WIDER
WORKING PAPERS

Macropolicy in the Rise and Fall of the Golden Age

Gerald Epstein and Juliet Schor

WP 38 February 1988

World Institute for Development Economics Research of the United Nations University

Revised Draft

MACROPOLICY IN THE RISE AND FALL OF THE GOLDEN AGE

GERALD A. EPSTEIN
University Of Massachusetts at Amherst

JULIET B. SCHOR
Harvard University

June 1987

The authors are grateful for financial support from the World Institute for Development Economics Research, United Nations, Helsinki, Finland.

I. INTRODUCTION

The Golden Age was the era of demand management. Originally with monetary, and then fiscal policy, the governments of the advanced capitalist economies attempted to enhance and guide the accumulation process. They allocated credit, manipulated interest rates, and presided over a dramatic expansion in state expenditure. As the Golden Age eroded, and stagnation replaced prosperity, governments tried to manage the decline. Policy was actively used to reduce inflation and labor costs, enhance international competitiveness, or maintain employment.

This paper is a brief analysis of macropolicy in six countries during the Golden Age and its erosion. It begins with a general account of the structural determinants of policy. Next we turn to a discussion of policy during the Golden Age. We argue that our six countries divide into two groups. Germany, Japan, France and Italy all pursued expansionary policies aimed at maximizing the rate of accumulation. The U.S. and the U.K. were less expansionary, on account of the international position of their currencies, the power of internationally-oriented finance capital, and the independence of the central bank.

In the last section of the paper we analyze policy in the wake of economic decline. We are particularly interested in the degree of convergence and divergence among the six countries.

The policy differences shed light on our own theory of policy determination, as well as the alternative explanations.

II. THE POLITICAL ECONOMY OF MACROECONOMIC POLICYMAKING

What determines macroeconomic policy? This is a question which has only recently come under serious scrutiny. To date, the answers have been unsatisfying. Often they are monocausal explanations motivated primarily by the experience of one policy episode or one country. For example, the idea that policy followed a "political business cycle" surfaced after the rapid monetary and budgetary growth preceding the 1972 Presidential election in the U.S. (Nordhaus, 1975; Tufte, 1979; Willett, 1979) Ten years later this theory was passe.

The comparative politics and political economy literature on policymaking is more comprehensive. However, it tends to accumulate long lists of key factors, such as party structure, institutional environment, national culture, international economic orientation, political ideology, policy circles, and industrial relations structure. We are told that all of these things matter, and interact in a complex way. But after hundreds or thousands of pages a reader can be left feeling that she knows less than when she was ignorant.

The weakness of this literature rendered it an easy mark for colonization by neoclassical economists. These latter-day

imperialists wandered into the state and proclaimed that politicians act just like homo economicus: they maximize their own utility. So much for the complexity or subtlety of policymaking.

And of course there remain the general theories which dominated in the days before policy began to be extensively studied. In the "Keynesian" tradition policymakers are thought to maximize a social welfare function, or to act in the public interest. In the Marxian tradition there is a similar perspective, except that it is only in the interest of one segment of society that policymakers act: the capitalist class. And in the Weberian tradition, policymakers build the state.

In the pages which follow, we briefly sketch our own answer to the question: what determines macroeconomic policy? We have developed this view on the basis of a variety of research methods: archival research, econometric modelling, interviews with policymakers, and a reading of the political economy and institutional literature.[1] One of the problems of the existing literature is that analysts have often relied on only one of these methods, which is in general an inadequate methodology.

---

[1]For a more extensive discussion of our research methodology, and examples of each of the four, see our earlier paper, "The Political Economy of Central Banking."

The first premise of our view is that there is no abstract theory of policymaking, correct for all times and place. The economic theories mentioned above posit abstract behavioral (maximizing) rules to explain policy. These are that policymakers maximize their own utility (neoclassical), the utility of the public (Keynesian), and the income of the capitalist class (Marxian).

These rules are either too broad to be useful, or incorrect on their own terms. The variation in policymaking over time and among countries is far too great to validate any of these views. Just as there is no general account of capitalist development which can explain the particular paths of industrialization and development in all countries, except at the most superficial level, there is no comparable account of policymaking.

There are great divergences which need to be explained. Why are central bankers in England, the U.S., Germany, Switzerland, and Finland given such wide latitude and independence, while their counterparts in Sweden, Austria, France, and most of the poor countries of the world so tightly bound to the Executive or Legislature? Why are some countries willing to undergo frequent cycles of inflation and exchange rate depreciation, while others maintain chronically-overvalued currencies? To understand these differences a theory with more institutional and historical specificity is required.

By contrast, the comparative politics and political economy literature has often introduced specificity. But often these accounts are *too* specific. They also tend to lack an underlying structural account of the economy or the economy-state relation. Political[2] variables such as party structure or the culture of policymaking have been overemphasised at the expense of an understanding of the institutional features of the labor market or how a national economy is integrated into the international economy. Party structure or policymaking circles cannot explain why the PCI in Italy supported macroeconomic austerity in the mid-1970s, or why before Thatcher, Tories in Britain enacted expansionary fiscal policy.

The tendency to view these specific, often political variables in isolation from the structure of the economy has had two consequences. First, it is the likely cause of the proliferation of explanations, special cases, and *ad hoc* analyses which can be found in this literature. Second, it has exaggerated the extent to which political groups, such as parties or bureaucracies, can control policy in a capitalist economy. Both the direct political power of business, as identified by Marxian instrumentalist theories, and the *structural constraints* emanating from a market economy circumscribe the latitude of

---

[2]In the narrow sense of political.

policy. This is also the central flaw in the modern Weberian theory of the state proposed by Skocpol (1979).

Let us state these points more succinctly. First, we reject the use of an abstract theory in favor of an account which incorporates institutional and historical specificity.

Second, all institutions are not created equal. For our purposes (the analysis of policymaking in the postwar OECD area) there are a few key institutional features of the economy which are highly determinant of the structural constraints under which policy must operate. These are the relation between financial and industrial capital, the structural integration of the national economy into the international economy, the relative power of capital and labor, and the structural relation between the policymaking apparatus and the state in general. In our account of policymaking, these factors will loom large as determinants of macroeconomic policy.[3] This is not to deny the importance of more

---

[3]To the extent that we have identified four factors as determinants of policy, one can describe our view as a "general" theory. However, we believe this theory is historically specific, and applicable to a group of countries (roughly the OECD). Finally, lest these factors appear ad hoc, we should note that they are derived from a neo-Marxian theory of the state, which argues that state activity is determined by two factors: class struggle and structural constraints. The relations between industry, finance, and labor constitute the former. The latter are the position of the nation in the international economy and the structural relation between the policymaking apparatus and the state. See Esping-Andersen, Friedland, and Wright (1976) or Gold, Lo and Wright (1975).

narrowly "political" variables, but to argue that they must be considered within the economic environment.

Secondly, as our account of policymaking during the fall of the Golden Age will show, general macroeconomic conditions matter. The stance of policy changed substantially as economic performance deteriorated. In the terminology of the previous paper, the regime of accumulation was altered in response to changes in the mode of regulation and the model of industrialization. Of course, the lines of causality among these three levels operates in both directions. Nevertheless, there was a clear shift in policy which resulted from the decline in growth.

Let us turn now to a brief description of the four economic factors we have identified.

<u>Finance and industry</u>

Capitalist economies differ substantially in the degree of integration between financial and industrial (or non-financial)[4] capital. In the United Kingdom, which has the least integration of our six countries, banks finance virtually no long term investment in industry, which gets funds either internally or

---

[4]Throughout, we will use the terms industrial and non-financial interchangeably.

through family ties. This has been true at least since the nineteenth century (Best and Humphries, 1986), and has led banks to have little involvement with industry. Thus, finance has little direct economic stake in industry (Hall, 1986; JEC, 1981;). The effect of policy on the two groups often differs significantly. The classic example is their conflicting interests with respect to the valuation of sterling.

By contrast, Germany has the most highly integrated financial and industrial sectors of the six countries (Francke, 1984; Nardozzi, 1983; Rybczynski, 1984; Langhor, 1985). Banks hold equity positions, and are highly involved in the management of industry. The fortunes of industry and finance are more closely tied. With respect to policy, this has led to a bias, _ceteris paribus_, from both industry and finance, for undervaluation of the DM.

In Table 1 we present one measure of the degree of integration between financial and non-financial corporations. In terms of macroeconomic policy, particularly monetary policy, _countries with more divergence between finance and industry will favor more restrictive policy_. This is for two reasons. First, the available evidence shows that financial profitability is adversely affected by inflation, while there is no similar relation for non-financial profitability (Revell, 1979; Santori, 1986). As expansionary policy is generally associated with

inflationary pressure, and policy restrictiveness is frequently an anti-inflation measure, financial corporations are biased toward restrictiveness.

Second, in both the U.S. and the U.K., the financial sector has had an external orientation. In both cases, the domestic currency is extensively used for international transactions, that is, it plays a role as a "world currency." The maintenance of confidence in the currency has generally entailed nominal stability. Therefore, financial interests have opposed expansionary policy on the grounds that it jeopardizes the international role of the currency.

The relation between the policymaking apparatus and the state

In the case of monetary policy, the relation between the central bank and the government is a very significant determinant of policy. Independent central banks pursue more restrictive policies. (See Epstein and Schor 1986; Bade and Parkin 1980; and Banarian, 1983, 1987)

On the one hand, this is because independent banks are not statutorily required to finance budget deficits, as many non-independent banks are. But even controlling for the budget deficit, independent banks are less expansionary.[5] In part this

---

[5]See Epstein and Schor, 1986.

is due to a traditional and often statutory function of the central bank: to protect the value of the currency.[6] But it is also due to the fact that more independent banks are frequently closely aligned with the financial sector (eg., U.K., U.S., Switzerland).

It is also the case that the less independent banks are statistically correlated with strong labor movements and labor parties. (See Epstein and Schor, 1986). Particular examples are Sweden, Austria, and Norway (Martin, 1986; Uusitalo, 1984). In general, we would expect these conditions to produce a bias toward expansionary policies, in order to fulfill traditional objectives of labor movements and parties, such as full employment and high social welfare expenditures.[7]

Our econometric research, and well as two case studies of central bank movements toward independence (The Federal Reserve in 1951 and the Bank of Italy in 1981), strongly support the view that independent banks are more restrictive. In Table 2 we present evidence on the degree of independence of ten central banks.

---

[6]In the case of Bundesbank, one of the most independent central banks in the world, there is also a generalized inflation-aversion at work, which stems from the experience of two hyperinflations.

[7]The literature contains fairly strong evidence in favor of this proposition. See Cameron, 1984; Lange and Garrett, 1985.

The structural position of the policymaking apparatus may also affect the policy mix in important ways. For example, the U.K. and the U.S. have both experienced periods of uncoordinated policy (loose fiscal, tight monetary) which have had adverse effects on the economy, particularly with respect to international competitiveness. In both cases there is a relatively independent bank, and little political insulation for the formulation of the fiscal stance. By contrast, the small Social Democracies of Europe have been characterized by non-independent central banks, real wage protection and ruling labor parties (Katzenstein, 1983; Martin, 1986). The outcome has been tight fiscal and loose monetary policy, which has succeeded in maintaining employment and international competitiveness.

