking, workers obtained certain rights and material benefits. The most important rights were those to free trade unions and certain forms of representation. The most important benefits were adequate job provision, regular pay rises and state welfare services. In return, they did not question capitalist ownership or control. Employers were prepared to tolerate these rights and provisions in return for a profitable economic environment.

Acceptance by the left of the basic parameters of the mixed economy was exemplified by Antony Crosland's book *The Future of Socialism*, published in 1956. He argued:

Traditionally, or at least since Marx, socialist thought has been dominated by the economic problems posed by capitalism, poverty, mass unemployment, squalor, instability and even the possibility of the collapse of the whole system. . . . Capitalism has been reformed almost out of all recognition. Despite occasional minor recessions and balance of payments crises, full employment and at least a tolerable degree of stability are likely to be maintained. Automation can be expected steadily to solve any remaining problems of under production. Looking ahead our present rate of growth will give us a national output three times as high in fifty years (p. 517).

He also predicted that 'any government which tampered with the basic framework of the full-employment welfare state would meet with a sharp reversal at the polls' (p. 61). Three years earlier, Churchill had signalled a

similar acceptance on the part of the Tories when he said, 'Party differences are now in practice mainly those of emphasis' (quoted Gilmour, 1977, p. 20).

The necessary analytic underpinning for the consensus was the belief that the state could manipulate the economy to achieve these goals, most importantly that it could always change spending to ensure full employment. In later chapters we show that this was unrealistic as a long-term perspective – that the processes which maintained the boom inevitably also undermined it. Here we look at some examples of attempts to reshape features of the economy within the parameters of the consensus.

### The welfare state

The ultimate principle of the welfare state is well summarized by a French resistance declaration demanding 'a complete plan of social security, designed to secure the means of existence for all French men and women wherever they are incapable of providing such means for themselves by working' (quoted Saint-Jours, 1982, p. 122). The United Kingdom Beveridge report echoed the theme in more prosaic language: 'Social insurance should aim at guaranteeing the minimum income needed for subsistence' (quoted Rimlinger, 1971, p. 149).

The principle is no invention of the 1940s, and the practice no innovation of the 1950s. Large-scale social insurance – covering sickness, accidents and old-age pensions – was introduced in Germany in the 1880s following the Kaiser's announcement, inspired by Bismarck, that 'the cure of social ills must be sought not exclusively in the repression of Social Democratic excess, but simultaneously in the positive advancement of the welfare of the working masses' (quoted Rimlinger, 1971, p. 114).

The first state-run programme of unemployment insurance was introduced in the United Kingdom by the Liberal government in 1911, with flat rates of benefit and contributions by employers, employees and the state. A small non-contributory pension came in 1908 and health insurance in 1911. After the First World War the coverage of unemployment insurance was extended and a contributory pension scheme was introduced. In 1930 a scheme for social insurance was implemented in France, covering pensions, sickness and a system of family allowances.

Although not new, the welfare state did expand enormously in the postwar period. The share of gross domestic product absorbed by government civil spending (a rather broader category than welfare spending, though debt interest and subsidies have been omitted) rose from 15 per cent in 1952 to 24 per cent in 1973.

This huge expansion was by no means carried out solely by governments of the left. In the seven major countries the only periods of majority left governments between 1950 and 1973 were those of Wilson in the United

Kingdom (1964–70) and Brandt in Germany (1970–3), yet spending on welfare rose under Macmillan, Adenauer, de Gaulle, under both Nixon and Kennedy, as well as under a succession of Italian and to some extent even Japanese prime ministers of the right. The expansion of welfare spending was noticeably faster in the sixties than the fifties – especially in Europe. But, although this undoubtedly reflected increased working-class pressure as full employment was achieved, or approached (chapters 11 and 12), such pressure drew a response from right-wing governments as well as from those of the left elected as a direct result of it.

The welfare systems introduced in the immediate postwar years built on previous achievements. Existing prewar schemes were generally restored or consolidated. Even the United Kingdom Beveridge scheme had only a minor effect on unemployment insurance. In the United States unemployment insurance, accident compensation and public assistance underwent no major changes.

The continuity with prewar schemes created important international diversities. Thus the British scheme was based on flat-rate contributions and benefits, while the European and American ones varied with earnings. But gaps in previous schemes were often plugged by incorporating innovations from abroad. Family allowances, introduced in Britain in the Beveridge scheme, had been in operation in France since 1932. (They were not reintroduced into Germany until 1954 because of their associations with Nazi population policy.)

Coverage was often broadened. Schemes which had been confined to industrial workers before the war were typically extended to include the self-employed, farm workers and domestic servants. In many cases, reduced contributions qualifications meant that more people became eligible for benefit. (In the United States in the late 1940s, only one-fifth of the over-65s were insured or receiving pensions.)

Unemployment insurance in Europe generally became both more generous and easier to obtain. Comparing the situation in 1975 with the year of introduction (generally prewar), on average the ratio of benefits to earnings had risen slightly, the duration of benefits had doubled to nearly a year, the delay before eligibility to benefit had halved (to two days), and the period of disqualification (on account of dismissal for misconduct, for example) had halved to about three weeks.

The one really radical innovation was the replacement in Britain of sickness insurance by the National Health Service (NHS), free as of right without means test or contribution (although prescription charges were introduced in 1950). But this was unique in terms of universal supply based on need. Elsewhere, earnings-related insurance, plus 'social aid' at a distinctly lower level for those not covered, continued prewar traditions.

An important development in the fifties was the linking of benefits to rising living standards. This was most explicitly promulgated in the German pension reform of 1957, which Adenauer forced through to great electoral benefit, in

the teeth of strong opposition from the central bank and the employers. But benefits were regularly revised upwards to similar effect elsewhere.

The same German reform reinforced the 'insurance' principle behind pensions, by tying them more closely to past contributions. This eliminated the minimum pension level which had survived since Bismarck, and substantially widened differentials. The British Labour Party also proposed replacing flat-rate contributions and benefits by a scheme aimed at raising pensions to a level equivalent to half of earnings. A scheme of this sort was finally implemented in the seventies. There was also a trend towards adding an earnings-related supplement to previously flat-rate unemployment benefits (for example, the United Kingdom) or moving to entirely earnings-related payments (Germany).

Pensions give some indication of the level of benefits by the early seventies. For a married couple they were reckoned to be between 50 and 60 per cent of post-tax earnings in France, Germany and the United States, about one-third in Britain and Italy, and probably barely one-fifth in Japan. For unemployment pay and sickness benefit the ratio averaged one-half higher.

Did the postwar development of the welfare state remould capitalism to give it a more human face, or were the changes largely cosmetic? The answer is complex.

The new measures did bring about a large flow of resources to the disadvantaged. By the early 1970s a typical continental European country was devoting a little over 20 per cent of GDP to social expenditure, the United States and United Kingdom 17–18 per cent, and Japan 10 per cent. The extension of coverage, plugging of gaps, index-linking and softening of contribution eligibility criteria, brought enormous gains to many people.

