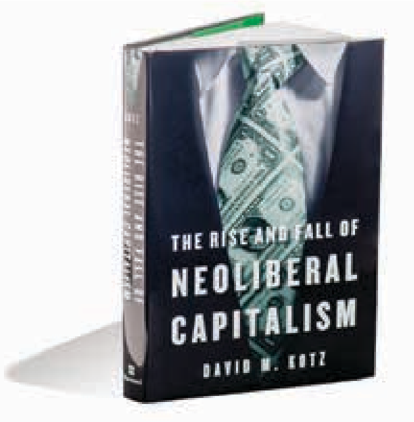
Paradise Lost?



David Kotz

The Rise and Fall of Neoliberal Capitalism

Harvard University Press, Cambridge, Massachusetts, 2015, 270 pp., $39.95 (cloth).

The worst kind of nostalgia is pining away for a time that never was. The Bible kicked it off with its account of Eden. Hollywood kept it going with films about the Wild West. Economist David Kotz contributes to the genre with *The Rise and Fall of Neoliberal Capitalism*. The book is an economic history of the period after World War II, when—according to Kotz—capitalism was gentler, more humane, and much better regulated.

The form of capitalism Kotz thinks held sway between the end of the war and the early 1980s was fraught with contradictions. He asserts that even though taxes were higher then, people did better and the economy grew faster. Even though trade was more restricted, companies thrived. Even though prices for many goods were not allowed to float freely (they could be set under "fair trade" rules), people saved more. Even though Wall Street's commissions were fixed and higher than today's averages, the financial sector accounted for a much smaller share of GDP and of profits than it does now.

Kotz says there was harmony between employees and employers, with unions granted a seat at the table. (However, somewhere under a parking lot or football stadium lies disappeared labor union leader Jimmy Hoffa, who can confirm or deny just how harmoniously labor and business interacted.) The economic geniality and harmony of the 1950s, 60s, and 70s was a hallmark of post–World War II capitalism, Kotz suggests.

In Kotz's history, every group was better off yesterday than today, except the 1 percent. But Kotz doesn't mention how the environment fared or how safe workers were in the workplace before the U.S. Occupational Safety and Health Administration and Environmental Protection Agency. Nor does he talk about health care or today's medical, pharmaceutical, and scientific breakthroughs. Kotz also bypasses innovation. This book is about economics; it is not a business book.

He also passes rapidly over finance. And when he glances at it, Kotz does so mostly in negative terms—for example, in his examination of mortgages, especially the saga of Countrywide, the largest provider of home mortgages before the housing crisis.

A problem with Kotz's book is that no one knows for certain whether his counterintuitive view that when capitalism was more tightly regulated it was more vibrant is right or wrong. There is a lot of noise in the numbers Kotz uses to make his points. For example, he writes that GDP grew at an average rate of 4 percent from 1948 to 1973 and slowed to 3 percent from 1973 to 2008. This fall-off in the growth rate indicates to Kotz that when capitalism was restrained by tougher rules and regulations, it did better. Far from slowing growth, as many economists argue, New Deal and post–WWII regulations accelerated it. The argument is capitalism does best when its hands are tied.

Global growth, according to Kotz, followed much the same trajectory. He argues that the global slowdown was the result of a capitalist system that was more competitive (and more cutthroat), and as market prices replaced managed prices, these more intensely competitive forces were a drag on growth. Really?

I find other arguments about growth during these periods to be much more persuasive. For instance, during the 1950s and 60s, the economy was vigorous because the world was still rebuilding in the aftermath of the war. In addition, housing exploded as the country tried to accommodate the baby boom. Housing sales, as we know, have a powerful effect on the economy since homeowners tend to fill up their new digs with everything from furniture to dishwashers and refrigerators.

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Investments in big projects—infrastructure, housing, and so forth—have among the highest and longest-lasting economic multiplier effects, and these effects were especially beneficial for young males without skills trying to decide whether to go to college under the GI Bill or acquire skills some other way. Taken together, big infrastructure projects led not just to jobs but to a shortage of labor. Such shortages drove up wages and increased savings.

The big question this book raises is how today's form of capitalism compares with what it was immediately after World War II. It is an interesting question and could even yield counterintuitive answers, but Kotz's case is not persuasive. He just doesn't make the case that highly regulated economies are healthier, grow faster, and accommodate the needs of people better than more laissez-faire forms of capitalism.

I was disappointed. This book seems to be the kind of project that was begun when the world leaned one way but finished when it was leaning the other way, and Kotz failed to include those changes in the book. In other words, the highly regulated, fast-growing, harmonious period Kotz wrote about (with as much nostalgia as an economist can muster) never really took place.

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