Class struggle: Labor and Capital

We made reference above to a general difference between labor and capital with respect to macroeconomic policy. At a broad level, there seems to be evidence for the view that in countries where labor is stronger, policy, especially fiscal policy, is more expansionary.

In a cyclical context, short-run Marxian models (Marx 1976, chapter 25; Boddy and Crotty, 1975) also embody this view, arguing that high *employment* causes a *profit* squeeze, which capitalists counter by pressuring the state to pursue restrictive

policies. Some evidence for this view was presented in the previous paper.

However, there are institutional features of the labor market which necessitate a less general analysis. Most important are the specifics of the wage-setting process and the extent of employment security. If an economy is characterized by a Keynesian wage process (nominal rigidity with respect to inflation), depreciation or inflation will erode the real wage and raise non-financial profitability (Sachs, 1979; Epstein, 1985; Epstein and Schor, 1987). Therefore, capital may favor expansionary policy and Labor may oppose it. In the Marxian case (real wage protection), labor has an unambiguous interest in expansionary policy, and capital has the reverse interest.

Secondly, if workers have employment security because of statutory limitations on employers' ability to terminate employment, capitalists may benefit less from restrictive policy. Many European countries enacted statutory limitations of this type during the 1970s. Austerity may reduce capacity utilization and therefore profitability, without generating downward pressure on unit labor costs. It has also been argued that expansionary policy will be less effective in this case as well, as firms will be less willing to hire new workers who will be costly to fire. Thus, one would expect to see less policy activism overall where employment security is greater.

The international economy

The position of a nation in the international economy will have important effects on policy. As we discussed above, the special role of finance in the U.S. and the U.K. resulted in more restrictive policy, ceteris paribus. Countries which have tried to follow an export-led model of industrialization (Japan, Germany, France, and Italy before 1981) often resist policy actions which appreciate their currencies. Finally, in the short term, policy is often dictated by balance of payments or exchange rate crises. The more internationally-integrated the economy, particularly with respect to capital markets, the more acute these crises may be.

These are the four factors which we view as most important in the determination of policy. We turn now to a discussion of policy in the Golden Age, in which we use these factors to construct a sketch of macroeconomic policymaking in six countries.

III. POLICYMAKING IN THE GOLDEN AGE (1950-1973)

Among the six countries discussed in this volume, policymaking did not have a uniform character. Owing to

structural differences along the lines discussed above, the countries divide into two main groups with respect to macropolicy in the Golden Age, and to a lesser extent during the "Intershock Period." After 1979, the combination of structural change (e.g., the independence of the Bank of Italy), the degree of monetary restrictiveness in the U.S., and the effects of worldwide stagnation resulted in an unusual degree of policy convergence (by postwar standards). In this section we discuss the outlines of policy in the Golden Age.

The groups into which our six countries divide are France, Italy, Japan and Germany on the one hand, and the U.S. and the U.K. on the other. The former (hereafter Group A) is characterized by more expansionary macroeconomic policy and a more rapid accumulation process. The U.S. and the U.K., (Group B), by contrast, exercised considerably more policy restraint. We will argue that this difference was primarily due to the independence of the central bank, the international position of these two (imperial) powers, and the role that their domestic currency played in the international economy. The only qualification to this classification is that Germany shares some of the features of Group B, on account of its unusual inflation aversion, and the independence of its central bank.

Macroeconomic policy in France, Italy, Japan and Germany

These countries conform most closely to the description of the Golden Age set out in the previous paper. They all experienced a historically unprecedented period of rapid accumulation, which substantially exceeded that in the U.S. and the U.K. In all four cases, policy was expansionary and accommodative. The characterization of these as "pure credit money" economies has a basis in the actual monetary policy of the period (Aglietta, 1976; Lipietz, 1985; Glyn et al, this volume). In this section, we will describe some of the structural features of these economies, and how they affected the policy stance.

In these countries the general aim of macroeconomic policy during the Golden Age was to maximize the rate of growth in the corporate sector. We begin with monetary policy, and discussion of the common structural features which made expansionary monetary policy possible.[8]

---

[8]Background literature for this section includes the following: France: Aftalion, 1983; Raymond, 1982; Bruneel, 1986; Sautter, 1982; Hall, 1986. Germany: Hennings, 1982; Dernburg, 1975; Giersch, 1973; Biehl, 1973; Kloten, 1985; Francke, 1984; Kreile, 1978. Italy: Rey, 1982; Amendola, 1981; Bank of Italy; Caranza, 1983; Cotula, 1984; De Vivo, 1981; Fazio, 1979, 1980; Ferrari, 1983; Nardozzi, 1980, 1981; Padoa-Schioppa, 1985; Posner, 1978; Sarcinelli, 1981; Jossa, 1981, 1985; Monti, 1979, 1980, 1983; Addis, 1986; Magnifico, 1983; Spaventa, 1983, 1984, 1985; Vaciago, 1985. Japan: Suzuki, 1980, 1986; Yamamuro, 1985; Presnell, 1973. Multi-country studies: Black, 1977, 1982a, b, 1984; Boltho, 1982; Bruno, 1985; Cowart, 1978; Hodgman, 1983; Hoibik, 1973; Katzenstein, 1978; Lindberg, 1985; Thygesen, 1982.

First, with the exception of Germany, the central banks of these countries had very little independence, either to resist financing government deficits, or to enact a policy course significantly at odds with that of the remainder of the macroeconomic policymaking apparatus. (See Table 2 above for a ranking of independence) The Bank of Japan was "widely regarded as no more than a bureau of the Ministry of Finance" (Yamamurd, 1985, p. 502). The Bank of France, since its nationalization in 1936, has been simiiarly unable to pursue an independent course. French monetary policy during this period has been described as "largely an adjunct to the Plan." (Thygesen, 1982). The Bank of Italy was a powerful initiator and formulator of policy, but did not ultimately have the desire or ability to pursue a non-accommodating monetary policy during this period. Its policy objective was to maximize the rate of growth of investment, particularly in the industrial sector.[9]

---

[9]Germany differs most with respect to the independence of the central bank. Let us take a moment here to consider the particularities of the German case. First, the German experience of two hyperinflations created a degree of inflation-aversion which was not present in the other countries. This meant that policy was also highly sensitive to the maintenance of price stability. Second, the Bundesbank is a very independent central bank.

During the Golden Age these differences were not especially important, because the German inflation rate was so low (both historically and in comparison to other European countries). The Bundesbank could accommodate demands for credit with relatively little fear of inflation. As a result, monetary policy in Germany was as expansionary as in the other Group A countries. (see Table 3) Indeed, the biggest problem of the Bundesbank was to manage the conflict between low inflation and an undervalued currency.

These differences become more important after 1973, when

These three countries also shared common features with respect to capital markets, industry/finance relations, and the administrative structure of monetary policy. In all three, and Germany as well, there was a substantial integration between finance and industry. The degree of internal corporate financing was low. None of these countries had "developed" capital markets, in the Anglo-American sense. None had more than token markets in equities or corporate bonds, so the degree of banking intermediation was quite high. In Japan and Italy especially, (which have the highest rates of household savings in the world), the household sector was consistently in surplus, and deposited its savings in the banking system. Banks lent these surpluses to industry, which was in consistent deficit. Furthermore, the financial sectors in these countries were relatively domestically oriented.[10]

This structure of financing gave the central bank a high degree of control over credit conditions, for a number of

---

inflationary pressures were strongest. Monetary policy in Germany was somewhat more restrictive. Germany was the first country to move to monetary targeting, and a more "monetarist" understanding of policy. Despite strong social conflict and intense pressure to accommodate, the Bundesbank was able to maintain a restrictive stance. We believe that this was largely because of its structural independence, coupled with the country's inflation aversion.

10Raymond, 1982; Hall, 1986; Epstein and Schor, 1986; Suzuki, 1980, 1986; JEC, 1981; Langhor, 1985; Rybczynski, 1984.

reasons. First, the central bank's statutory powers over banks were great, relative to the U.S. and the U.K. Second, expansionary monetary policy generally took the form of interest rate ceilings, which generated an excess demand for credit from the private sector. This meant that banks were consistently desirous of borrowing from the central bank, in order to satisfy loan demand. This condition gave the central bank a high degree of leverage over the banking system. In Japan, this phenomenon is known as "overloan." In Italy, the central bank pegged the interest rate on government bonds below the equilibrium rate, and administered ceilings on bank loans. In the French and Italian cases, many banks are publicly-owned, which further facilitated central bank control.

Furthermore, these features also gave the central bank a substantial influence over international capital flows. Regulations on trade financing, restrictions on capital outflows, and mandatory overseas borrowing were all potent tools used by these central banks, in order to achieve balance of payment equilibrium or manage exchange rates.

This structure also created a relative unanimity of interest with respect to exchange rate policy. Because banks were so highly involved in financing long term investment, they retained a financial interest in the long term profitability of industry. They had no special, independent interest in an overvalued

exchange rate. The model of industrialization in these countries was sufficiently oriented to export-led growth that exchange rate undervaluation was fairly consistently the preferred policy option. As Japan and Germany especially, moved into external surplus during the 1960s, the authorities were oriented toward avoiding currency revaluations. There was no important sector of society which opposed their efforts.

The final determinant of policy to be noted is the structure of capital/labor relations (Crouch, 1978; Flanagan, 1983; Lange, 1982; Gourevitch, 1984; Sachs, 1979). During the Golden Age these four countries shared labor market features which allowed policy convergence. Most important was the ability of the economy to undergo rapid accumulation without significant upward pressures on unit labor costs. This structure corresponded to what we earlier termed a "Keynesian" wage-setting process. Unlike the U.S. and the U.K., the labor movements in these four countries were either virtually destroyed or seriously weakened in the aftermath of the Second World War.

In Japan and Germany, the combination of fascism and the policies of the American authorities during the occupation resulted in company unionism and precluded the growth of any truly representative workers' organizations.[11] In both countries,

[11]The American authorities attempted to destroy whatever resistance movement existed in Germany after the war. As is now coming to light, they sent Nazis into the factories to identify

unions took a highly cooperative stance until 1970 or after. In Germany from 1967 to 1969, the unions agreed to such low wage increases, in the face of rising profits, that there was an unprecedented outburst of wildcat activity and anti-official sentiment from the rank and file. (Soskice, 1978; Kloten, 1985)

In France and Italy, the postwar situation was quite different. The popularity of the wartime resistance translated into strong support for the left and it appeared that the left would dominate the trade union movement. Concerned about the impact this would have on American interests, the U.S. military, intelligence, and political authorities, in conjunction with representatives of the American Federation of Labor, undertook to destroy this support. Allying with conservative labor and business interests, they succeeded in dividing the union movements in both countries. In each case a three-sided trade union movement was created, in which the unions were divided along ideological lines and allied to political parties. In both countries, the result was a weak, internally-divided union movement. In addition, the existence of large labor reserves (from the Mezzogiorno in Italy, and from the agricultural sector and North Africa in France) created chronic slack in labor markets.

"communist sympathizers." In Japan, General MacArthur's program of democratic social relations was terminated by the authorities in Washington. It was replaced with policies which gave power to the conservative elements of society.

The weakness of labor in all four countries meant that expansionary macropolicy would not be quickly translated into wage increases or discipline problems. Relative to the U.S. and the U.K., the working classes were weaker, more divided, and less able to take advantage of fast growth. The other result was that the model of industrialization in these countries was more oriented toward the interests of capital, particularly in Japan and Germany.