Wider coverage accounts for well over half of the increase in the proportion of output devoted to welfare provision during the 1960s. Cash benefits also rose faster than inflation, growing in line with average incomes (table 9.1).

But there were also important limitations. The welfare state never came close to eliminating poverty. On the basis of standardized poverty figures (a percentage of national earnings based on the average of national official poverty standards), in the early 1970s 3 per cent of the German population lived in poverty, 7½ per cent of the British, 13 per cent of the US, and 16 per cent of the French.

A crucial question about the growth of the welfare state is whether it undermined employers' control over labour by reducing the compulsion to work. Two cases should be distinguished. The one dear to the heart of the popular press is the possibility of individuals opting out of the labour market altogether to 'sponge' off the state. By depriving employers of potential labour, this could force up wages. The rise in real levels of social assistance which occurred in the boom could have made such opting out more feasible, even if the social assistance rates did not rise relative to earnings (which they generally did not – child benefit in particular fell substantially relative to average incomes). Relaxation in eligibility criteria would also reduce the pressure on

Table 9.1 Growth of ACC welfare spending in the 1960s

	As percentage of GDP	Resulting from		
		Demographic changes <sup>a</sup>	Coverage <sup>b</sup>	Real costs and benefits per recipient
Education	1.1	0.0	0.6	0.5
Income maintenance	2.0	0.8	1.2	0.0 <sup>c</sup>
Health	1.9	0.1	1.1	0.8
Total	5.0	0.9	2.9	1.3

<sup>a</sup> The effect on spending of the changing age-structure of the population (old people, children).

<sup>b</sup> The effect on spending of welfare schemes covering an increasing proportion of the population.

<sup>c</sup> No change relative to average income levels.

Source: OECD, 1976, *Public Expenditure Trends*, table 7.

able-bodied recipients to look for work. However, the rise in pensions relative to incomes which occurred in most countries also increased the cost of not working – for the farsighted, at least – since pensions were generally linked to contributions from pay. In fact, ‘social aid’ (transfers to people not eligible for pensions, unemployment benefit and so forth) constituted only 5 per cent of all money spent on transfers in the early 1970s. In the two countries where it was more important, the United States and United Kingdom, the proportion of transfers going to social aid hardly increased during the 1960s. The low level of social assistance and the stigma attached to receiving it make it implausible that significant ‘scrounging’ took place.

However, the development of welfare benefits may well have reduced dependence on any particular employer. Unemployment benefits on average rose in line with pre-tax incomes during the sixties. But since the tax burden on earnings rose, there was probably some small rise in the net amount received while out of work, relative to pay received while working. The benefits sometimes received by strikers’ families also rose in absolute terms. Health expenses were covered for those not in work. So the financial hardships imposed by temporary unemployment or strikes fell. This helped give workers the confidence to stand up to their employers – to quit or strike or be sacked seemed less daunting.

These developments should not be seen in isolation. They reinforced others. The most important factor reducing fear of the sack was the reduction in unemployment, which increased the chances of getting another job quickly. Higher living standards enabled many workers to save a little, providing additional insurance against the financial costs of the sack, of quitting or of

striking. The important rise in some countries in the proportion of families with two adults working acted in the same direction.

The tax burden imposed on workers to pay for welfare services opened up a gap between the cost of labour to the employer (the wage gross of employers’ and employees’ social security contributions and of income tax) and what the worker received (the wage net of all these deductions). As the tax burden edged up, so did the gap widen between the sum that a pay settlement gave workers and what it cost employers. Unions bargaining with individual employers, or at industry level, sought to maximize the return to their members for working, welfare benefits being unaffected by the negotiations. So the rising tax ‘wedge’ heightened conflict over wages.

So, while growth of the welfare state hardly loosened the compulsion on workers to work, it did undermine dependence on any particular employer and provided an additional source of conflict, in the course of which such greater independence could be exercised.

### German codetermination

The right of workers to organized representation was another important feature of the consensus. This usually took the form of institutionalized collective bargaining between trade unions and employers. But in Germany it also involved the apparently more advanced form of ‘codetermination’, which aroused considerable interest.

This interest stems in part from Germany’s outstanding economic record in the boom. Did codetermination contribute to its ‘economic miracle’? But there is also another reason for the interest. From the mid-1970s, left parties came increasingly to adopt a more radical approach to the consensus (chapter 18). One feature of this shift was an emphasis on industrial democracy, which drew heavily on principles of codetermination.

Codetermination – the right of workers to help direct the firms they work in – was a major preoccupation of German trade unions in the years after the war (chapter 6). At first they regarded it as a prerequisite for the socialization of large-scale heavy industry. Then, as the German economy was firmly steered towards a reconstructed capitalism, codetermination was presented as a substitute for socialization – an alternative way of assuring that big business would never again play the political role it had in the thirties. Codetermination received enormous support. In 1950 and 1951 well over 90 per cent of metal workers and miners voted in favour of strike action to secure a special codetermination law for their industries.

The system involved workers electing half of the members of supervisory boards, with the shareholders electing the rest and appointing a ‘neutral’ chair. The workers could also veto (in effect, nominate) the labour director, responsible broadly for personnel questions. Outside the steel and coal

industries, workers could elect one-third of the supervisory board. In all industries works councils, elected by the employees, had the right to 'codetermine' some issues (working hours, holidays, implementation of pay scales), to veto others (hirings, job classification, transfers), to be consulted over yet others (mass redundancies, individual dismissals) and to receive economic information (profits, production, investment).

But workers' influence has been more constrained than these provisions might suggest. The labour director in steel and coal firms is a member of the management board which controls the day-to-day operations of the firm (the other members being the production and business managers). His or her mandate generally covers most of the issues over which the works council has codetermination rights but excludes questions of incentives and job evaluation. These labour directors may well have initiated enlightened personnel policies, but that is a long way from real worker representation in the overall direction of the firm:

The labour director is charged in law with carrying out his function in the best interests of the firm as a whole. Since he is chosen by workers he is theoretically subject to extensive loyalty conflict. Most labour directors have resolved this conflict by operating as responsible managers rather than as worker agents *per se*. They have been most successful when they have been able to win the trust and acceptance of the other management board members. When they have not been able to do so they have been isolated and their influence has been drastically reduced' (Adams and Rummel, 1977, p. 12).

The worker members of the supervisory board are elected partly by the works council and partly by the trade unions. Outside steel and coal, minority representation means that the committees are usually balanced to favour the employer, and information is restricted. The general consensus is that worker influence on these boards has been limited. Furthermore, minimal communication between the board members and the workers seems to take place, with board members legally bound to secrecy over 'sensitive' company matters. So it would be hard, if not impossible, for worker representatives to mobilize the work force against the employers. Nor can the works councils do so. Failure to agree over 'social matters' in which they have codetermination rights, such as holiday schedules or welfare provision, results in arbitration. Disagreements over the important personnel issues of hiring, firing, classification or redeployment are resolved in the Labour Court. Works councils have to be consulted over mass lay-offs but have no right to call strikes.

