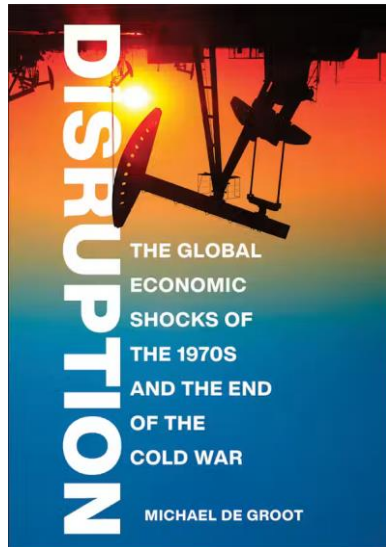




Michael De Groot

Disruption.
The Global Economic Shocks of the 1970s and the
End of the Cold War

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reviewed by

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In November 1989 the Berlin Wall ›fell‹, democratic revolutions succeeded in Eastern Europe and in December 1991 Mikhail Gorbachev signed the Soviet Union out of existence, ending the Cold War that had structured the international state system since the late 1940s. But how did we arrive there? This is the question that historian Michael De Groot sets out to answer in his book ›Disruption‹, based on his PhD thesis completed at the University of Virginia in 2018. And his answer could be summarized as: ›It's the economy, stupid!‹ For De Groot ›the global economic shocks of the 1970s were decisive and belong at the top of the causal hierarchy‹. Consequently, he brings ›energy, debt, trade, finance, and monetary policy to the forefront, topics that are typically treated as ›second-order‹ issues in Cold War scholarship‹ (p. 9).

With this outlook, ›Disruption‹ closely resembles Fritz Bartel's recent and widely discussed book ›The Triumph of Broken Promises‹.¹ Both stress the centrality of the multiple global economic crises of the 1970s that posed similar problems to both East and West. However, where Bartel speaks of a ›race to make promises‹ by capitalist and communist leaders in the golden years of the 1950s and 1960s (and later, in the 1980s, a race to break them), De Groot's key term is ›welfare empires‹. He argues that both the United States and the Soviet Union created ›welfare empires‹ where ›resources moved from the superpowers to their allies‹ (p. 3), and that it was the adaptability of these empires in the face of economic shocks that decided the outcome of the Cold War.

De Groot takes the reader chronologically from the post-World War II boom years to the collapse of the Soviet empire following a comparative approach with chapters on the Western and the Eastern blocs alternating. In chapters 1 and 2, he examines why their postwar developmental models and international economic architectures began to run into trouble in

¹ Fritz Bartel, The Triumph of Broken Promises. The End of the Cold War and the Rise of Neoliberalism, Cambridge (Mass.) 2022.

the early 1970s. By 1973, the Bretton Woods system had collapsed, while Eastern Europeans hoped to use cheap Soviet energy and loans from Western banks to transition their economies into models of intensive growth – a strategy De Groot describes as »a serious gamble« (p. 52) and that would lay the foundation for the later debt crisis.

In the next two chapters, he turns to the 1973/74 oil crisis, which greatly exacerbated the already visible problems. With OPEC permanently quadrupling petroleum prices, the »energy complement to the Bretton Woods system« (p. 64) that had helped fuel economic growth across the West vanished. By contrast the Soviets seemed in a strong position, being the largest oil producer of the world by 1974. The oil crisis nevertheless sent shock waves through Eastern Europe. Increasingly unwilling to subsidize its satellites, the Soviet Union pushed through a revision of the »Bucharest formula«, which determined the trade prices within COMECON, to ensure that they aligned more closely with world market prices than before. Consequently, petroleum prices for Eastern Europe more than doubled from 1974 to 1975, making the people's republics even more desperate to take out loans from Western banks now flush with petrodollars. These credits allowed the socialist states to defer necessary adjustments further into the future.

Chapters 5 and 6 turn to the late 1970s. In the face of a second oil crisis, mounting inflation, and a weakening dollar, US president Jimmy Carter decided to discipline the economy. He appointed Paul Volcker as chairman of the Federal Reserve, who would hike up interest rates to combat inflation. This caused a recession at home but also the so-called »Volcker shock« that dealt »a body blow against the Soviet bloc« (p. 135) – and, we might add, against debtor countries in the Third World. With record high interest rates, highly indebted Eastern European states were no longer able to service their debts and Western banks were unwilling to lend them any more money. Moscow, suffering from economic crisis itself, proved unwilling to bail out its allies. To De Groot this signaled a »tectonic shift in the Cold War balance of power« (p. 137) as Western governments and international institutions like the IMF stepped into the vacuum, providing bridge loans in return for political concessions.

While the Soviet empire began to unwind, the American empire became »inverted«, as De Groot argues in chapter 7, no longer subsidizing the economies of its allies but drawing on them. Given high interest rates and a strong dollar, the US became a net importer of goods and capital which allowed the Reagan administration to lubricate the economy, fund social safety nets and increase military spending. Gorbachev's reforms (chapter 8) on the other side of the iron curtain and the collapse of global oil prices in 1986 pushed the Soviet economy to the verge of collapse, while Eastern European states' debt skyrocketed once more. The Soviet refusal to intervene in the 1989 revolutions »marked the final evolutionary step in the collapse of the Soviet welfare empire« (p. 187).

Given the very similar ground covered by »Disruption« and »The Triumph of Broken Promises«, it is somewhat surprising that De Groot does not explicitly discuss Bartel's interpretation. To this reviewer, De Groot's argument that it was the successful inversion of its welfare empire which made the US and the West better able to deal with the economic shocks of the 1970s and »win« the Cold War, is more convincing than Bartel's reading. Bartel argues that it was the ability of democratic states using the language of neoliberalism to »break promises«, meaning enforcing austerity on their own economies, that made them prevail over socialist states that could not. However, under Reagan the United States successfully evaded »breaking promises« because they could tap into global capital markets – or, in De Groot's terminology, draw on their inverted empire. In the end this interpretation is far less bold than Bartel's and is rather closely aligned with existing scholarship.²

Overall, the strength of »Disruption« is not so much in offering provocative new interpretations; it is rather in providing an overview of the global economic developments of the 1970s and

² Cf. for instance *Daniel J. Sargent, A Superpower Transformed. The Remaking of American Foreign Relations in the 1970s*, Oxford 2015, here: p. 306.

1980s and their impact on the Cold War, and in substantiating it with material from some twenty archives in seven different countries. As such it will prove particularly helpful to students and historians trying to familiarize themselves with this field.

Zitierempfehlung

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