[TK: Note to readers: There is a missing table here which will show the degree of nominal unit labor cost responsiveness to output growth.]

It was not until the end of the 1960s that these conditions were overcome, and workers began to exercise significant labor market power. (See the previous paper for an extensive discussion of these developments.) At that time there were structural changes which strengthened the labor movement (for example, the unification of the Italian trade unions) and political developments in the three European countries (May 1968, Hot Autumn, and similar unrest in Germany). There was a trans-continental strike wave of unprecedented proportions, and a real wage explosion. (See Sachs, 1979; Schor, 1983; Soskice, 1978; Salvati, 1981, 1985; Lacci, 1976; Regalia, 1978; Walsh, 1983; Lange, 1982; Gourevitch, 1984; Crouch, 1978.) For the most part,

the European the wage-setting process was transformed from Keynesian to Marxian. This had predictable consequences for policy, which we take up in the next section.

The above characterization of monetary policy is reflected in the aggregate data. Table 3 presents rates of growth of money, quasi-money, and credit for the each of the six countries in the study, and averages based on our typology of policy. In all categories (nominal, real, and real normalized by potential output), Group A countries had substantially higher rates of monetary expansion than Group B countries.

What about fiscal policy? Did these countries also employ expansionary fiscal policy during this period? As a rule, Group A countries relied much less on fiscal than monetary policy. In Japan, the government attempted to maintain a balanced budget, cutting taxes continually as growth automatically raised revenues. (Yamamura, 1985) In Germany, the use of counter-cyclical fiscal policy was not even statutorily permissible until the Stabilization Act of 1967, after which time the government did use traditional Keynesian policies, although they were always conditioned by the strong laissez-faire economic orientation of postwar Germany. (Kloten, 1985) And in France, credit allocation was a far more prominent planning tool. Of the four countries, only Italy ran a persistent fiscal deficit. This evidence is summarized in Table 4. Over the period 1952-1973 the average

general government surplus as a percent of GDP was 0.6, with only Italy showing consistent deficits.

The actual surpluses are only partially revealing, however, as the rapid pace of economic growth and the existence of fiscal drag contributed to growing revenues. Unfortunately, we do not have high-employment, or "structural" budgets for these countries during this whole period. We do have two partial estimates, however. The first, in Table 5a, is a cyclically-adjusted measure of the average stimulus of fiscal policy to the economy over the period 1955-65.[12] These calculations show that fiscal policy in Group A countries was expansionary, with an annual contribution to GNP growth of 0.74 percent.

The Group B countries had a much more expansionary actual fiscal stance (average of -0.9 percent). However, on a cyclically-adjusted basis, fiscal policy contributed almost nothing to the growth of GNP (an average contribution of 0.125 percent per year).[13]

This evidence, along with the institutional literature, does not reveal a heavy reliance on fiscal stimulus. Indeed, among our

---

[12]Cyclically-adjusted measures of the fiscal stance do not exist for the whole period 1950-1973.

[13]The OECD (1984) estimates of structural budgets begin in 1970. For the period 1970-73, the structural budget balance as a percent of GDP was: France 0.7; Germany -0.1; Italy -6.8; Japan 1.4; U.K. 1.3; U.S. -0.2.

countries, the U.K. was undoubtedly the most devoted to the conscious use of fiscal policy to achieve full employment. Similarly, the small states of Europe were both ideologically and in practice much more committed to a Keynesian fiscal stance than the Group A countries. (Katzenstein, 1983) On balance, it appears that fiscal policy was mildly expansionary (on a structural basis) in the Group A countries. In Group B, the structural budget contributed little. Perhaps the most revealing comparison is not among these countries, but with the years after 1973, at which point both structural and actual budgets turn sharply into deficit for all countries except the U.S.

We have now sketched the broad outlines of macroeconomic policy in the Golden Age and argued that policy was systematically expansionary, with the aim of maximizing growth. This is not to say that period of restrictiveness were absent. Indeed, the very strength of the accumulation process itself led to occasional restrictiveness. In the 1950s, balance of payments difficulties led to a restrictive policy episode in France. In the 1960s, each of these countries experienced sharp recessions. (France in 1963-65, Germany in 1966-67, Italy in 1963-64, and Japan in 1965) These downturns were triggered in large part by labor market pressures. (Soskice, 1978) Nevertheless, these periods of restrictiveness were exceptional, and generally quite short. The dominant thrust of policy was to encourage rapid accumulation.

Macroeconomic policy in the U.S. and the U.K.

Macropolicy in the U.S. and the U.K. during the Golden Age was considerably more restrictive than in the Group A countries. This is particularly true of monetary policy. The structural features which accounted for this difference were the divergence between finance and industry, the independence of the central bank, and the strong economic power of labor. We should also add, particularly in the British case, the influence of the Keynesian economic theory. Let us begin with monetary policy.[14]

As Table 3 revealed, the stance of monetary policy in these two countries was more restrictive than in the Group A countries. There are three structural characteristics which, in combination, can explain this difference. First, in both countries the central bank is relatively more independent.

In the U.S., the Federal Reserve gained independence from the Treasury in the "accord" of 1951. (See our earlier paper on the accord.) The struggle over FED independence was a fierce one,

---

[14]Background literature for this section includes the following: U.K.: Wood, 1983; Blackaby, 1979; Dow, 1964; Elbaum and Lazonick, 1986; Grove, 1967; Keegan, 1979; Krause, 1969; Pollard, 1982; Tew, 1978; Cooper, 1968; Kareken, 1968; Hall, 1986. U.S.: Epstein, 1982, 1984, 1986; Herman, 1982; Mintz, 1985.

with genuine autonomy at stake. Once the FED won the ability to set interest rates independent of the Treasury's needs, it was able to pursue policies at odds with those of the Executive or Legislature.[15] However, in the fight for independence the FED found it necessary to turn to the commercial banking sector for political aid. This lesson, plus the common corruption of relations between the regulator and the regulated (Stigler's capture theory), resulted in a symbiotic relationship between the FED and the commercial banking sector. Over time, the FED's independence came to rely on the political clout of the banks. And the banks' interests came to be represented by the FED.

The interest of the FED in bank profitability did not automatically translate into a concern for industrial profitability, because these two sectors are relatively separate in the U.S. economy. (see Table 1) Financial markets are highly developed in the U.S., and firms are able to raise funds from a variety of sources.

Furthermore, beginning earlier in the century, New York had become an important center of international finance. The Bretton Woods arrangements, in which the U.S. dollar was a reserve currency, accelerated the growth of international banking in the U.S. American banks possessed a privileged position on account of

[15]Federal Reserve independence remained somewhat circumscribed, however, as Congress always possesses the power to revoke the terms of the accord.

the dollar's international role. From a policy standpoint, this meant that the central bank was devoted to maintaining the international status of the dollar.[16] This entailed restricting the international supply of liquidity. Inflation rates comparable to the Group A countries (with the exception of Germany) would be likely to generate anxiety about the dollar, could trigger a run on the gold stock, and were therefore problematic.

The situation in the U.K. was similar, although greatly exaggerated. The Bank of England was nominally nationalized in 1946, but nationalization was a "great non-event." (Morgan, 1984) The traditional relation between the City of London and the Bank continued virtually unchanged, as did Bank-Treasury relations. Through the famous City-Bank-Treasury nexus, macroeconomic policy was highly oriented toward the interests of the City.[17] Even though the Bank of England was formally obligated to accommodate fiscal deficits, the policy consensus was sufficiently pro-City to prevent consistently expansionary policy.

What were the interests of the City? The City had little involvement with British industry. Its profits lay largely in

---

[16] In addition to the banks, the U.S. government also had an interest in maintaining the international role of the dollar, because it would benefit from seignorage gains.

[17] There is a significant literature on the City-Bank-Treasury nexus supporting this view. See Sayers, 1976; Pollard, 1982; Ingham, 1984; Keegan, 1979; Coakley, 1983; Longsthreth, 1979.

international commercial, mercantile, and financial activity--the legacy of Britain's imperial status. The constant in the macropolicy stance was the attempt to maintain the value of sterling, as it was still widely in use as an international currency.[18] Throughout the Golden Age both Labour and the Tories believed that the health of the City[19] depended on maintenance of the $2.80 sterling/dollar exchange rate.

This commitment was problematic, however, on account of underlying weakness in the economy's balance of payments position, and the large overhang of sterling balances which remained after the war. The combination of external weakness and expansionary fiscal policy generated recurrent sterling crises and the famous stop-go pattern of macroeconomic policy. Expansionary periods were quickly aborted by balance of payments problems. Sterling crises and periods of restrictiveness occurred in 1947, 1949, 1951, 1955, 1957, 1961, throughout 1964-67. The strength of the policy consensus created by the City-Bank-Treasury nexus can be seen by the stubborn (Labour and Tory) commitment to the $2.80 rate throughout the 1960s, despite its adverse consequences for the economy. Proponents of expansion were unable to enact the structural changes (eg., devaluation,

[18]Over one-third of all international trade was still financed in sterling in the early 1960s. (Cooper, 1969)

[19]The considerable contribution of the City to the balance of payments was also a factor in support for the City. This commitment was affirmed by the influential Radcliffe Committee Report.

import controls) necessary for sustained expansion. As the data on fiscal stimulus above show, the expansionary fiscal policy associated with Britain's ideological commitment to full employment was negated by the simultaneous commitment to the City.

The U.S. and the U.K. also differed from the Group A countries with respect to capital/labor relations. Both countries emerged from the Second World War with the power of Labor enhanced. While the Cold War adversely affected the political strength of Labor, in both countries workers retained significant labor market and shop floor power. This asymmetry (labor market strength, political weakness) had important policy consequences. Rapid accumulation led to more upward pressure on unit labor costs than in the Group A countries, which generated a bias toward policy restrictiveness. At the same time, Labor's political power was not sufficiently strong to capture the policymaking apparatus.

As the data on both monetary and fiscal policy show, the U.S. and the U.K. used considerably less expansionary policy than the Group A countries. They had less integrated financial and non-financial sectors, more independent central banks, more economically powerful working classes, and were both attempting to maintain an international currency. In our view, these

structural differences are largely determinant of the policy variation.

Before turning to a discussion of policy after 1973, let us briefly address the question of policy independence. Given the dominant position of the U.S., did our other six countries have the ability to conduct autonomous policy? While there is disagreement on this issue, we have come to the view that there was considerable latitude. In some cases, this was on account of an extensive regulatory apparatus, especially with respect to financial flows (Japan, Italy and France). Regulatory insulation and undeveloped capital markets gave authorities the ability to conduct more autonomous policy. Of course, period external crises might occur, but the data shows that these were infrequent.

Germany and the U.K. had far fewer regulations. In the U.K., the government had only a minimal regulatory presence in the City, because it is believed that regulation harms the City's ability to compete in international finance. In Germany, the strength of liberal economic ideology was important. As we noted above, the U.K. had little policy latitude, but this was due to problems intrinsic to the British economy, rather than the force of American policy. The German authorities took the view that they had little policy latitude (maintaning, for example, that they were unable to sterilize in the late 1960s). However, the

econometric evidence does not support their claims (Thygesen, 1982).