Certain weaknesses are clear. Workers' representatives are often removed from the shop floor, which cannot mandate them. Their access to information is limited and their right to use it even more so, as are their areas of influence and the sanctions they can use.

Nor does codetermination appear to have done much to improve work conditions. 'Exhausting physical effort, excessive heat, hazardous safety and

health conditions have been far less points of attention (and redress) than in the American steel industry, and at least straight-time workers endure a high measure of personal . . . coercion (speed-up in one word) by supervision' (Herding, 1972, pp. 329–30). This despite the fact that, as the same author notes, in codetermination plants 'work crews in the key operations enjoy a high degree of autonomy in setting their own pace, breaks, etc.' (p. 330). One survey reported that workers regard works councils as a part of management. But workers participate heavily in elections. Turnouts of 80 per cent are typical. Pressure for increased influence resulted in a 1972 Act which extended codetermination rights in a number of personnel matters, such as employment contracts and training. A 1976 Act extended a weakened form of parity codetermination to all firms with more than 2000 employees. It is weaker than in steel and coal because one of the worker nominees must be a senior executive and the chair, a shareholder nominee, has two votes.

The employers clearly had strong reservations. They went to court and tried, unsuccessfully, to have the 1976 Act declared unconstitutional. However limited, codetermination does serve to remind employers both of the days when their prerogatives were generally and seriously challenged and of the fact that such a situation could recur.

### French economic planning

The characteristic attitude in large-scale economic management, both inside government and in the private sector, which has made itself increasingly felt during the post-war period, is the pursuit of intellectual coherence. Its most obvious manifestation is in long-range national planning. . . . Economic planning is the most characteristic expression of the new capitalism (Shonfield, 1965, pp. 67, 121).

This view from the author of *Modern Capitalism* – at the time probably the most influential interpretation of postwar trends in the advanced countries – was fully in line with the consensus. If governments were to manage the new capitalism then economic planning was clearly of the essence.

Shonfield singled out France as the innovator in the field. So what was French planning? Most governments manipulated tax rates and government expenditure to influence the overall level of spending in the economy. But this Keynesian demand management could not dispel much of the economic uncertainty faced by business. Keynes himself had argued for 'the collection and dissemination on a great scale of data relating to the business situation including full publicity, by law if necessary, of all business facts which it is useful to know. These measures would involve society in exercising directive intelligence through some appropriate organ of action over many of the intricacies of private business, yet it would leave private initiative and enterprise unhindered' (quoted Estrin and Holmes, 1983, p. 8). Precisely this kind of

'generalized market research' lay at the heart of French planning. Its consistency and coherence were supposed to encourage a common view about the future to which firms would respond with bold investment plans – nudged, if necessary, by government tax and credit policies.

The process evolved from the Monnet Plan for the reconstruction of six basic sectors, formulated at the end of 1945 to persuade the US government that the French were sufficiently serious about modernization to justify a loan (chapter 4). Modernization Commissions, the basic planning units, brought together civil servants and managers (the trade unionists involved have never played a major role) to thrash out targets for output and investment.

This process continued to form the basis for planning. But hit-and-miss targets were increasingly replaced by sophisticated forecasts for individual industries' markets based on aims for the overall growth of the economy and its division into private consumption, government spending and so forth.

The Monnet Plan itself undoubtedly facilitated the reconstruction of the basic sectors. The Americans were persuaded to allow the 'counterpart funds' to Marshall Aid to be used for these purposes, and their backing helped Monnet to protect the investment targets from the deflationary policies of the time. The fact that three of the six sectors were nationalized – coal, electricity and railways – helped. Their own programmes were incorporated in the plan, which must have reduced scepticism and helped in obtaining priority finance. The impact on the private sector – the real test – is harder to assess. Proposals for 'state contracts with trade associations, groups of concerns or, in exceptional cases, individual enterprises' (Kuisel, 1981, p. 234) or even the nationalization of recalcitrant firms were never implemented. Nor could they have been after business regained its initiative in 1947. Controls over foreign exchange, credits and scarce materials could hardly force anybody to expand. Yet, one member of Monnet's team remembered that plan as having 'ably manoeuvred a reluctant steel industry to modernize' (Kuisel, 1981, p. 245).

Jacques Delors, later to be minister of finance in Mitterrand's socialist government, records that when Monnet first gathered the steel masters together and demanded the reconstitution of prewar production capacity within four years, 'Two or more cases of heart seizure reportedly ensued' (Delors, 1978, p. 15). Nevertheless, the target was reached only a year late. When in 1951 he demanded another 40 per cent expansion, 'that did not work at all, since these steel masters had been so nourished on Malthusianism that their dominant fear was over-production. In this case, the planning response was not simply financial incentives, but direct intervention to change the steel cartel itself. . . . If you reproduce this anecdote some ten or twenty times in different industries, you begin to explain the role of the Plan during this first period' (Delors, 1978).

Judging the effect of subsequent plans on the private sector becomes even harder as the number of commissions, and the equations in the planning models, grow.

The evidence shows that firms took notice of the plan, at least by the 1960s. In 1967, 79 per cent of firms knew the plan's forecasts for the economy as a whole and 50 per cent (85 per cent of those with more than 5000 employees) knew of the production and investment forecasts for their industry group; 24 per cent (51 per cent of the biggest) said that the plan forecasts affected their investment decisions.

There seems to be a consensus that the plan did encourage accumulation, at least up to the late sixties. 'According to the witnesses we have consulted, it seems likely that the growth expectations set forth in the Second National Plan (1954–57) were in contradiction to the conventional wisdom at the beginning of the 1950s, which expected that only low rates of growth were possible. . . . The picture of a growing economy provided by the Plan, in which production was sure of finding sales, probably played a significant part in the resumption of growth after 1952' (Carré et al., 1976, p. 471).

A sophisticated statistical evaluation suggested that in the late fifties and early sixties the plan provided better pictures of the evolution of the economy than would have been derived simply by extrapolating past trends. But it seems likely that the importance of the plan in creating a 'growth climate' diminished as the experience of rapid growth meant that business came to expect it anyway. This in itself, however, would be success of a sort.

Even if the Plan's effect on the *level* of accumulation was bound to diminish, it could still have significantly influenced its *pattern*. At least until the early 1970s, however, the government made no systematic attempt to shape the pattern of industry. The Fifth National Plan's objective of greater concentration to achieve two or three dominant firms – 'national champions' – in each sector, for example, was *entirely* non-selective. The government did not choose the firms; it simply changed legal and tax rules to help mergers.

Mechanisms for selective intervention were available. The planners could determine the availability of finance: 'Every single externally financed project was therefore meant to be scrutinized for conformity with the targets and if the projects passed this test the Commission would see to it that sufficient tax and credit incentives would be made available' (Estrin and Holmes, 1983, p. 179). But, since there was no overall industrial strategy, it is hardly surprising that the finance tended to be granted almost automatically.

