They called it the ‘Great Moderation’. While this specifically referred to a trend of reduced macro-economic volatility among the major advanced economies since the late 1980s, it encapsulated a wider political and economic meaning. It marked the extended period of economic growth from the early 1990s into the 2000s, growth that was attributed to an encouraging combination of free market economic policies at home and globalization abroad. In this view, post-war economic history began with the ‘Long Boom’, 30 years of full employment and unparalleled economic growth. The period also coincided with the widespread adoption of Keynesian macro-economic policies, intended to smooth the business cycle, and the social welfare state, serving to protect vulnerable workers and allowing them to become stable mass consumers. Yet by the late 1960s the model was already showing its contradictions, particularly a ‘spending ratchet’ (Crouch, 2009). Keynes called for the state to spend when the economy was in recession, but democratically elected governments found it difficult to take away the goodies when the boom years returned, as Keynes also advised. This fed into rising spending and higher prices, hindering productivity and profitability. Add in the cost-push of oil prices and the result was the rampant inflation and stagnant growth (‘stagflation’) of the 1970s. Attempts to restore the balance through even more spending only fed the inflationary spiral. Keynesianism was tested and found wanting, offering a political opening for leaders advocating a return to liberal economics; hence the label ‘neoliberalism’.

Both Margaret Thatcher’s Conservatives and Ronald Reagan’s Republicans rejected the verities of the ‘post-war consensus’. Rather than continuing state-centered economic governance, Reagan declared that
'government was the problem'. The solution was simple: get the state out of the way. Although varied in application across governments, the basic rationale was that by shifting resources out of the government’s control – where political pressures led to economically inefficient decision-making – and into the private sector – where competition and market forces provided appropriate signals – these policies would remove the barriers to (private) investment, spur entrepreneurialism and innovation, and increase the trend growth rate of the economy. The initial shock therapy of extremely tight monetary policy and slashed budgets, intended to combat (as they saw it) the greater evil of inflation, produced sharp recessions in both economies. By the mid 1980s, however, prices were tamed and robust growth returned. Both leaders were rewarded for the economic turnaround with re-election, twice in Thatcher’s case (Reagan, of course, being constitutionally limited to two terms). Boom turned to bust, however, as overheating markets required the reapplication of monetary brakes, producing another recession in the early 1990s. For critics of neoliberalism, this was evidence that the program was a failure, unable to deliver stable growth. Yet the critics were premature, for that very moment saw a confluence of positive trends: the end of the Cold War, which provided not only a fiscal ‘peace dividend’ but the opening up of vast new capitalist markets; the expansion of other major developing markets, especially China and India; the realization of full cost advantages of globalized production; and development of a new wave of information technology, both creating new markets (such as mobile phones) and greatly enhancing productivity in existing industries (such as retail). The result in the 1990s was a heady period of strong economic growth, improved fiscal balances, and relative international stability, for Britain and America at least. To be sure, there were economic crises during this period, most notably in East Asia in 1997 and Russia in 1998. Yet all were contained without major impacts on global growth. In the minds of policymakers these were thus isolated and manageable events in countries on the periphery of the global economy. Problems hit home at the end of the decade when the overinflated expectations of new internet-based enterprises led to the ‘dot com bust’. Yet rapid action by the Federal Reserve limited the damage to a relatively short recession. Even with 9/11 and the two wars that followed, both America and Britain continued with strong growth and low unemployment – economic records envied by many of their competitors – into the middle of the 2000s. The Anglophone economies had been buffeted by recession and war, but with flexible financial markets and adroit monetary authorities,