IV. Policy-Making in the Aftermath of the Golden Age (1973-1986)

In August, 1971, President Nixon closed the gold window and let the dollar float. More than any other event, the breakdown of Bretton Woods symbolized, at the level of the international economy, the end of the postwar "regime of accumulation." The international environment for macroeconomic policy had radically changed.

That change is often characterized as the movement from "fixed" to "flexible" exchange rates. But while those two regimes differ in important ways, the change represented by the breakdown of Bretton Woods was much more basic: it reflected the decline of U.S. hegemony.[20]

---

[20] According to reigning wisdom, the move to flexible exchange rates and the deterioration in the macroeconomic environment were both good news and bad: the trade-offs might have worsened, but, according to proponents, flexible exchange rates gave monetary authorities more "freedom to choose". (Friedman, 1951)

While macroeconomic authorities may have initially believed that floating rates would give them more policy autonomy, it soon became clear that such freedom was largely illusory. In most countries, the freedom of flexible rates was undermined by the high level of speculative international capital flows, which drove depreciating currencies into a vicious cycle of

Without understanding that basic change, the two other major alterations in the international environment are impossible to understand. The periodic attempts of the United States to generate depreciations in its exchange rate to improve its trade balance--a policy unheard of in the 50's and 60's-- appears incomprehensible. And the dramatic increases in oil prices in 1973 and 1979 appear, like the breakdown of Bretton Woods, to be simply exogenous "shocks." Yet, they were the direct result of the inability of the U.S. to send the "gunboats" to control the price of oil.

Just as the decline of the United States (and with it, Bretton Woods) and the massive increase in oil prices altered the international environment for macroeconomic policy, the breakdown in domestic capital-labor relations (see the previous chapter) enormously complicated domestic macroeconomic policy. In combination, changes in these key structual factors--capital-labor relations and the countries' positions in the international economy- radically altered macroeconomic policy in the aftermath of the Golden Age.

---

depreciation, inflation and more depreciation. These flows, in combination with the declining position of the dollar in the world economy, ultimately vitiated the freedom of floating rates for the U.S. as well, as became painfully clear during the dollar crisis of 1978-79.

For countries whose policies during the Golden Age had been generally accommodating (Group A), these changes greatly reduced the benefits from accommodation. For Group B countries, (the U.S. and U.K.) these changes dramatically altered the conduct of policy. They increased the benefits of expansion for the U.S. while retaining important contractionary forces, thus making U.S. policy similar to the U.K.'s stop-go policies of the 50's and 60's. For the U.K., these changes ultimately reinforced the contractionary aspects of macroeconomic policy.

For Group A countries, the breakdown in capital-labor relations meant that further monetary accommodation would lead to reductions in the cost of job loss and either a profit squeeze or higher inflation (a rentier squeeze). The oil price increases raised the domestic price level, thereby threatening real wage reductions or, in their absence, a profit squeeze and a wage-price spiral, implying the need for contractionary policy.

At the international level, for Group A countries, the oil price inceases, combined with the changed international position of the U.S., reduced both the desireability and the possibility of pursuing undervalued exchange rates through monetary accommodation. Countries highly dependent on imported oil, like Japan, would benefit from exchange rate revaluations. As undervalued exchange rates became more problematic, the attempt by the U.S. to improve its trade balance through depreciation

meant that undervaluations would be more difficult to achieve without highly expansionary monetary policy which could greatly intensify the profit-squeeze or rentier-squeeze problems.[21]

These changes in the international environment and the nature of capital labor relations reduced or even reversed the positive effects of expanionary policy on profits for the Group A countries.[22] By the early 1980's, all of these countries, with the important exception of France, were pursuing contractionary policies to bolster profit rates. (Llewellyn, OECD, 1983, p. 202.) And France was not far behind.

Before policies converged in the late 70's and early 80's, however, there were important differences. These differences can be explained by differences in the other structural factors listed in parts II and III above. Germany, with its independent central bank, tightened first, well before the increase in oil prices. The other Group A countries, on the other hand, lacked

---

[21]In any case, increasingly mobile international speculative capital made it extremely difficult to hit exchange rate targets, problematic as they had become. And highly speculative financial flows meant that the current account constraint, already binding for a number of countries because of the large increases in oil bills, was greatly tightened by speculative outflows through the capital account. See below.

[22]As noted above, all group A countries had close relations between industry and finance, so corporate profitability is the major objective of macroeconomic policy except when left-wing governments are in power where the central bank lacks independence.

indpendent banks. Faced with the U.S. exchange rate depreciation, and fearing the trade and deflationary effects of revaluation, Italy, France, and Japan pursued accommodating monetary policy to avoid revaluation.

But the increase of oil prices in late 1973 created more divisions in the group. Japan, whose dependence on foreign oil was greater than other countries, was the next to pursue tight policy. France and Italy, on the other hand, with integrated central banks and politically powerful labor and left wing parties, pursued expansionary policy to induce depreciation, erode real wages and increase exports.

The international and domestic macroeconomic changes already described, and the monetary policy responses to them, led to a slowdown in economic growth in the 1970's. The economic slowdown, combined with increases in "Welfare State" related government spending in many countries, meant that many of the Gourp A countries became faced with large structural budget deficits. (See Table 6). Political conflicts over the budget became intense, and the deficits, under parliamentary control, proved extremely difficult to alter.

In this new context of large budget deficits, Group A governments attempted to find alternative means to impose "macroeconomic discipline." These took two main forms: the

direct attempt to subordinate fiscal policy to monetary policy, usually by imposing monetary targets (Germany, Japan, Italy); and indirect attempts to subordinate fiscal policy to monetary policy by pegging the exchange rate to a strong currency (France, Italy), or by submitting oneself to an IMF stabilization program (Italy). In the case of Italy, these were supplemented by an institutional change which created a more independent central bank.

The United States and the United Kingdom (Group B countries), also found themselves in changed circumstances. The changed position of the U.S. role in the international monetary and trading system meant that its policies would become more similar to the British stop-go policies--vacillation between trying to take advantage of its newfound monetary freedom to solve its trading weakness through depreciation, and trying to reassert its "traditional" international role through tight money and appreciation.

The United Kingdom's international position had also changed, but much earlier. The Devaluation of 1967 greatly altered the perception that Sterling had to be defended at all cost, (Coakley and Harris, 1983, p. 23), paving the way for the U.K.'s accommodating policies in the early 1970's. But like many of the Group A countries, the stagnation of the seventies led to

burgeoning budget deficits. With the help of the IMF, in 1976, the U.K. subordinated fiscal policy to monetary policy. By the end of the decade, with Margaret Thatcher's election, the committment to high employment which had characterized one pole of the "stop-go" of the 1950's and 60's, had been abandoned. (Buiter and Miller, 1983).

By the middle 1980's, policy divergence has again become more pronounced, especially between the U.S. whose monetary and fiscal policies are more expansionary and the European countries, who, for the most part are pursuing contractionary policy.

Thus, macroeconomic policies in the decline of the Golden Age have gone through three phases. In the first phase, (1973-79) there was a large divergence of policies among our six countries. Some pursued accommodating policies while others were more contractionary; indeed, most countries experienced bouts of both.

In the second phase (1980-1982), there was a remarkable coincidence of restrictive policies among the six countries (with the important exception of France under Mitterrand). In the final phase (1983-present), there has again been policy divergence. The U.S. especially has pursued more expansionary fiscal and monetary policies than the other five countries.

What can explain this divergence, convergence and then divergence? The structural factors we outlined earlier--altered by the decline of the postwar accumulation regime--largely account for the pattern. Where business-oriented governments remained in power, or the central bank had a good deal of independence, policy was aimed at the preservation of profitability in the relevant branches of capital. Changed circumstances, however, changed policies.

We will now discuss macroeconomic policy in the decline of the Golden Age in more detail, developing the themes described above.

<u>Macroeconomic Policy: 1973-78</u>

Table 6 presents summary measures of monetary and fiscal stance in the six countries. These measures are based on a variety of monetary indicators and on structural budget estimates. Though unavoidably subject to alternative interpretation, summarizing these policies is necessary to make our discussion manageable.[23]

<u>Policy in France, Germany, Italy and Japan</u>

---

[23] See the appendix for a presentation and discussion of the data underlying this table. Interpreting the monetary data is particularly problematic since different measures often give different indications of the stance of policy. This is especially true of the period under study because of the tremendous changes in the financial systems of many countries.

Germany applied restrictive monetary policy well in advance of the increase in oil prices due to increased labor market pressure.
Fiscal policy soon followed. (BIS, 1973/74, pp. 53-57). With the oil price explosion the Bundesbank only increased its resolve to tighten further. In a showdown with the trade unions in 1974, the Bundesbank, evidently with the support of the government, insisted on restrictive policy, despite labor's demand for more expansionary policy. (Kloten, p. 386) The Bundesbank began to announce monetary tartgets, the first country to do so, in an attempt to subordinate fiscal policy to monetary policy. This became particularly difficult and important as the government budget fell into deficit.

Fiscal policy turned highly expansionary in 1975, with the structural budget deficit increasing by 2.9% of Potential GNP over the previous year. (Price and Muller, 1985, Table 2.) Fiscal policy remained expansionary over the next few years, though less so.

As the dollar began depreciating in the middle 70's, the Bundesbank, concerned about losing competitiveness, allowed the money supply to overshoot its target to avoid excessive DeutscheMark appreciation. But fearing an exchange rate crisis, the Bundesbank turned highly restrictive in 1979.

Japan, on the other hand, pursued expansionary monetary policy in the months preceding the first oil "shock". Japanese monetary and fiscal policy was expansionary in the early 1970's, initially to counteract the recession of 1969-70. Later, when the dollar was devalued in 1971, Japanese industry resisted revaluation and monetary policy remained accommodating. (OECD, 1985, p. 46).

The large increases in money and credit during this period, together with the oil price increases, was accompanied by what has become known as the "Great Inflation". (Suzuki, 1986, p. 122; Kagami, 1984, p. 75.) By late 1973, in response to the oil price increases, the Bank of Japan increased its quantitative restrictions ("window guidance") and by 1975, "price stability" became, for the first time in the post-war period, the main goal of monetary policy. (OECD, 1985, pp. 48-49, Suzuki, 1975, Kagami, 1984.)

Thus, Germany and Japan pursued restrictive monetary policies, with occasional bouts of expansion. Their stance is consistent with the structural factors previously described. Both countries have a strong external orientation and close connections between finance and industry. Industrial profitability is of the utmost concern. Thus, restrictive policies to constrain the power of labor must be tempered by

efforts to prevent exchange rate appreciation. These imperatives directed policy of these countries in the 1950s and 1960s and continued to do so in the 70s.

In Italy, monetary policy during the 1970s was expansionary, to facilitate lira depreciation. The structural factors explaining this stance were a non-independent central bank (until 1981), close connections between finance and industry, and externally-oriented industrial capital. The other critical development was the strengthening of the Labor movement, both politically and economically, such that it was able to forestall serious austerity measures. The unification of the trade unions, the statutory creation of job security, the growth of social welfare expenditures, and the threat of a Communist electoral victory made restrictive policy nearly impossible.[24]

France, too pursued expansionary, or at least, "stop-go" policies in the initial aftermath of the first oil price increases (Sachs and Wyplosz, 1986, p.268 and Sautter, 1982, p.450). These policies prompted France to twice leave the European snake and devalue. Its motivations were similar to Italy's. Fiscal policy, which had been contractionary throughout the 70's, also turned expansionary in 1975, with the structural

---

[24]See Epstein and Schor, 1987.

budget deficit increasing by 1.1% of potential GDP between 1974 and 1975. (Price and Muller, 1985, Table 2.)