What of the pattern of investment within each industry? According to one observer: 'There is in general no noticeable discrepancy between the target of the branch and the sum of the targets of the individual companies' (quoted Cohen, 1969, p. 68). This means that 'The French system of detailed target planning involves . . . the toleration of agreements between firms to fix the share each will take of the planned expansion' (Cohen, 1969, pp. 71–2).

During the 1950s and 1960s, Plan forecasts for business investment were always well below the outcome. Between 1965 and 1970, for example, business investment grew by 8.5 per cent a year, while only 5.8 per cent a year had been expected. The discrepancy was systematically much larger than that for

production growth. This suggests that firms may have formally agreed to share out capacity growth, but then invested to increase their share. Such investment over and above plan targets must have speeded up modernization.

All in all, planning may have temporarily acted as a catalyst in launching French capital on its dynamic growth path. It certainly did not create the potential for that path, which was provided by the backward state of French industry, the strong position of the employers and favourable external circumstances (chapters 2, 4 and 6). It probably played only a small role in maintaining accumulation once that got going. And planning certainly proved incapable of maintaining accumulation once conditions became unfavourable. In the seventies, growth faltered in France as elsewhere. The credibility of the plan was undermined by its increasing unrealism, the clear political motivation behind its projections and the resort by governments to orthodox deflationary policies. By 1979 only 9 per cent of employers regarded the Plan as very important. Even recession-hit industries wanted less planning rather than more. In France, as elsewhere, capital preferred to ditch the consensus in favour of more traditional capitalist virtues.

But the trade unions strongly criticized the erosion of planning and 'regretted the lack of any attempt to articulate real priorities other than the need to submit to world market forces' (Estrin and Holmes, 1983, p. 116). This survey reported a 'nostalgia' among socialists for the Fourth National Plan of the early sixties. When elected in 1981, the Mitterrand government harked back to the legacy of planning in the first postwar decades (chapter 18).

### Japanese industrial policy

The lack of an industrial policy is generally regarded as a weakness of French planning. Japan is often cited as the prime example of a successful industrial policy playing a key role in the dynamism of accumulation. Was Japan's industrial structure successfully orchestrated by the bureaucrats of its Ministry of International Trade and Industry (MITI)?

General measures to stimulate accumulation in Japan differed little in kind or degree from those employed elsewhere. The government provided investment finance directly through such institutions as the Japan Development Bank. But even at their early fifties peak, these funds constituted only 7 per cent of industrial finance (12 per cent of that raised outside the firm). By the second half of the fifties the proportion had declined to 4 per cent. The government also provided a multitude of tax concessions which at their 1955 peak probably reduced average corporation-tax liability by one-fifth, falling to around 12 per cent in the early sixties. Many were fairly standard provisions for bad debts, and so forth. The more innovative included accelerated depreciation on 'special machinery', 'special repairs' (to heavy plant), research and development, exemption from tax on income from sales of 'important new products',

exemption from customs duty on 'important equipment' and exemption of certain exports from income tax. But they reduced tax payments by only 6 per cent during the years 1959 to 1963.

Such aggregate figures could be misleading, however. Both government lending and tax concessions were highly selective, being steered towards particular industries. Government favour also helped firms secure loans from private banks. Tariffs and prohibition of foreign firms from setting up in Japan were further important weapons.

The Japanese government decided on a number of occasions to foster particular industries, using a large armoury of policies. A few case studies illustrate the process.

It was clear after the war that Japan could no longer rely on textile exports for most of its foreign exchange earnings (chapter 2). So it adopted a policy of fostering basic 'heavy industries' (steel, chemicals, shipbuilding). After 1947 a policy of 'planned shipbuilding' operated. Every year the government announced the total tonnage to be built of each type of ship and selected which shipbuilders and (domestic) owners should be involved. A high percentage of the funds required (80 per cent or more in the early fifties) was supplied cheaply by the Japan Development Bank. The interest rate subsidy sometimes involved deferral of repayment for 15 years. Cheap loans to finance exports were 'perhaps the most significant assistance to shipbuilding' (Magaziner and Hout, 1980, p. 69). The companies also profited from a bizarre system whereby shipbuilders who exported were given import quotas for raw sugar, which could be sold at a hefty profit. The result was Japan's first 'miracle' industry. By the early seventies Japanese yards were launching over half the world's ships.

Steel, also designated as a key recovery sector immediately after the war, was a key input into major export industries such as ships (and in turn the development of huge ore-carrying ships allowed the Japanese steel industry to overcome a major disadvantage in transport costs for materials). In the 1950s the industry expanded under two five-year 'rationalization plans' developed by the industry together with MITI. Steel benefited from major government loans, accounting for half its borrowing during the first five-year plan. Ten per cent of its finances still came from government sources in the early sixties. It also received a host of tax concessions.

The government has been continuously involved in the process of capacity expansion:

Representatives of the privately owned steel producing firms gather under the umbrella of the Japan Iron and Steel Federation to present and discuss tentative investment plans for the coming year. (Often these representatives, usually managing directors, are MITI alumni.) The producers' plans are evaluated in relation to the demand outlook for the industry and the existing pattern of market shares. After these meetings and informal discussions among these managers and the officials of the Iron and Steel Section of MITI's Heavy Industries Bureau, the



presidents of the steel companies try to reach a consensus on the rate and timing of the major investments of individual producers. MITI participates *ex officio* in these meetings. . . .

After consensus has been reached, MITI issues a report recommending a course of action to the industry. . . .

It has been said that no application from a major firm for a capacity increment has ever been flatly rejected, although some have been delayed. This, of course, is the mechanism of the consensus process: the expanding firm is persuaded either to delay its application or to accept a delayed approval. When this persuasion fails, consensus is frustrated. (Magaziner and Hout, 1980, p. 48).

Strikingly, MITI frequently tried to *slow down* the rate of accumulation to avoid overcapacity, a problem exacerbated by the increasing size of new plants which reduced the number to be built each year. In 1965, Sumitomo, which has tried to remain independent of MITI's 'administrative guidance', broke with an industry decision to delay all new investment in rolling facilities. MITI disciplined it by limiting its allocation of imported coking coal. In 1967 'eight steel makers sought approval to begin building new furnaces, but according to MITI's projections only two were needed. Five received approval, one with a year's delay' (Kaplan, 1975, p. 148). This prompted MITI to seek mergers. But the resultant creation of Japan Steel 'only served to consolidate two conservative producers. The impact on the other producers, at least Sumitomo and Kawasaki, who did not oppose the merger, may have been counter-productive in stimulating continued aggressive expansion' (Kaplan, 1975, p. 151).

The value of government support to the industry cannot be measured in terms of cash expenditures. By the judicious application of support in the areas where it could be most effective, government has done a great deal for the industry. Selective measures – help through the insurance of debt for building greenfield plants, assistance in procuring raw materials and forming anti-recession cartels – have provided support without extinguishing competition or stifling initiative in individual companies. Even capacity expansion co-operation has been carried out in such a way as to allow substantial continued internal competition and even greater market share changes than occurred in the United States. The actual flow of funds from government to the industry represented by loans, grants and tax allowances has been minimal, at least since the late 1950s. Per ton of steel, such assistance has been substantially less than that supplied by many European governments (often to subsidize the losses of uncompetitive plants)' (Magaziner and Hout, 1980, p. 54).

