East-West Financial Entanglements, the Volcker's Shock, and the End of the Cold War

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1. Agency and Structure

There is so much to say – and to praise – about Fritz Bartel's *Triumph of Broken Promises* that brevity and consistency is not easy at all.[1] Long indeed was the journey of the Author across time and space, in historical archives in various countries as well as through different languages.

"This is the way the world ends. Not with a bang but a whimper", so writes T.S. Eliot in the poem *The Hollow Men* (1925). And Bartel is perhaps reminiscent of Eliot when he writes: "On October 3, 1990 Germans united and the Cold War ended not with a bang, but with a checkbook" (p. 295). This sentence well captures the essence of the book and could have well featured on the hard cover of it. The reference is to the fact that the West in general and the Federal Republic of Germany (and Helmut Kohl) in particular understood that credit market access and hard currency could act as leverages in front of the Democratic Republic of Germany and the Soviet Union.

Kohl is just one of the *dramatis personae* that Fritz Bartel brings to the fore, skillfully binding together the close-ups and the long-shots, to use the language of cinema; the individual story and the

[1] F. Bartel, *The Triumph of Broken Promises. The End of the Cold War and the Rise of Neoliberalism*, Harvard University Press, Harvard, 2022, pp. 429.

general history; the public and the private, or even the intimate side of things, as is the case with Michail Gorbachev talking to his wife on the eve of his election on March 10, 1985 (p. 165), or the conversation between Gorbachev and Kohl paving the way to German unification.

Talking about German unification, it is perhaps worth remembering what Margaret Thatcher once revealed in her memoirs, i.e., that French president Francois Mitterand – with whom she had clashed memorably on several occasions – called her to say that "in times of grave danger" like those ones France and the United Kindgom needed to forge a common front and stay united.

At the same time, the Author argues along the book that timing always reflected not just individual agency (Kohl etc.) or historical contingencies, which always play their part, but rather structural developments in the international (economic) system. The collapse of oil prices after 1985, for instance, is a key development. In this, the book shows great powers of abstraction.

The Author also discusses the issue of causal linkages between economic factors and political ones. He wisely concludes that: "There is no universal ironclad relationship between economic causes and political effects, so it is incumbent upon anyone who would propose a relationship between a particular set of economic causes and a particular set of political effects to justify the reasons for doing so and specify the exact nature of the causal relation" (p. 332). He knows all too well that to a certain (elusive) degree economics is politics – and viceversa.

2. Volcker, not Friedman

Why did the West win the Cold War? The consolidated narrative suggests that in the 1980s the "arms race" between the US and the USSR brought the Soviet Union to its knees, and that capitalism ultimately proved more efficient than communism. Bartel's answer is more complex. The policy of *détente* in the old continent gave rise to multiple entaglements, especially between borrowers and creditors. Democratic capitalism prevailed because, after the shocks of the 1970s, it proved capable of imposing on its citizens the "discipline" that neoliberalism preached, while Communism collapsed because it could not, neither economically nor ideologically. Yet, it was not a victory of neoliberalism, because democracies could impose discipline also because there was a body of growth and welfare accumulated in the previous thirty years. This made liberal democratic societies much more resilient, not to speak of the institutional flexibility inherent to democracy.

The victory, in other words, owed much to the kind of regulated capitalism that had prevailed in the West,[2] whose institutions and future promises continued to co-exist with a present of "broken promises". The future matters. For contemporaries "discipline" could have well been a conjunctural response, a temporary deviation to fight inflation, before going back to the usual path. It was the collapse of communism that made neoliberalism *the* only game in town – or to put it slightly differently, the fact that the former collapsed at the time when the latter was on the rise. Neoliberalism focus on individual freedom was a powerful instrument in the ideological battle.

One of the claims of the book is that there was a neoliberal turn both in the East and the West, under different cloaks, such as Perestoika and Thatcherism. In 1988, the Polish weekly *Polytika* signalled the rising star of the "eastern Thatcherites".[3] Tadeusz Mazowiecki, Poland's first non-communist prime minister, once said that he was looking "for my Ludwig Erhard".[4] He found him in Leszek Balcerowicz. Chapter 3 of Bartel's book is titled "A tale of two crises", and is about Poland and the United Kingdom facing

[2] B. Eichengreen, *The European Economy since 1945. Coordinated Capitalism and Beyond*, Princeton University Press, Princeton, 2007.
[3] P. Ther, *Europe since 1989. A History*, Princeton University Press, Princeton, 2016, p. 44.
[4] D. Yergin, J. Stanislaw, *The Commanding Heights. The Battle between Government and the Marketplace that is Remaking the Modern World*, Simon and Schuster, New York, 1998, p. 266.

radical economic transformations. There are analogies, rather than parallels. There was one crucial difference: neoliberalism could still present itself as one particular river within liberalism, but it could not present itself as a river within communism.