By 1976, however, with rising inflation and unemployment and a change of government, Prime Minister Barre pursued an orthodox stabilization plan-balancing the budget, maintaining a strong franc and tight or neutral monetary policy. (Sautter, 1982, pp. 467-68, Sachs and Wyplosz, 1986, p. 268.) In the process, Barre led France into the European Monetary System (EMS) which tied its monetary policy (and ultimately Mitterrand) to the mast of the Bundesbank. (See below.)

Monetary Policy in the U.S. and U.K.

In the U.S., the loss of trade competitiveness in the late 1960s and 1970s led to a political shift favoring domestic industry. During the Nixon-Ford-Carter period policy favored domestic, export-oriented capital. (By contrast, the Kennedy-Johnson and Reagan Administrations were more sensitive to the interests of multinational banks and corporations.[25]) After 1971, restoration of the U.S. trade position became a high priority. Given the apparent nominal wage rigidity during the late 1970s, and the advent of flexible exchange rates, expansionary policy after 1974 led to a depreciation of the dollar, a decline of real

---

[25]See Ferguson and Rogers, 1986.

wages and a halt to the deterioration of the trade position. As such, the move to flexible exchange rates in the U.S. created a conflict between finance capital, which was still internationally oriented and anti-inflationary, and domestic industry. This conflict, combined with the somewhat circumscribed nature of the Federal Reserve's independence, led to an expansionary monetary policy. This expansion was inconsistent with the structural constraints facing the United States, in particular, the international role of the dollar and would not persist for an extended period of time.[26]

The U.K. atttempted reflationary policies in the early 70's, prior to the oil price increases. If the devaluation of Sterling in 1967 had placed a nail in the coffin of the old hard sterling coalition, the Breakdown of Bretton Woods buried it.[27] Monetary and fiscal policy were expansionary in the early 70's in the absence of the old sterling constraint. But with a high degree of newly won wage indexation, and highly mobile international capital, the government had lost its appetitite for expansion by 1975. Fiscal policy turned contractionary. And 1976, with the signing of a letter of intent with the IMF, monetary and fiscal policy turned contractionary, paving the way for Margaret Thatcher. (Surrey, 1982, pp. 548-552).

---

[26]For more details, see Epstein(1981) and Epstein and Schor (1986

[27]Though Margaret Thatcher's government may have dug it up. See below.

Macroeconomic Policy:1979-1982

As Table 6 indicates, between 1979 and 1982, monetary policy was contractionary in most of the six countries. Only in France, after the election of Mitterand, was expansionary policy pursued. Fiscal policy was expansionary at the beginning of the period in most countries. With the exception of the United States and Italy, however, fiscal policy became more restrictive by the end of the period.

This restrictive policy was bolstered by important institutional changes in policy making. By the end of the period in most countries, the institutional stature of monetary policy was enhanced in an attempt to give it dominance over fiscal policy and to signal the demise of the committment to full employment. (Chouraqui and Price, 1984; Buiter and Miller, 1983; Meek, 1983.) In all countries this was represented by the move to monetary targets (Germany, France, Italy, Japan, U.S., U.K.). Monetary targets allowed central banks to engineer dramatic increases in interest rates without taking responsibility for them and to reduce or eliminate their committment to high employment policies. In some countries, these were supplemented by a connection between these targets and fiscal policy (Italy, U.K.), in others they were strongly bolstered by pegging the exchange rate to a strong currency (France, Italy), and finally,

in the case of Italy, an important increase in the independence of the central bank. (Epstein and Schor, 1987).

These attempts to take monetary policy out of the realm of democratic control[28] succeded with varying degrees. In all cases, however, they helped to provide the political mechanism for contraction.

Policy in the U.S. and U.K.

In the U.K. the election of Margaret Thatcher brought a dramatic change in policy. Her government, building on the agreement with the IMF in 1976, instituted a Medium Term Financial Strategy (MTFS), the goal of which was to bring down the Public Sector Borrowing Requirement (PSBR) over a number of years, making that requirement consistent with monetary targets for sterling M3.[29]

Technically, the policy has had problems. Targets for sterling M3, expenditure and the public sector borrowing requirement have all been overshot. But despite that, the

---

[28]Or to further insulate them from control in the Germany, U.S. and U.K.

[29]See Buiter and Miller, 1981; Buiter and Miller, 1983, Kaldor, 1982,; Artis and Bladen-Hovell, 1987.

government has succeeded in making fiscal policy very tight. Price and Muller estimate that the U.K.'s structural budget surplus increased by 6.6% of potential GDP between 1979 and 1981.[30] Monetary policy has been more difficult to assess. Sterling M3 has greatly overshot its targets, and most measures of monetary policy have been quite expansionary. (See Table 6). On the other hand, other indicators give a different picture. Ex-ante real interest rates were quite high in 1980-1982.[31] Real exchange rates were also extremely high. Thus the Bank of England may have allowed the money supply to overshoot targets given the other signs of financial stringency. In any case, by allowing unemployment to dramatically increase, the government made the important point: high employment would no longer be a policy concern (Buiter and Miller, 1983, Kaldor, 1982).

In the United States, there was little doubt about the stringency of monetary policy after 1979. Prior to 1979, as a result of growth rate differentials between the U.S. and its trading partners, and the evident desires of U.S. officials, the dollar depreciated dramatically against most foreign

---

[30]For other estimates see Buiter and Miller, 1983 and Artis and Bladen-Hovell, 1987, and the references cited there.

[31]Papadia, 1984, estimates them to have been 3.26, 5.77 and 5.0 percent in 1980, 1981 and 1982, respectively. See Buiter and Miller, 1983, for another estimate.

currencies.[32] These declines led to accelerating inflation in the U.S. and further speculative attacks against the dollar.

In the spring of 1979, the second oil price rise occurred. In August, President Carter appointed Paul Volcker, a banker's banker, to head the Federal Reserve System. In October, in the face of a full-fledged crisis of confidence in the dollar, Volcker announced a dramatic change in policy. By pledging to target monetary aggregates rather than interest rates, Volcker signalled that he would allow interest rates to rise as high as they needed to restore the value of the dollar.

The speculative attack on the dollar in 1978-1979 endangered the international role of the dollar. Paul Volcker was brought in to restore confidence in the dollar and rescue the international monetary system. Restoring confidence entailed not only restrictive policy, but also a reassertion of the independence of the central bank. This required a strong and independent Chairman, who would be welcome in the banking community. Policy after 1979 is attributable to the reestablishment of _de facto_ Federal Reserve independence, with the old coalition of bankers in tow.

---

[32]See Epstein, 1981 for a discussion of U.S. monetary policy during this period.

Thus, in the U.S., the policy of the middle seventies had been an aberration, as it threatened two important structural characteristics: the dependence of the Federal Reserve on the banking system for political support, and the structural role of the dollar in the international monetary system.

Policy in France, Germany, Italy and Japan

The tight monetary policy by the United States after 1979 conditioned, though it did not detemine, the policies pursued by the Group A countries.

In the case of Italy, the central bank increased its independence. The Banca d'Italia fought for and won independence with respect to financing government deficits.[33] It also joined the EMS and proceeded with the integration of its capital markets into the EEC. These measures created both the structural possibilities and institutional pressures for a more restrictive monetary policy. By 1980, with the workers' loss of the FIAT strike, the power of Labor had been decisively weakened politically facilitating contractionary policy.

---

[33] See Epstein and Schor, 1987 or Addis, 1986.

In Japan and Germany, both monetary policy and fiscal policy moved in a highly contractionary position after 1979. Between 1979 and 1982, Japan reduced it structural budget deficit by 2.1% of potential GDP (Price and Muller, 1985, Table 2), and Germany by 1.4% of potential GDP (Price and Muller, 1985, Table 2). According to Suzuki(1986), the Japanese monetary authorities remained committed to fighting inflation, as did the Bundesbank, with most measures of the real money supply declining between 1979 and 1982. (See the appendix, and Table 6).

Given the independence of the Bundesbank and the relative integration of the Bank of Japan, one might expect monetary policy to have been more restrictive in Germany than Japan. That does not seem to be the case, however. Suzuki (1975) has suggested that in 1975 there was a regime change at the Bank of Japan such that it began to stick to an "eclectic" monetarist rule, enhancing the authority and autonomy of the central bank.[34]

There may be other explanations for the degree of restrictiveness in Japan. One possibility, consistent with the analysis of Yamamura (1985), is that the Bank of Japan was acting in coalition with the policymaking apparatus (MITI and the Ministry of Finance) and industry, against the agricultural

---

[34] However, other studies have called this change into doubt (Hutchison, 1986).

sector. During this period, the Liberal party gave large subsidies to rice growers, in order to shore up a rapidly deteriorating electoral base. These subsidies contributed to large fiscal deficits. The Bank may have been trying to stand against the fiscal stimulus.

Another explanation is that the growing internationalization of Japanese capital markets may be leading to divergence between finance and industry.

Perhaps most likely, the dramatic increase in Japan's role in the international economy meant that it could no longer ignore its behavior on the rest of the world, i.e., it could no longer act as if it were a small country. (Suzuki, 1986, Chapter 1.) As such, Japan has had to be careful not to appear to be trying to pursue an undervalued exchange rate for fear of retaliation.[35]

Only France pursued an expansionary policy during this period with the election of Mitterrand in 1981. That policy was reversed, however, within a short period of time.[36]

---

[35]Says the OECD survey of monetary policy and exchange rate management: Although the Yen recovered late in 1982, the current account strengthened and inflation remained low, concern about protectionism in major trading partners has diminished the scope for any relaxation of monetary policy which adversely affect the Yen. (OECD, 1985, p. 50).

[36]On this period see Petit, 1986; Sachs and Wyplosz, 1986, OECD, 1985) and the references therein.

Mitterrand's policy has been described as overly expansionary and demand oriented.[37] Yet Petit, (1986) and Sachs and Wyplosz (1986) have shown that fiscal policy was only mildly expansionary and quickly reversed. Price and Muller estimate that in between 1980 and 1982, the structural budget deficit expanded by about 1.6 percent of potential GDP. And the evidence on monetary policy indicates only a brief expansion since it had to be periodically tightened to stave off severe, periodic, foreign exchange crises.

Mitterrands' polices were reversed within two years. The correct explanation for the policy failure is highly controversial. But there is little doubt that the attempt to expand while the rest of the countries were contracting, worsened the current account and contributed to a flight from the franc. (Petit, 1986, Sachs and Wyplosx, 1986).

But the periodic currency crises which ultimately tied Mitterrrand's hands were also proabably induced by capital strike against the income redistributing policies of the Mitterrand regime. (Petit, 1986). Exchange controls, which were progressively tightened during the period, helped but were ultimately hindered by the decision, inherited from Barre, and ratified by Mitterrand, to remain within the EMS. (Sachs and Wyplosz). Even an integrated central bank and capital controls

---

[37]See Cobham, 1986, and numeroud popular accounts.

were not sufficient to give policy autonomy in a contractionary international enviornment, characterized by capital flight, when an exchange rate committment to the EMS was maintained.