Steel was certainly another Japanese success story. By 1977 Japan had 25 blast-furnaces in operation with a capacity of over 2 million tons. The EEC had seven and the United States none.

In the early 1950s the Japanese motor industry consisted of a handful of clapped-out truck producers, rescued from bankruptcy by the Korean war. The Japanese central bank originally favoured car imports. But MITI argued that a

domestic industry should be nurtured because of its critical importance, and won. The government's key role in the early days was to protect the industry. Foreign investment was more or less prohibited (it had to contribute to the development of the domestic industry). Quotas at first restricted imports to \$½ million a year. In the mid-1960s quotas were replaced by prohibitively high tariffs. Import of foreign technology was encouraged, with the stipulation that 90 per cent of licensed parts be produced domestically within five years. Nissan was the only major producer to enter into a licensing agreement (with Austin). Toyota developed its own system of organizing work (see chapter 15). The industry benefited from access to Japan Development Bank loans, and various tax concessions. But MITI 'played little or no role in the investment policies or technological development activities of the producers' (Kaplan, 1975, p. 116).

MITI helped to promote streamlining in the parts industries over the years 1956 to 1966, aimed at modernization and rationalization of the number of suppliers. But it failed comprehensively to push through various plans for mergers between the assemblers. Instead of merging with each other, or one of the bigger concerns, in the early seventies three of the smaller firms signed affiliation agreements with the American Big Three as MITI opposition was overcome by political pressure for foreign capital liberalization.

Today Japan is the biggest car exporter in the world.

Finally, there is the computer industry, which 'MITI has unequivocally dominated' (Kaplan, 1975, p. 78). IBM was granted the right to manufacture in Japan in 1960 in return for licensing basic patents to Japanese manufacturers, and most major Japanese companies entered technical assistance agreements with big American manufacturers. By the mid-1960s MITI recognized the importance of the industry by increasing loans and subsidies and embarking on a series of attempts to rationalize the industry and/or organize cooperative ventures. The culmination was the Very Large-Scale Integration project involving MITI's electronics research institute, the state and telecommunications laboratory and five major computer manufacturers. MITI's attempts at consolidation failed to overcome the firms' competitive attitude (indicating limitations to MITI's 'dominance'). As well as assisting technology development, MITI organized a leasing corporation to lease only Japanese computers on competitive terms to those available abroad. The industry was protected until the early 1970s by the rule that foreign machines (including IBM machines produced in Japan) could only be purchased if a suitable Japanese model was not available. While Japanese computers were hardly a factor in the boom years, they were to become a major force in the 1980s.

It is difficult to draw a neat conclusion. MITI clearly pushed strongly to develop certain key industries. It provided finance, ensured protection and, on occasion, encouraged technological development. In a few cases, such as steel, it effectively coordinated expansion plans.

On the other hand MITI seems to have been rather unsuccessful in securing rationalization through mergers. MITI sometimes held back accumulation in

the steel industry. In the other cases it played a facilitating rather than a decisive role. Moreover, the case studies reported, where MITI was highly influential, were not entirely typical: 'Some of the rapidly expanding "new" industries, the products of which have been increasingly exported all over the world – such as motor cycles, bearings (especially miniature bearings), transistor radios, TV sets, tape recorders, pianos and zippers – received relatively little government assistance even in their infancy periods. By and large these industries were able to stand up by themselves, with little government protection or planning' (Komiya, 1975, pp. 219–20).

Clearly, industrial policy cannot fully explain the extraordinary dynamism of Japanese accumulation. Other factors were at work (Chapter 8).

## Conclusions

The boom saw the generalization and expansion of state welfare provisions, unprecedented attempts by governments to plan for economic growth and shape industrial structures, and some experiments in worker involvement in the direction of enterprises. The most important point to recognize, however, is that these developments did not substantially undermine the essential relationships underpinning capitalist economies. Despite the increased strength of labour, as reflected in welfare provisions and moves towards 'industrial democracy', workers were still obliged to sell their labour power to employers whose freedom of action they might be able to limit, but certainly not control. Despite the growing importance of state intervention through macroeconomic planning and industrial policies, the essential decisions about investment were still taken by the controllers of private capital, on the basis of private profitability.

Perhaps the most important aspect of attempts to manage the 'mixed economy' during the golden years was that people believed they could work. This helped maintain confidence, which in turn helped maintain accumulation. Accumulation generated jobs, regular increases in living standards, resources for welfare and profits. These in turn reproduced the consensus.

When the boom conditions began to disintegrate, the economic logic of capitalist production reasserted itself in a very brutal fashion (chapter 14). But the development of state intervention in the course of the boom had an important effect on reactions to growing economic difficulties. Many on the right blamed the breakdown of the boom precisely on government interference (chapter 17). The left, by contrast, saw the greater worker and state involvement in the economy as a pointer to how the crisis could be resolved in the interests of working people (chapter 18). In this way the patterns set in the boom left their imprint firmly on the years of mass unemployment which followed.

## Overaccumulation

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The decline of the United States was not the only problem generated by the boom. The sheer pace of accumulation was itself a mixed blessing. It propelled capitalism up the longest and steepest economic incline in history, but at a cost. Towards the end, the engine of growth was overheating badly and the ride was increasingly bumpy. *Overaccumulation* had set in.

The basic idea of overaccumulation is that capitalism sometimes generates a higher rate of accumulation than can be sustained, and thus the rate of accumulation has eventually to fall. Towards the end of the postwar boom, an imbalance between accumulation and the labour supply led to increasingly severe labour shortage. The excess demand for labour generated a faster scrapping of old equipment. Real wages were pulled up and older machines rendered unprofitable, allowing a faster transfer of workers to the new machines. This could in principle have occurred smoothly: as profitability slid down, accumulation could have declined gently to a sustainable rate. But the capitalist system has no mechanism guaranteeing a smooth transition in such circumstances. In the late sixties the initial effect of overaccumulation was a period of feverish growth, with rapidly rising wages and prices and an enthusiasm for get-rich-quick schemes. These temporarily masked, but could not suppress, the deterioration in profitability. Confidence was undermined, investment collapsed and a spectacular crash occurred. Overaccumulation gave rise, not to a mild decline in the growth rate, but to a classic capitalist crisis.

This chapter and the following two examine this process. This one focuses on underlying developments in accumulation. The next two give a more blow-by-blow account of mounting economic difficulties.

### Development of the working class

One way in which rapid accumulation undermines the conditions for its own existence is by creating a mass proletariat. Capitalism's hunger for additional workers creates a larger and larger class of waged workers. Their economic

conditions are essentially similar – in that they are deprived of the wherewithal to produce on their own account and so must work under others for wages – and their interests are ultimately antagonistic to those of their employers.