From an economic theory viewpoint, it was in many ways a counter-revolution, a comeback of ideas that had become marginal after the great crash of 1929, after the Keynesian revolution of 1936, and after the end of the war in 1945: in particular, the idea that markets tend to self-adjust and that a certain type of linear relationship exists between interest rates and the money supply. The Author also brings attention to language. "Austerity", "discipline", "frugality": this vocabulary expressed an idea of a moral good and virtue. There is also a definition of austerity: "government policy that intentionally lowers the living standards of the domestic population to restore financial markets' confidence in the national economy" (p. 52). In the 1970s and through the 1980s, the markets – which Milton Friedman referred to in the singular, the market – became a buzzword. The International Monetary Fund turned from a Keynesian institution into something remote from its original inspiration. In Keynes' view, IMF should provide liquidity in order to allow countries to address their structural balance-of-payments problems while still pursuing full-employment.

Bartel offers views on the rise of central banks and central bankers, and the emerging idea that politics (and political accountability) could be supplemented by a neutral, technical expertise, as if money was not high politics. He therefore rightly insists on the importance of Paul Volcker's monetary policy that had far-reaching consequences on both sides of the Atlantic and both sides of the Iron Curtain – not to speak of North-South relations. In Bartel's words, Volcker's turn was the key act of renewal of US influence in the postwar period, as it allowed the country to run larger deficits in the context of the Reaganomics (in the 1980s the US became a debtor country for the first time since 1914), and strengthen the dollar's position as the world's reserve currency. It was the draconian policy of Volcker that "saved" Reagan from more than probable financial strains.

There was a different overtone, but also a strategic shift, between secretary of state John Connolly famous dictum after the end of the Bretton Woods system, i.e., that "the dollar is our money, but your problem", and Volcker's awareness that "our money is the world's money".

3. Past to Present

China is, on the whole, almost completely absent from the book. In the Introduction, the Author argues that "the politics of breaking promises was not absent in China, but that overall, the reform experience was one of managing industrialization and economic growth, not de-industrialization and economic discipline" (p. 16). Perhaps China also relied on the leverage of a higher ideological ambiguity and flexibility well rooted in its philosophical tradition – something that later allowed the use of formulas such as "socialist market economy" that are puzzling in the Western tradition.

Yet, there is another absence, which is perhaps more surprising, i.e., the European Economic Community as economic (and geopolitical) actor. It is first mentioned on p. 257. Interestingly, the name index reports only quote of the EEC, even if it is indeed mentioned at least five times.

Today, there is a new confrontation between autocracies and democracies in the context of a war in Europe, of high inflation and of tightening monetary conditions with global implications for growth and debt. Even if it is not apparent from the title, energy and financial interdependence between East and West is at the centre-stage of the book. The consequences of the entanglement and disentanglement of yesterday and today clearly resonate through it. On p. 150, for instance, the construction of a new pipeline to increase Soviet gas deliveries to Europe is considered – in the minutes of a National Security Council Meeting of 1982 – "as militarily significant as a plane". It may well have sounded an overstatement at the time, it is an understatement today.

The book gives a contribution to scholarship in various fields: the history of the Cold War, European history, the history of international economic relations, the economic history of energy finance. These fields are more and more connected.[5] It is also a book for the present. The world's precarious international equilibrium is in many ways based on the control and supply of raw and critical materials on the one hand (China, but not only China), and the US and the West's financial "power of omission" on the other hand. Most international reserve currencies – including non-traditional ones – are Western ones.[6] But the main channel is still provided by the relatively declining and yet dominant currency, the dollar. Yet another proof of the critical (geopolitical) role of money.

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[5] S. Selva, *Before the Neoliberal Turn. The Rise of Energy Finance and the Limits to US Foreign Economic Policy*, Palgrave, London and New York, 2017.
[6] S. Arslanalp, B. Eichengreen, C. Simpson-Bell, *The Stealth Erosion of Dollar Dominance: Active Diversifiers and the Rise of Non-traditional Reserve Currencies*, IMF Working Papers 58, March 2022.