Policy After 1982

After 1982, policy diverged again. The more salient divergence is between the U.S. and the other six. Policy in the U.S. was significantly more expansionary. Among the other five, the policy stance differed. Monetary policy was expansionary in Japan in line with the U.S. Fiscal policy was expansionary in the U.K., neutral in Germany, and contractionary in France, Italy and Japan.[38]

What explains the post-1982 divergence? For the U.S., the resumption of moderately expansionary monetary policy reflects

---

[38]Monetary policy in the UK is still difficult to interpret.

One illustration of the policy divergence is the estimated impact of monetary and fiscal policy on unemployment, holding constant other factors such as real wages, and competitiveness. According to estimates by John McCallum (1986), for the years 1979-1984, policy had a negative effect on employment in every country but the U.S. (See Table 7). U.S. fiscal and monetary policy after 1982 became expansionary. Elsewhere, there was more restrictiveness.

the continuing structural factors: the international role of the dollar and the needs of commercial banks. In 1982 Mexico suspended debt payments. It became clear that the profits of a number of large and medium-sized banks depended on a resolution of the emerging Third World Debt problem. To facilitate that resolution a reduction in interest rates and an increase in the world growth rate was necessary. Therefore, Volcker abandoned the monetarist facade and began to act as a lender of last resort.

The continued restrictive policy on the part of Germany seems to result from a perception that capital-labor relations have not been restored and that expansion will only harm profits. Other European countries, having joined the EMS, are now tied to the German policy. Thus, previous attempts to bolster the insulation of monetary policy from democratic control may now be hindering expansionary policy in some countries.

Alternative Explanations

We have argued that macroeconomic policy in the decline of the Golden Age reflected commonalities and differences. The commonalities among policies can be largely explained by a breakdown in the capital-labor relations characterizing the Golden Age. (see previous paper) The waves of labor militance, real wage explosions, and political mobilizations of the late 1960s and 1970s led authorities to seek restrictive policies.

However, in terms of our other three structural determinants of policy, differences among the countries remained.

Thus, in our view, monetary and fiscal policy responded to the same underlying structural factors as during the Golden Age. Important structural changes however, led policy to take some new forms.

There are certainly other plausible explanations for the nature of macroeconomic policy during this period. One is that the early policy differences reflect experimentation in a new and uncharted environment. By the end of the period, all countries agreed on the one set of optimal policies. According to this view, structural differences are unimportant in explaining macroeconomic policy.

A second view is that by the end of the period the international integration of goods and financial markets was so great that central banks could <u>not</u> pursue independent policies, particularly when they entailed divergence from the U.S.

While these views may be appealing for the period 1979-82, they cannot account for the post-1982 divergence. They are also vulnerable to more specific criticisms.

To a certain extent, the international constraint view and the one optimal policy view can be related. If the international constraint is such a binding one, then it may be very hard for any economy to step out of line, with the possible exception of the United States. However, the history of macroeconomic policy in these six countries (as well as others), is replete with examples of policies undertaken to reduce the international constraint. While many thought flexible exchange rates would do so, that was not the only such policy. Italy, Japan, Germany, France and the United Kingdom all utilized capital controls of various kinds. There is ample evidence that such controls were effective, at least in the short run, in creating policy autonomy even in a world of highly mobile capital. (Argy, 1982)

To be sure, capital controls are problematic in the long run. It is difficult to prevent evasion without expanding their purview extensively. Yet experience shows that they can be periodically effective in the short to medium term. The failure to use controls is a policy choice, which should be subject to the same kind of analysis as macroeconomic policy in general. Similarly, the decision to join the EMS or Snake, which _does_ constrain macroeconomic policy, is itself a macroeconomic policy choice. The argument that the external constraint must be binding on policy, though it has some kernels of truth, takes as given what needn't be given at all.

V. CONCLUSION

What can be learned from the experience of demand management over the last forty years? The policy variations among our six countries provide us with an opportunity to draw some lessons. First, the differences among countries with respect to capital markets suggests that greater policy latitude and superior economic performance are associated with more integration between finance and industry, more state intervention, and less developed financial markets. While some countries (Italy, Japan) are currently attempting to de-regulate financial markets and create more international integration, our analysis counsels that this may not be a wise course.

Second, our research suggests that the external constraint may not be as binding as some observers claim. Countries have a fair degree of latitude to choose how much international integration they want, and can enact restrictions if necessary. Again, the current trends are toward more international integration, less regulation, and less domestic control over macroeconomic policy. It is not clear that these changes will benefit the citizenry in these countries.

Finally, the policy experience of 1950-1987 bids us to reconsider currently fashionable views on inflation. During the Golden Age the most successful countries were those with

expansionary policy, rapid accumulation and high inflation. In the 1970s, views on inflation changed and many in the economics profession and policymaking apparatus came to believe that inflation impedes growth. Policy became much more restrictive, and inflation fell. Yet growth remained an illusive target. Many countries continue to pursue contractionary policies. But to what end? The poor performance of the Group B countries, with strong anti-inflation financial sectors, international currencies, and independent central banks should give us pause.

Table 1

Central Bank Independence*

	Bade & Parkin	Epstein & Schor
Belgium	1	1
Canada	1 (2 until 1967)	1 (2 until 1967)
France	1	1
Germany	3	3
Italy	1 (2 after 1981)	1 (2 after 1981)
Japan	2	1
Netherlands	1	1
Sweden	1	1
United Kingdom	1	1.5
United States	2	2

*The higher the number the more independent the bank.

Sources: Central Bank Independence: Bade and Parkin (1980); Authors' estimates.

Table 2

Connections between Finance and Industry

Share of Non-Financial Corporation Liabilities
Held by Commercial Banks
(Average and Rank)

	Average	Rank
Belgium	.24	3
Canada	.08	1
France	.10	2
Germany	.58	7
Italy	.32	5
Japan	.39	6
Netherlands	NA	NA
Sweden	.25	4
United Kingdom	.10	2
United States	.08	1

Source: Corporation Assets: OECD Financial Statistics, Part 3, various years.

Table 3

Annual Rates of Growth of Monetary Measures, 1958-1972

	Money	Quasi-Money	Credit
France	9.6	12.4	12.0
Germany	8.9	11.9	12.8
Italy	14.2	13.6	13.7
Japan	16.7	16.0	16.6
U.K.	5.0	7.2	8.6
U.S.	4.2	6.4	8.0
Group A	12.4	13.5	13.8
Group B	4.6	6.8	8.3

Source: IMF, Financial Statistics.

Table 4

General Government Surplus as a Percent of GDP, 1952-1972

France	0.7
Germany	2.2
Italy	-2.1
Japan	1.6
U.K.	-1.0
U.S.	-0.8
Group A	0.6
Group B	-0.9

Source: Data from Armstrong and Glyn.

Table 5

Fiscal Policy

Average Annual Expansionary Effects, Percent of GNP, 1955-65[a]

	General Govt	Central Govt		
	Total Effects	Total Effects	Discretionary Effects	Automatic Effects
France	.71	.08	1.19	-1.11
Germany	.55	-.78		
Germany[b]	.90	-.28	.92	-1.20
Italy	.96	-.22		
Italy[c]	1.00	-.11	1.16	-1.27
U.K.	.00	-.58	.19	-.77
U.S.	.25	-.05	.36	-.41

Notes

a. The annual expansionary effect is a measure of the effect of the government budget on the rate of growth of GDP. It is calculated on the basis of the deviation of GNP from its trend value. See Hansen (1968) for details. General government refers to all levels of government; central government excludes lower levels. All countries include public enterprises except Germany.

b. 1958-1965

c. 1956-1965

Source: Estimates from Bent Hansen, Fiscal Policy in Seven Countries, 1955-1965.

Table 6

Monetary and Fiscal Indicators, 1973-1986

	1973-1974		1975-1978		1979-1982		1983-1986	
	M	F	M	F	M	F	M	F
France	-	0.55	+	-0.52	+	-0.3	-	0.15
Germany	-	0.40	+	-2.15	-	-1.52	-	0.0
Italy	+	-8.20	+	-8.72	-	-10.4	-	0.5
Japan	-	0.5	0	-3.2	-	-3.38	+	0.3
U.K.	+	-3.6	-	-3.02	-	0.48	+	-0.2
U.S.	_	0.25	+	0.25	-	0.72	+	-0.5

Key

<u>M=Monetary Policy</u>
+ = Expansionary
- = Contractionary

<u>F=Fiscal Policy</u>
1973-82, Structural Budget Surplus (+) or Deficit (-)
982-1987, Fiscal impulse (-) expansionary, (+) contractionary

Source: Monetary Policy; See Appendix. Fiscal policy, 1973-1983, Muller and Price, (1984). 1984-1986, IMF World Economic Outlook, April 1986, p. 195, with signs reversed.

References

Addis, Elisabetta, 1986, "Il Cambiamento dei Canali di Trasmissione della Politica Monetaria e la Riallocazione di Potere tra Stato, Mercato e Banca Centrale in Italia," paper presented at conference on The State and Social Regulation in Italy, Bellagio, April.

Aftalion, Florin, "The Political Economy of French Monetary Policy," in D. Hodgman, pp. 7-25.

Aglietta, Michel, 1976, Theory of Capitalist Regulation (London: New Left Books.)

Aliber, Robert Z., 1979, The International Money Game, 3rd. Edition, (New York: Basic Books, Inc.).

Amendola, Adalgiso and Bruno Jossa, 1981, "Italian Economic Development: Comment on an Interpretation," RECI, #3, pp.481-512.

Argy, Victor, 1982, "Exchange Rate Management in Theory and Practice", Princeton Studies in International Finance, No. 50, October.

Artis, Mike and Robin Bladen-Hovell, 1987, "The U.K.'s Monetarist Experiment, 1979-1984", International Review of Applied Economics, Vol. 1, No. 1, pp. 23-47.

Bade, Robin and Michael Parkin, 1980, "Central Bank Laws and Monetary Policy," mimeo, University of Western Ontario.

Bananian, K., L. Laney and T. Willett, 1983, "Central Bank Independence: An International Comparison." Federal Reserve Bank of Dallas Economic Review, March 1983, pp. 1-13.

1987, "Making the Fed More Politically Responsible Isn't Likely to Reduce Inflation: A Comparative Study of Central Banking Arrangements and Inflation in the Industrial Countries," in T. Willett, ed., Political Business Cycles The Economics and Politics of Stagflation, (San Francisco: Pacific Institute), forthcoming.

Bank for International Settlements, Annual Report, Basle, various years.

Bank of Italy, Annual Report, Abridged Version, various years.

Best, Michael, and Jane Humphries, "The City and Industrial Decline," in Elbaum and Lazonick, pp. 223-239.

Biehl, Dieter, et al, 1973, "Measuring the Demand Effects of Fiscal Policy," in H. Giersch, pp. 223-241.

Black, Stanley, W., 1977, Floating Exchange Rates and National Economic Policy, New Haven: Yale University Press.

1982a, Politics versus Markets: International Differences in Macroeconomic Policies, (Washington, D.C., American Enterprise Institute).

1982b, "Strategic Aspects of the Political Assignment Problem in Open Economies," in R.E. Lombra and W.E. Witte, eds., The Political Economy of Domestic and International Monetary Relations, (Ames: Iowa State University Press).