Total employment rose, in line with population growth, by 30 per cent between 1950 and 1970. This would in itself have increased the size of the working class by almost a third. As it was, the proletariat grew considerably faster than total employment. While civilian employment in the ACCs rose by 46 million, the number of self-employed and 'family workers' fell by 20 million. In 1954, 31 per cent of those officially classified as in work were in this category. By 1973 the proportion had fallen to 17 per cent.

Outside agriculture the number of self-employed actually grew by 1 million, while falling substantially as a proportion of total employment. The growth of services, with many opportunities for small businesses, was the main reason for the growth in absolute numbers. In industry the self-employed were generally slowly squeezed by the superior performance of big business, although 15 per cent of those engaged in manufacturing in Italy and Japan were still self-employed in 1970.

So the story behind the statistical shift from self-employment to wage labour is one of an exodus from the land. For the individuals concerned the trek was often one away from the dreary world of the family farm towards the bright lights of the big city. For society as a whole it was a process of massive proletarianization.

A number of factors made this development possible. One was underemployment in the countryside. Many farms had more family workers than could be fully employed, and so migration to the cities could occur without loss of food output. In Japan, the United States, France and Germany the number of unpaid family workers fell by nearly 12 million, or 70 per cent. Mechanization in the countryside also reduced labour requirements. This was achieved partly through capitalist agriculture driving out family farms. The number of self-employed farmers in the United States, Japan, France and Germany fell by about 6 million, or 50 per cent.

Reduced underemployment, mechanization (spurred on in part by the exodus of family workers) and improved methods of cultivation allowed agricultural output to grow significantly and employment to fall substantially. Productivity grew faster in agriculture than in industry, both overall (table 11.1) and within every major country except Japan.

These developments within agriculture reflected the growth in demand for labour in other sectors. This proceeded at a faster pace in services than in industry. The annual average percentage growth rates of employment in the ACCs from 1955 to 1968 were (OECD, 1970):

Agriculture	–3.8 per cent
Industry	1.5 per cent
Services	2.0 per cent
Total	1.0 per cent

Table 11.1 ACC sector growth rates, 1955–68 (average annual percentage growth rates)

	Output	Productivity
Agriculture	1.8	5.6
Industry	5.7	4.2
Services	4.9	3.0

Sources: OECD, *The growth of output 1960–80*, tables 3 and 7; Ohkawa and Rosovsky, 1973, table 2.5

The pattern of demand – including the rise in the share of investment (chapter 8) – ensured that industrial production rose more quickly than the output of services. Nevertheless, employment grew faster in services as productivity rose more slowly (although the measurement of output and hence productivity in many services is difficult).

Some of the growth in service employment was in state provision outside the market, notably in the form of the welfare state (chapter 9). State employment rose from some 11½ per cent of total employment in 1960 to some 14½ per cent in 1974. (Nationalized industry employees are excluded; they produce commodities for the market and contribute directly to the pool of profits.) Some privately employed labour also works for non-profit-making bodies. In Japan, where state welfare provision is poor, this constitutes some 2 per cent of employment. None of these jobs represents work for capitalists. But they are wage labour, and those performing them are a part of the working class.

The switch to waged work of previously independent producers also increased union membership. In the ACCs membership grew from about 49 million in 1952 to 62 million in 1970. But the proportion of wage and salary earners in unions declined from 37 per cent in 1952 to 31 per cent in the late sixties. Much of the explanation for this lies in two interrelated trends: towards more white-collar jobs and towards more service jobs, both traditionally weakly organized. In both Britain and Germany the number of manual workers stayed virtually constant over the boom while white-collar employment rose by 50 per cent in the United Kingdom and doubled in Germany. Since unionization levels among white-collar workers are about half those for blue-collar in both countries, this shift worked to pull down the average level of unionization even though more white-collar workers started to join unions.

Overall membership figures are crude indicators of the development of unionization. They lump together the British miners, the American teamsters and Japanese 'company' unions. But, for Europe at least, certain generalizations can be made. They include the increasing importance of white-collar and public sector unions and the cementing, in the context of continuous growth in living standards, of the power of national trade union bureaucracies. These developments were to influence the form of workers' struggles once full employment was achieved (chapter 12).

### The late 1960s: the problem of full employment

By the mid-sixties the enormous growth of waged jobs had effectively created full employment. The measured unemployment rate for the advanced capitalist countries had fallen below 3 per cent. It then fluctuated around that level until 1973, although rising quite sharply in the 1971–2 recession (chapter 12).

In full employment lay both the historic achievement of the boom and its undoing. The difficulties raised by full employment manifested themselves most obviously in accelerating inflation. A less noticeable but ultimately more crucial problem was a general decline in profitability. But perhaps the most fundamental difficulty was a threat to capitalist control on the shop floor. The Polish economist Kalecki, whose work had in other ways anticipated that of Keynes, had predicted just such a development a quarter of a century earlier:

The *maintenance* of full employment would cause social and political changes which would give a new impetus to the opposition of the business leaders. Under a régime of permanent full employment, 'the sack' would cease to play its role as a disciplinary measure . . . 'discipline in the factories' and 'political stability' are more appreciated by business leaders than profits. Their class instinct tells them that lasting full employment is unsound from their point of view and that unemployment is an integral part of the normal capitalist system. (Kalecki, 1971, pp. 140–1).

### Tight labour markets

Measured in terms of unemployment rates, the intensity of demand for labour appears to have subsided a little by 1970. But unemployment can be an unreliable indicator of the tightness of labour markets. Patterns of registration shift as regulations change, or as previously 'marginalized' groups, such as married women, become consolidated into the labour force. Rapid changes in the pattern of demand for labour (across regions or industries) can also leave a residual of 'structural' unemployment in a context of intense labour shortage. The speed of the upswing in 1972–3 generated bottlenecks and labour market 'mismatches'.

An alternative indicator of demand for labour is employers' notification of vacancies. Although open to misinterpretation, this at least in principle shows the extent to which employers were hunting for workers. Vacancy figures show intensity of demand reaching a peak in Germany in 1970 and in Japan in 1973 (figure 11.1). In the United Kingdom, vacancy figures show extremely tight labour markets in the early seventies.

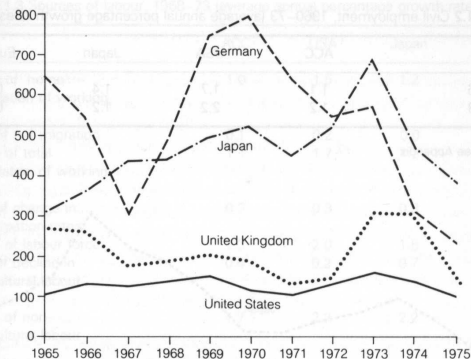


Figure 11.1 Job vacancies, 1965–75 (thousands).

Source: OECD, *Main Economic Indicators*.

