Essay on the golden age of capitalism

Parts of the World, Europe

\n[toc title="Table of Contents"]\n

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1. Introduction \n \t
2. Keynesian Economic Policies \n \t
3. The End of the Golden Age \n \t
4. The Rise of Monetarism and Monetarist Economic Policies \n \t
5. References \n

\n[/toc]\n \n

Introduction

The Golden Age (Long Boom) was an absolutely unique period in West European economic history. During this time period of about 25 years that followed the end of the Second World War, countries of the West Europe expanded their economies at the unseen before rates of at least 5 % GNP increase per annum, which nearly doubled the previously recorded rates of growth. What is more significant, is that this economic growth was also accompanied by the equally strong increase in employment, which made possible for the European countries to experience a state of practically full employment and thus almost the maximum efficiency and profitability of their economies. As the golden age lasted over a long period of time it was recognized as the new norm for capitalist economies rather than just being an exception. This phenomenon presented a new model of economic development for European countries, which was absolutely different from any other known models. It became to be a model based on cooperation

between government, employers, and workers, and the result was an agreement on profits, real wages, and welfare benefits.

Keynesian Economic Policies

Keynesian economics (Keynesianism) is a theory, the most important ideas of which are based on the principles of aggregate demand for goods, which was also being the driving force of the economy. English economist, John Keynes characterized the level of national output and rates of employment in the short run, as such to be predetermined by the changes in aggregate demand, especially in the times of economical instabilities. He made a clear emphasis on the point that aggregate demand does not depend only on one factor, though being influenced by numerous components, and as a result affecting levels of production, employment and inflation rates. Among such factors, public and private economic decisions can be named; public decisions include monetary and fiscal (spending and tax) policies, which are believed to strongly affect aggregate demand, and private sector decisions, which if done wrong can sometimes lead to poor macroeconomic results that will require active response from the public sector, using those monetary and fiscal policies in particular, in order to stabilize the aggregate output. Despite the macro-level trends overwhelming the micro-level behavior, Keynesian scholars still advocate for the mixed model of economy, being predominated by a private sector, but with an option for government intervention during the times of downturn. As Keynesians include the prices (especially wages) in the number of factors, depending on the state's aggregate demand, they reassure that this particular component responds slower to any changes than others, thus resulting in periodic shortages and surpluses (labor

employment). From a belief in the gradual adjustments of prices (and wages) comes another Keynesian idea of inefficiency of the typical level of unemployment. Scholars if favor of the theory are advocating stabilization policy done by the government to reduce the amplitude of the business cycle, which they rank to be the most important of all of economic existing problems. But this does not mean that Keynesian proponents support the fine-tuning, which means the season adjustments in government spending, taxation rate, and finally money supply, done by the government to keep the economy at the level of full employment. Almost all of today's economists think that in order to take any actions of tuning, the government itself simply cannot have enough information soon enough to make that possible.

And finally, the central conclusion of Keynesian economics is that there is a greater need of combating unemployment, than actually trying to tame the inflation rates. It has been concluded that the costs of low inflation are way smaller, than the cost of high unemployment, which has the power to destabilize the whole economy.

The End of the Golden Age

The Golden Age of Capitalism (Long Boom) is a period in a world economic history that is known for the dominance of capitalism, rapid economic growth and free trade that escalated right after the end of WW 2nd and was lead by the United States, Western Europe, and some second world countries, took place from 1945 to 1972. In this context, it is highly important to clarify that this period only describes the terms and reasons of capital accumulation and the growth of welfare states in centralized capitalist economies, first in Western Europe, Japan and then the United States of America, without being

in any regard with the conditions of social life around the world.

In order to really understand the processes happening during the Golden Age, we need to refer to statistical data that clearly identifies the created conditions worldwide for high investment rates, output growth, as well, as low inflation and low unemployment rates. This period's regime was based on an enormous political compromise, between the upper society and the upper and middle working classes that was carried out in the form of Keynesian fiscal and monetary policies. High rates of profits and GDP growth made it possible to redistribute profits from the increased rates of production back to the working class in the form of real wages growth (inflation adjusted). As the result, market of mass-produced goods increased by the raise in the middle-class demand.

The astonishing results of the Golden Age can be seen, reviewing Germany as an example. The West European economies recovered fairly quickly from the war aftermath, with Germany reaching its pre-war production level in 1948. This country saw long economic growth starting with the early 1950s with industrial goods production doubling from 1950 to 1957, and GNP growing at a rate of whopping 10% per year, being the moving force for the whole of Western Europe. Such rapid rates of economy recovery became possible due to the Marshall Aid - a series of money transfers and direct investments, that were used for reconstruction of Western Europe that started in April 1948 and lasted four years, providing the financial aid to Western Europe in the amount of $13. 365 billion total ($1. 4 billion of this sum went to Germany). In Germany in 1947-49, 57% of imports were financed by this aid, which peaked at 5% of GDP and continued remaining at

2. 3% for five years, thus helping Germany to recover to pre-war production rates pretty quickly.

Though the success of this time period was astonishing, by the late 1960’s Long Boom started to exhaust itself, delivering less and less profit every year, thus slowing down the wheels of world economy. Further, the international economic system suffered a huge shock with the end of the gold convertibility of the US Dollar and the actual collapse of the Bretton Wood currency system. Combined, these mishaps provoked dramatic shifts in international relations, shaking the central core of the global economy system.

The Rise of Monetarism and Monetarist Economic Policies

The first victim of the economic crisis of the 1970’s brought by the Keynesian economic policy was the policy itself. The fall was marked by unprecedented high inflation rates together with high unemployment rates – the phenomena Keynesians were unable to explain. This simultaneous process got named stagflation, and the only way Keynesian theory suggested to overcome it was to inject a dose of unemployment; this proposed method blew a hole in the credibility of Keynesian anti-recessionary economic policy. Stagflation did create a world economic decrease in the US and UK, which in its turn created additional difficulties for public financing in most of the developed countries. In addition, inflation disrupted the world's ability to make economic forecasts with any degree of accuracy. Such a negative performance by Keynesian economics resulted in adopting the restrictive Monetarist policies, which were led by Milton Friedman.

Monetarism is an economic school of thought, which made an emphasis on

the macroeconomic effects of the supply of money, and which makes the money supply the key feature of the demand in the short-run economy. This theory began with two opposing ideas: the classic hard money policy, which was the major economic thought of the late 18th century, and the innovative concept of John Keynes, whose demand-driven model made a revolution by becoming the foundations of macroeconomics. But the difference between the economy theories is, whereas in Keynesian concept the focus was on the stability of currency, disregarding the possible instabilities with inefficient money supply that could cause the currency collapse, and Monetarist, in which the focus was made on price stability, as a way to stabilize and make the supply and demand for money equal.

Such a transfer from one concept to another did critically change the way governments and central banks persuaded the main aims of fiscal and monetary policy.

Conclusion

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