1984, "The Use of Monetary Policy for Internal and External Balance in Ten Industrial Countries," in Frenkel, J. (ed.), Exchange Rates and International Macroeconomics, Chicago: University of Chicago Press.

Blackaby, F. T.(ed.), 1979; British Economic Policy 1960-74. (London: Cambridge University Press).

Boddy, Raford and James Crotty, 1975, "Class Conflict and Macro Policy: The Political Business Cycle, Review of Radical Political Economics, vol. 7, #1, pp. 1-19.

Boltho, Andrea, 1982, The European Economy: Growth and Crisis, (New York: Oxford University Press).

Bruneel, Didier, 1986, "Recent Evolution of Financial Structures and Monetary Policy in France," mimeo, Banque de France.

Bruno, Michael and Jeffrey Sachs, 1985, Economics of Worldwide Stagflation, (Cambridge, Mass: Harvard University Press).

Buiter, Wilem and Marcus Miller, 1981, "The Thatcher Experiment: The First Two Years", Brookings Papers on Economic Activity, No. 2, pp.315-379.

1983, "Changing the Rules: Economic Consequences of the Thatcher Regime," Brookings Papers on Economic Activity, 2, (Washington: Brookings Institution), pp.305-380.

Cameron, David R., 1984, "Social Democracy, Corporatism, and Labor Quiesence: The Representation of Economic Interest," in John Goldthorpe, ed., Order and Conflict in Contemporary Capitalism, (New York: Oxford University Press).

Caranza, Cesare and Antonio Fazio, 1983, "Methods of Monetary Control in Italy," in Donald Hodgman, The Political Economy of Monetary Policy: National and International Aspects, Conference Series #26, (Boston: Federal Reserve Bank of Boston).

Caves, R. et al., 1968, Britain's Economic Prospects. Washington: Brookings Institution.

Chouraqui, Jean-Claude and Robert W.R. Price, 1984, "Medium Term Financial Strategy: The Co-Ordination of Fiscal and Monetary Policies", OECD Economic Studies, No. 2, Spring, pp.7-49.

Clarke, W., 1967, The City in the World Economy, London: Penguin.

Coakley, Jerry and Laurence Harris, 1983, The City of Capital, (Oxford: Basil Blackwell).

Cobham, David, 1986, "French Macro-Economic Policy Under President Mitterand: An Assessment", National Westminster Bank Review, pp. 41-51.

Cooper, Richard, "The Balance of Trade, in R. Caves, pp. 147-197.

Cotula, Franco, 1984, "Financial Innovation and Monetary Control in Italy," Banca Nationale de Lavoro, vol.37, pp. 219-256.

Cowart, Andrew, 1978, "The Economic Policies of European Governments, Part I: Monetary Policy", British Journal of Political Science, Vol. 8, July, pp. 285-311.

Crouch, Colin, and Alessandro Pizzorno, 1978, The Resurgence of Class Conflict in Western Europe Since 1968, (London: Holmes and Meier).

Dernburg, Thomas F., 1975, "Fiscal Analysis in the Federal Republic of Germany: The Cyclically Neutral Budget," International Monetary Fund Staff Papers, vol. XXII, #3, Nov. pp. 825-857.

De Vivo, Giancarlo and Massimo Pivetti, 1981, "International Integration and the Balance of Payments Constraint: the Case of Italy," Cambridge Journal of Economics, #4, pp. 1-22.

Dow, J. C. R., 1964, The Management of the British Economy 1945-60, (Cambridge: Cambridge University Press).

Elbaum, B. and William Lazonick (eds), 1986, The Decline of the British Economy, (Oxford: Oxford University Press).

Epstein, Gerald, 1982, "Federal Reserve Politics and Monetary Instability," in Stone and Harpham, The Political Economy of Public Policy, (Beverly Hills: Sage Publications).

1985, "The Triple Debt Crisis," World Policy Journal, vol.2,#3, pp. 625-657.

and Thomas Ferguson, 1984, "Monetary Policy, Loan Liquidation and Industrial Conflict: The Federal Reserve and the

Open Market Operations of 1932," Journal of Economic History, vol.64, #4, pp. 957-983.

and Juliet B. Schor, 1986, "The Political Economy of Central Banking," Harvard Institute for Economic Research, Discussion Paper #1281, November.

and Juliet B. Schor, 1987, "The Divorce of the Banca d'Italia and the Italian Treasury: A Case Study of Central Bank Independence," in The State and Social Regulation in Italy, P.Lange and M. Regini (eds.), (Milan: Il Mulino).

and Juliet B. Schor, 1988, "The Determinants of Central Bank Policies in Open Economies," in The Political Economy of Central Bank Intervention, B. Jossa and C. Panico (eds.), (Naples: Liguori), forthcoming.

Esping-Andersen, G., R. Friedland, and E. O. Wright, 1976, "Modes of Class Struggle and the Capitalist State," Kapitalistate, 4, 5.

Fazio, Antonio, 1979, "Monetary Policy in Italy," Kredit und Kapital, #2, pp. 145-180.

and Stephano Lo Faso, 1980, "The Control of Credit and Financial Intermediation in Italy," RECI, #3, pp. 459-479.

Ferguson, Thomas and Joel Rogers, Right Turn: The Decline of the Democrats and the Future of American Politics, (New York: Hill and Wang), 1986.

Ferrari, 1983, "Monetary Policy in Italy," in D. Hodgman, 1983.

Fiscal Policy and Demand Management, 1973, (ed.) Herbert Giersch, (Tubingen, West Germany: J. C. B. Mohr).

Flanagan, Robert J., David Soskice, and Lloyd Ulman, 1983, Unionism, Economic Stabilization, and Incomes Policies: European Experience, (Washington: The Brookings Institution).

Francke, Hans-Hermann and Michel Hudson, 1984, Banking and Finance in West Germany, (New York: St. Martin's Press).

Friedman, Milton, 1951, "The Case for Flexible Exchange Rates", Essays in Positive Economics, (Chicago: University of Chicago Press), pp. 157-203.

Gold, D. A., C. Y. H. Lo, and E. O. Wright, 1975, "Recent Developments in Marxist Theories of the Capitalist State," Monthly Review Press, 27, #5, pp. 29-43; #6, pp. 36-51.

Gourevitch, P., A. Markovits, A. Martin, and G.Ross, 1984, Unions, Change and Crisis, (London: Allen and Unwin).

Grove, J. W., 1967, Government and Industry in Britain, (London: Longmans).

Hall, Peter A., 1986, Governing the Economy: The Politics of State Intervention in Britain and France, (Oxford: Oxford University Press).

Hansen, B., 1968, Fiscal Policy in Seven Countries 1955-1965, (Paris: OECD).

Hennings, Klaus Hinrich, 1982, "West Germany," in A. Boltho, 1982, pp. 472-501, (Oxford: Oxford University Press).

Herman, Edward, 1982, Corporate Power, Corporate Control, (Cambridge: Cambridge University Press).

Hodgman, Donald, 1983, ed., The Political Economy of Monetary Policy: National and International Aspects, Conference Series #26, (Boston: Federal Reserve Bank of Boston).

Hoibik, Karel, 1973, ed., Monetary Policy in Twelve Industrial Countries, (Boston: Federal Reserve Bank of Boston).

Hutchison, Michael M., "Japan's 'Money Focused' Monetary Policy", Economic Review, Federal Reserve Bank of San Francisco, Summer, #3, pp. 33-46.

Ingham, Geoffrey, 1984, Capitalism Divided? The City and Industry in British Social Development, (London: Macmillan).

International Monetary Fund, 1986, World Economic Outlook, (Washington: International Monetary Fund).

Joint Economic Committee, U.S. Congress, 1981, Monetary Policy, Economic Growth and Industry in France, Germany, Sweden and the United Kingdom, (Washington: U.S. Government Printing Office).

Jossa, Bruno and Carlo Panico, 1985, "Banking Intermediation During the Italian Economic Crisis (1964-1984)," mimeo, University of Naples.

and Salvatore Vinci, 1981, "The Italian Economy from 1963 to Today: An Interpretation," RECI, #1, pp. 9-40.

Kagami, Nobumitsu, 1984, "Japan", in Solomon, PP. 70-97.

Kaldor, Nicholas, 1982, The Scourge of Monetarism, (Oxford: Oxford University Press).

Kareken, John, "Monetary Policy," in R. Caves, 1968, pp. 68-103.

Katzenstein, Peter J., 1983, "The Small European States in the International Economy: Economic Dependence and Corporatist

Politics," in John G. Ruggie, ed., The Antinomies of Interdependence, (New York: Columbia University Press).

1978, (ed.), Between Power and Plenty, (Madison: University of Wisconsin Press).

Keegan, W. and R. Pennant-Rae, 1979, Who Runs the Economy? (London: Maurice Temple Smith).

Kloten, Norbert, K.-H. Ketterer, and Rainer Vollmer, 1985, "West Germany's Stabilization Performance," in L. Lindberg and C. Maier, 1985, pp. 353-402.

Krause, L., 1969, "Britain's Trade Performance," in R. Caves, 1968, pp. 192-228.

Kreile, M., "West Germany: the Dynamics of Expansion," in P. Katzenstein, 1978, pp. 191-224.

Lacci, Livio, 1976, "The Changes in the Compensation of Employees and in the Returns Paid to Other Factors of Production in Italy During the Period of Rapid Inflation Registered in the First Half of the 1970's," RECI, Vol. 5, pp. 414-434.

Lange, Peter, and George Ross, and Maurizio Vannicelli, 1982, Unions, Change and Crisis: French and Italian Union Strategy and the Political Economy, 1945-1980, (London: Allen and Unwin).

Lange, Peter and Geoffrey Garrett, 1985, "The Politics of Growth: Strategic Interaction and Economic Performance in the Advanced Industrial Democracies, 1974-1980," Journal of Politics, vol.47, #3, pp. 792-827.

Langhor, Herwig and Anthony M. Santomero, 1985, "The Extent of Equity Investment by European Banks," Journal of Money, Credit and Banking, Vol. 17, May, pp. 243-252.

Llewellyn, John, 1983, "Resource Prices and Macroeconomic Policies: Lessons from Two Oil Shocks", OECD Economic Studies, Vol. 1, No.1, Autumn, pp. 197-212.

Lindberg, L. and C. Maier, 1985, The Politics of Inflation and Global Stagnation, (Washington: Brookings Institution).

Lipietz, Alain, 1985, The Enchanted World: Inflation, Credit, and the World Crisis, (London: Verso).

Longstreth, Frank, 1979, "The City, Industry and the State," in Colin Crouch, ed., State and Economy in Contemporary Capitalism, (London: Croon Helm).

Magnifico, Giovanni, 1983, "Recent Aspects of Monetary Policy and Models of Monetary Analysis," RECI, #1, pp. 9-32.

Martin, Andrew, 1986, "The Politics of Employment and Welfare in Advanced Capitalist Societies: National Policies and International Independence," in Keith Banting, The State and Economic Interests, (Toronto: University of Toronto Press).

Marx, Karl, Capital, 1976, (New York: Vintage).

McCallum, John, 1986, "Unemployment in OECD Countries in the 1980's", The Economic Journal, vol. 96, pp. 942-960.

Meek, Paul, 1982, "Central Bank Views on Monetary Targetting," (New York: Federal Reserve Bank).