### Accumulation and the demand for labour

The very high level of demand for labour was maintained throughout the late sixties and early seventies by the trend of capital accumulation. The accumulation rate for the ACCs peaked in 1970–1 at just over 5½ per cent – an increase of over 1 percentage point relative to the early sixties. In Europe the rate of accumulation peaked first in the early 1960s, then a decade later at a slightly lower level. In the United States it peaked around 1966, but was still much higher in the early seventies than in the early sixties. In Japan the accumulation rate peaked at the end of the sixties and the increasing weight of the Japanese capital stock also contributed to the upward trend in the ACC accumulation rate over the 1960s as a whole (figures 11.2 and 11.3).

The impact of accumulation on demand for labour depends on its form as well as its extent. If accumulation in the boom had been based on an unchanged mass of machinery per worker then an extension of the capital stock would have required an equivalent increase in workers employed. But new means of production systematically embodied a higher degree of mechanization than their predecessors (chapter 8). So the rate of growth of employment was much less than the rate of accumulation (figure 11.3). But in the absence of an increase in the speed of mechanization in the early seventies, the peak rates of accumulation achieved at that time generated peak intensities of demand for labour. Since labour supply did not increase to meet this demand, the growth of civilian employment was only marginally higher in the late sixties and early seventies than in the first half of the sixties (table 11.2).

## Overheating

In the late 1960s most economic commentators believed that the long boom was permanent. Keynesianism seemed to have banished mass unemployment for ever and wage rises seemed as natural and regular as the tides. In the mid-1970s, by contrast, the mood became one of gloom and despondency. This chapter and the next tell the story of the series of 'shocks' that undermined the earlier complacency.

## Strike waves and wage explosions

A wave of strikes swept across Europe between 1968 and 1970. The May 1968 events in France triggered a three-week general strike. Next year Germany and the Netherlands were drenched by waves of wildcat strikes, and Italy sweated through a Hot Autumn of industrial unrest. In the United Kingdom the Wilson government's incomes policy broke down in 1969–70 in a 'winter of discontent'.

The strikers won big wage increases, around twice those of the preceding years (table 12.1). These gains were all spearheaded by settlements negotiated to conclude key strikes: the Grenelle agreements of May and June 1968 in France, the agreement between IG Metall and the iron and steel producers in September 1969 in Germany, the metal-working agreements of December 1969 in Italy, and the public sector settlements of winter 1969–70 in the United Kingdom.

The phenomenon was confined to Europe. The United States and Canada did experience more industrial unrest in the early seventies than in the fifties and sixties, and money wages rose faster. But the shift began earlier and was far more gradual. The number of strikes in Japan did not noticeably increase.

Within Europe the experience was remarkably uniform. The strike waves took place at around the same time and all won major wage increases. Many strikes were headed by groups of workers who had previously been fairly quiescent. Many were in white-collar jobs, often in the public sector. Often the

Table 12.1 The European wage explosions, 1965–70

	Strikes <sup>a</sup>	Money wage <sup>b</sup>	Real wage <sup>b</sup>
France			
1965–67	2,569	5.8	2.9
1968–69	76,000 <sup>c</sup>	11.0	5.4
Germany			
1966–68	147	5.6	3.3
1969–70	171	12.0	9.2
Italy			
1966–68	10,761	6.9	4.3
1969–70	29,356	11.3	7.3
UK			
1967–69	4,774	6.9	2.4
1970–71	12,265	12.0	3.9

<sup>a</sup> Thousands of days occupied in strikes, annual averages.

<sup>b</sup> Average annual percentage change during the years shown.

<sup>c</sup> Kendall's estimate (1975, p. 365).

Source: Allsopp, 1975, table 3.4

workers were unorganized, or organized only weakly. The strikes were sparked off by the rank and file, most were unofficial, and often they were resisted at the outset by national trade union leaderships. So they should be seen essentially as a unified development.

They also marked a watershed in industrial relations, showing clearly that the consensus had failed to unite divergent class interests. Since 1968–70 there have been more strikes than in the fifties and sixties, and more of them have been unofficial. The wage explosions also had an immediate economic impact: by jacking up costs they squeezed profits further and boosted inflation.

So the industrial turbulence of these years is important. But why did it happen?

At first glance it looks like a straightforward consequence of overaccumulation (chapter 11). Europe as a whole was booming by the late sixties. As we saw, labour markets were tight. Accumulation could be maintained only if wages rose and scrapping accelerated. Otherwise there would be a shortage of workers to operate newly installed machines. So faster wage rises were needed if the system was to function smoothly.

The effective full employment also provided the mechanism to push up wages. By tilting bargaining power towards labour, it encouraged big pay claims. Capitalists resisted, which was an instinctive response, but also a rational one. Real wages had to rise somewhere if less efficient plant was to be scrapped and the labour shortage contained. But it was clearly to any one firm's

sector by 17.0 and 14.6 per cent. With prices rising by only 4.8 per cent in each year, this implied considerable real wage increases and a sharp fall in profitability. Since French prices were rising considerably more rapidly than those in the United States and Germany, it also implied a loss of competitiveness.

The 1963 Stabilization Plan was designed to restore profits and competitiveness. These policies were incorporated into the Fifth Plan, formulated in 1964 and 1965, which aimed at an annual rate of growth of profits of 8.6 per cent between 1964 and 1970. Planned wage growth was restricted to 3.3 per cent a year. After abortive negotiations on a voluntary incomes policy between October 1963 and January 1964, the government adopted four major policies towards this end.

One was deflation. Registered unemployment rose from 1.4 per cent in 1961–3 to 2.7 per cent in 1968. Another policy was control of public sector wages. The *Toutée* procedure, adopted in May 1964, fixed an aggregate figure for wage increases in particular sectors, leaving the distribution of the overall increase to be negotiated between unions and management. A third device was the use of ‘contract programme’ agreements negotiated with major companies. These covered pricing policy and the principle was that companies were allowed to raise prices sufficiently to rebuild profit margins, providing they gave certain guarantees on employment, exports, investment and wages. The agreements were confidential and their content unknown to the work force. By 1969 some 85 per cent of industry was covered by them.

The final policy was the encouragement of a major merger drive to promote rationalization. This was part of de Gaulle’s attempt to modernize an industrially backward France – ‘to make her marry her century’, as he put it.

The policies were fairly successful. The rate of growth of real wages in the private sector fell to 3.9 per cent a year in 1965 and 1966, and 3.4 per cent in 1967. Public sector wages were squeezed tighter still, and in four years fell 9 per cent behind the private sector. The annual value of mergers more than trebled from a fairly stable trend in 1966 and 1967.

French inflation slowed to a rate comparable with that in Germany and the United States. Deflation hit productivity growth which slowed down somewhat. The share of profits in both manufacturing and business showed little change, despite lower capacity utilization. As in most deflationary periods, profitability did not rise immediately. But the potential for profitable production did improve, as the post-May 1968 expansion demonstrated.

This modest success was bought at the expense of mounting employee grievances. These included the slow growth of real earnings overall and, for public sector workers, the deterioration in their position compared to the private sector. The dislocations resulting from rationalization were also important. A government report, issued shortly after the May events, summarized their causes as: ‘a failure to comprehend the resistance to change, to prepare the groundwork for unprecedented dislocation resulting from

mergers, combinations, business failures and dismissals, which accompanies modernization. The changes on the labour market had come with greater rapidity than anticipated, too much reliance had been placed on the automatic adjustments, the mobility, of the market mechanism’ (quoted Flanagan et al., 1983, p. 605). In this sense May 1968 was the price de Gaulle paid for his attempt at a shotgun wedding between French industry and the twentieth century.

Two main differences, besides the obvious ones of speed, scale and aspirations, distinguish the French strike waves from the Italian. One is the fact that, while in Italy a tightening of the labour market played a key role, in France the strike occurred in the context of the highest levels of unemployment and excess capacity since 1960. The other difference is that the Hot Autumn significantly altered both industrial relations and economic performance in Italy, whereas the altogether more dramatic French experience brought no comparable long-term changes.

The students’ revolt was clearly important to the timing of events in France. This was closely linked to the accumulated grievances of the workers, being also largely a product of de Gaulle’s modernization strategy. In the fifties university student numbers had risen from 135,000 in 1949 to 220,000 in 1960. In the sixties the pace accelerated: 520,000 enrolled in the autumn of 1967. This growth far outstripped the provision of facilities. In the academic year 1967–8 there were 30,000 too many students in Paris alone.

The government’s response was a plan to replace the baccalauréat system, which guaranteed places to those obtaining certain qualifications, with one of competitive selection. The occupation at Nanterre which gave birth to the 22 Mars movement was to protest against this proposal. The government’s repressive response played a role in building sympathy for the students. Workers would probably have been less inclined to support them if their protests had met with reasoned discussion rather than tear gas.

Finally, the structure and traditions of the French labour movement were important. Collective bargaining hardly existed under de Gaulle. Union membership fell rapidly to around half of the immediate postwar level. In 1968 only around 15 per cent of the work force was unionized. This did not reflect a few well-organized sectors and a larger number of unorganized ones as was the case in the United States, for example, where the average level of unionization was similar. In the private sector printing was the only heavily unionized industry. Unionization was high in the public sector but union activity was restricted to dealing with individual grievances and the empty version of wage bargaining embodied in the *Toutée* procedures. So employers and the government could virtually ignore trade unions if they wished. Under de Gaulle they opted almost unanimously to do so.

The low level of unionization did not simply reflect apathy or a lack of militancy. All companies with more than 50 employees were required by law to have enterprise committees elected annually by the work force (their function

being largely consultative, with some responsibility for health and safety). In 1967 and 1968 turnout for these elections was around 75 per cent, with 80–90 per cent of the vote going to union candidates.

But the low level of unionization did influence the form of industrial struggle. It meant that major strikes almost invariably began from the bottom up and were largely outside the control of the unions. As one commentator put it, the unions ‘functioned as skilled surfboard riders’. Strikes were often imitative, a few key factories providing a ‘signal’. In 1968 that initiating role was played largely by the Renault and Sud-Aviation plants.

The chief reason why the May events failed to transform the industrial relations structure – let alone society as a whole – is the behaviour of the CGT and the Communist Party. The CGT was far and away the most powerful union federation. It had around three times the membership of the CFDT and received about half of the votes cast in enterprise committee elections. The Communist Party was a major force in French politics. We have already seen the role that these organizations played at key stages of the struggle.

The *Economist* described the situation vividly: ‘Whenever one hears somebody on the French radio vituperating against “adventurers” one can be sure that M. Cohn-Bendit or some other leftist student is the target. But one cannot guess the political colour of the speaker. It might be a Gaullist or it might be a Communist. On the other hand, if somebody talks about revolution, structural changes or socialist society, one is safe in assuming he is not a Communist’ (25 May 1968).

It also provided an astute analysis:

*A revolution set alight by students, snuffed out by communists*

A modern revolution requires the coincidence of a revolutionary situation and a party or organization ready to seize power. As France comes virtually to a halt, the situation might look revolutionary. But the party which has always claimed the revolutionary role now shows no signs of fulfilling it. The Communists have climbed on the bandwagon, but only to put the brakes on. This is not because they want to preserve General de Gaulle’s regime. It is because they are using a revolutionary weapon – general and unlimited strikes – in order to achieve a parliamentary aim, the formation of a popular front government (*Economist*, 25 May 1968).

No one can be certain what would have happened if the Communist Party had tried to lead a revolution in May 1968. Indeed such a question is virtually meaningless. The Communist Party’s behaviour was no sudden aberration. Its attempts to strangle the revolutionary movement at birth during May 1968 were consistent with the approach taken over the previous 30 years, including the immediate postwar period (part I). Two things are clear, however. Its strategy was an abject failure on its own terms, for the Gaullists romped home in the June elections. Secondly, by denouncing the CFDT’s demands for industrial democracy and restricting negotiations to the traditional issues of pay and

hours, the CGT ensured that the May events would have little impact on the future structure of industrial relations.

### Clampdown and the 1970–1 recession

For the ACCs as a whole, both monetary and fiscal policy swung sharply towards restriction between 1968 and 1969. This picture is dominated by developments in the United States, but a definite shift towards restriction is observable elsewhere, prompted by the acceleration of prices noted above and by growing economic and social unrest.

The effect of this shift was a highly synchronized but relatively mild recession. Idle capacity rose by about 3 percentage points between the second halves of 1969 and 1971; rather more in the United States and Japan and considerably less in Europe. From peak to trough, registered unemployment rose from 3.5 per cent to 6.0 per cent in the United States and from 1.8 per cent to 3.0 per cent in Europe. Inflation peaked at 5.8 per cent in the United States in 1970. As a result of the recession and price controls it fell to a trough of 3.3 per cent in 1972. In the wake of the wage explosions inflation rose more in Europe. It reached 6.5 per cent in 1971 and thereafter hardly fell back.

Policy-makers felt general disappointment with the stubbornness of prices in the face of rising unemployment. The term ‘stagflation’ became common parlance and increasing doubts were expressed about the effectiveness of Keynesian ‘fine tuning’.

### The break-up of Bretton Woods

We left the fortunes of the international financial system and of the dollar with the 1968 decision – implemented in 1970 – to issue special drawing rights (SDRs) on the IMF (chapter 10).

This might have shored up the dollar for a time had the US balance of payments improved as expected. But it did not. The current account deteriorated as the trade balance shrank; business investment overseas doubled between 1965 and 1970. The situation was concealed in 1968 and 1969 as short-term capital was attracted to US banks by high interest rates: \$12 billion flowed in during those two years, more than covering the long-term capital outflow. Simultaneously, foreign central banks’ dollar holdings fell. But this policy was drastically reversed in 1970 when monetary policy became extremely permissive. The US money supply was allowed to grow at 10 per cent per year or more for the next four years, having been virtually unchanged in 1969. Predictably, the \$12 billion ‘hot money’ left US banks as interest rates fell. Added to an already heavy outflow of long-term capital, the flight of dollars became a rout. In 1970 foreign central banks acquired \$17 billion and the