Mintz, Beth and Michael Schwartz, 1985, The Power Structure of American Business, (Chicago: The University of Chicago Press).

Monti, M. and B. Siracusano, 1979, "The Public Sector's Financial Intermediation, the Composition of Credit and the Allocation of Resources," RECI, #2, pp. 223-253.

1980, "In Reply to Nardozzi and Onado," RECI, #2, pp. 373-386.

and Francesco Cesarini, and Carlo Scognamiglio, 1983, Report on the Italian Credit and Financial System, Special Issue of BNL.

Morgan, K., 1984, Labour in Power 1945-1951, (New York: Oxford University Press).

Muller, Patrice, and Robert Price, 1984a, "Structural Budget Deficits and Fiscal Stance," Working Paper, Economics and Statistics Department, Working Papers.

1984b, "Structural Budget Indicators and the Interpretation of Fiscal Policy Stance in OECD Economics" OECD Economic Studies, Autumn, pp. 28-71.

Nardozzi, Giangiacomo, 1981, "Accumulazione di Capitale e Politica Monetaria," in G. Lunghini, Scelte Politiche e Teori Economiche in Italia, (Torino: Einaudi).

1983, "Structural Trends of Financial Systems and Capital Accumulation: France, Germany, Italy," Economic Papers, Commission of the European Communities, May.

and Marco Onado, 1980, "The Relation Between Banks and Enterprises and the Public Sector as Financial Intermediary," RECI, #2, pp. 355-372.

Nordhaus, William D., 1975, "The Political Business Cycle," Review of Economic Studies, Vol. 42, pp. 169-190.

OECD, 1985, Exchange Rate Management and the Conduct of Monetary Policy, (Paris: OECD).

Padoa-Schioppa, Tommaso, 1985, "Qualitative Policy and Monetary Control: The Italian Experience," mimeo.

Papadia, Francesco, 1984, "Estimates of Ex-Ante Real Rates of Interest in the EEC Countries and in the United States, 1973-1982", Journal of Money, Credit and Banking, August.

Petit, P., 1986, "Full-Employment Policies In Stagnation: France in the 1980's", Cambridge Journal of Economics, Vol. 10, No. 4, December, pp. 393-406.

Pollard, S., 1982, The Wasting of the British Economy, (London: Croom Helm).

Posner, Alan, 1978, "Italy: Dependence and Political Fragmentation," in P. Katzenstein, 1978.

Pressnell, L. S., ed., 1973, Money and Banking in Japan, The Bank of Japan Economic Research Department, translated by S. Nishimura, (London: MacMillan, Ltd.).

Raymond, Robert, "The Formulation and Implementation of Monetary Policy in France," in P. Meek, 1982, pp. 105-117.

Regalia, Ida, Marino Regini, and Emillio Reyneri, 1978, "Labour Conflicts and Industrial Relations in Italy," in C. Crouch and A. Pizzorno, 1978.

Revell, J., 1979, Inflation and Financial Institutions, (London: Financial Times).

Rey, Guido M., 1982, "Italy," in A. Boltho, 1982, pp. 502-527.

Rybczynski, Tad M., 1984, "Industrial Finance System in Europe, U.S. and Japan," Journal of Economic Behavior and Organization, Vol. 5, pp. 275-286.

Sachs, Jeffrey, 1979, "Wages, Profits, and Macroeconomic Adjustment: A Comparative Study," Brookings Papers on Economic Activity, 2:1979, pp. 269-332.

and Charles Wyplosz, 1986, "The Economic Consequences of President Mitterrand", Economic Policy, Vol. 1, No. 2, April, pp.261-322.

Salvati, Michele, 1981, "May 1968 and the Hot Autumn of 1969: The Responses of Two Ruling Classes," in Suzanne D. Berger, Organizing Interests in Western Europe, (Cambridge: Cambridge University Press).

1985, "The Italian Inflation," in L. Lindberg and C. Maier, pp. 509-563.

Santori, G. J., 1986, "The Effects of Inflation on Commercial Banks," Federal Reserve of St. Louis Review, March, pp. 15-86.

Sarcinelli, Mario, 1981, "The Role of the Central Bank in the Domestic Economy," RECI, #3, pp. 433-454.

Sautter, Christian, 1982, "France," in A. Boltho, 1982, pp. 449-471.

Sayers, R. S., 1976, The Bank of England 1891-1944, (London: Oxford University Press).

Schor, Juliet B., 1983, "Social Welfare Benefits and the Rise of Labor Militance: Reinterpreting the Strike Waves of 1968-1970," Paper Presented at Annual Meeting of Council for European Studies, Washington, D.C.

Skocpol, Theda, 1979, States and Social Revolutions, (Cambridge: Cambridge University Press).

Solomon, Ezra, 1984, International Patterns of Inflation: A Study in Contrasts, (New York: The Conference Board), Report No. 853.

Soskice, David, 1978, "Strike Waves and Wage Explosions, 1968-1970: An Economic Interpretation," in C. Crouch and A.Pizzorno, 1978.

Spaventa, Luigi, 1983, "Two Letters of Intent: External Crises and Stabilization Policy, Italy, 1973-77," in John Williamson, IMF Conditionality, (Washington: Institute for International Economics).

1984, "The Growth of Public Debt in Italy: Past Experience, Perspectives and Policy Problems," BNL, vol.37, pp. 119-149.

1985, "Adjustment Plans, Fiscal Policy and Monetary Policy," RECI, #1, pp. 9-35.

Stokman, Frans, Rolf Zeigler and John Scott, eds., 1984, Corporations and Corporate Power. (Oxford: Polity Press.)

Surrey, Michael, 1982, "United Kingdom", in Boltho,ed., pp. 528-553.

Suzuki, Yoshio, 1986, Money, Finance, and Macroeconomic Performance in Japan, (New Haven: Yale University Press).

1980, Money and Banking in Contemporary Japan, (New Haven: Yale University Press).

Tew, J. H. B., 1978, "Policies Aimed at Improving the Balance of Payments," in F. Blackaby (ed.), British Economic Policy 1960-1974, (Cambridge: Cambridge University Press, 304-59).

Thygesen, Niels, 1982, "Monetary Policy," in A. Boltho, 1982, pp. 329-364.

Tufte, Edward, 1978, Political Control of the Economy, (Princeton, NJ: Princeton University Press).

Ulman, Lloyd and Robert J. Flanagan, 1971, Wage Restraint: A Study of Incomes Policies in Western Europe, (Berkeley, University of California Press).

Uusitalo, Paavo, 1984, "Monetarism, Keynesianism and the Institutional Status of Central Banks," Acta Sociologica, vol. 27, pp. 31-50.

Vaciago, Giacomo, 1985, "Financial Innovation and Monetary Policy: Italy versus the United States," BNL, #155, pp. 309-326.

Walsh, Kenneth, 1983, Strikes in Europe and the United States, (New York: St. Martin's Press).

Willett, Thomas, 1987, ed., Political Business Cycles: The Economics and Politics of Stagflation, (San Francisco: Pacific Institute), forthcoming.

Wood, Geoffrey E., 1983, "The Monetary Policy Decision Process in the United Kingdom," in D. Hodgman, 1983., pp. 93-113.

Yamamura, Kozo, 1985, "The Cost of Rapid Growth and Capitalist Democracy in Japan," in L. Lindberg and C. Maier, 1985, pp. 467-508.

WIDER
WORKING PAPERS

WP 1. Amartya Sen: Food, economics and entitlements, February 1986

WP 2. Nanak Kakwani: Decomposition of normalization axiom in the measurement of poverty: a comment, March 1986

WP 3. Pertti Haaparanta: The intertemporal effects of international transfers, April 1986

WP 4. Nanak Kakwani: Income inequality, welfare and poverty in a developing economy with applications to Sri Lanka, April 1986

WP 5. Pertti Haaparanta: and Juha Kähkönen: Liberalization of Capital Movements and Trade: Real Appreciation, Employment and Welfare, August 1986

WP 6. Pertti Haaparanta: Dual Exchange Markets and Intervention, August 1986

WP 7. Pertti Haaparanta: Real and Relative Wage Rigidities – Wage Indexation* in the Open Economy Staggered Contracts Model, August 1986

WP 8. Nanak Kakwani: On Measuring Undernutrition, December 1986

WP 9. Nanak Kakwani: Is Sex Bias Significant? December 1986

WP 10. Partha Dasgupta and Debraj Ray: Adapting to Undernourishment: The Clinical Evidence and Its Implications, April 1987

WP 11. Bernard Wood: Middle Powers in the International System: A Preliminary Assessment of Potential, June 1987

WP 12. Stephany Griffith-Jones: The International Debt Problem – Prospects and Solutions, June 1987

WP 13. Don Patinkin: Walras' Law, June 1987

WP 14. Kaushik Basu: Technological Stagnation, Tenurial Laws and Adverse Selection, June 1987

WP 15. Peter Svedberg: Undernutrition in Sub-Saharan Africa: A Critical Assessment of the Evidence, June 1987

WP 16. S. R. Osmani: Controversies in Nutrition and their Implications for the Economics of Food, July 1987

WP 17. Frédérique Apffel Marglin: Smallpox in Two Systems of Knowledge, Revised, July 1987

WP 18. Amartya Sen: Gender and Cooperative Conflicts, July 1987

WP 19. Amartya Sen: Africa and India: What do we have to learn from each other? August 1987

WP 20. Kaushik Basu: A Theory of Association: Social Status, Prices and Markets, August 1987

WP 21. Kaushik Basu: A Theory of Surplus Labour, August 1987

WP 22. Albert Fishlow: Some Reflections on Comparative Latin American Economic Performance and Policy, August 1987

WP 23. Sukhamoy Chakravarty: Post-Keynesian Theorists and the Theory of Economic Development, August 1987

WP 24. Georgy Skorov: Economic Reform in the USSR, August 1987

WP 25. Amartya Sen: Freedom of Choice: Concept and Content, August 1987

WP 26. Gopalakrishna Kumar: Ethiopian Famines 1973–1985: A Case-Study, November 1987

WP 27. Carl Riskin: Feeding China: The Experience since 1949, November 1987

WP 28. Martin Ravallion: Market Responses to Anti-Hunger Policies: Effects on Wages, Prices and Employment, November 1987

WP 29. S. R. Osmani: The Food Problems of Bangladesh, November 1987

WP 30. Martha Nussbaum and Amartya Sen: Internal Criticism and Indian Rationalist Traditions, December 1987

WP 31. Martha Nussbaum: Nature, Function and Capability: Aristotle on Political Distribution, December 1987

WP 32. Martha Nussbaum: Non-Relative Virtues: An Aristotelian Approach, December 1987

WP 33. Tariq Banuri: Modernization and its Discontents A Perspective from the Sociology of Knowledge, December 1987

WP 34. Alfred Maizels: Commodity Instability and Developing Countries: The Debate, January 1988

WP 35. Jukka Pekkarinen: Keynesianism and the Scandinavian Models of Economic Policy, February 1988

WP 36. Masahiko Aoki: A New Paradigm of Work Organization: The Japanese Experience, February 1988

WP 37. Dragoslav Avramovic: Conditionality: Facts, Theory and Policy – Contribution to the Reconstruction of the International Financial System, February 1988

WP 38. Gerald Epstein and Juliet Schor: Macropolicy in the Rise and Fall of the Golden Age, February 1988