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*Neoliberalism, Consumerism and the End of the Cold
War*

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As the Berlin Wall fell, the American academic Francis Fukuyama declared that state socialism collapsed because it was on the wrong side of History in two respects: its rejection of liberal democracy failed to grant the mass of people the ‘dignity’ they demanded; and its hostility to the market prevented it from providing decent living standards for their populations.¹ And while Fukuyama’s thesis on the inevitable victory of liberal capitalism has come under a great deal of criticism, his analysis of the reasons for communism’s failure has become commonplace – and especially its economic aspect. Some scholars may want to stress the importance of the American military build-up in the 1980s to the defeat of state socialism, and others emphasize political issues, such as loss of faith in the ideology by elites, or popular hostility to communist high-handedness and corruption.² But it is probably more common in the popular historical literature to see state socialism’s fatal flaw as economic, rather than military or political, and to assume that the struggle between capitalism and communism was a simple one between the ‘market’ and the ‘plan’, which communism was inevitably going to lose. As the historian Martin Malia put it, the history of the USSR in essence consisted of the implementation of ‘Marx’s fantasy of socialism as noncapitalism’; this could only be achieved through Leninist totalitarianism and Stalinist terror, and the foundations of this ‘impossible utopia’ were so fragile it was bound to collapse, thus forcing Moscow to concede defeat in the Cold War.³

Clearly economic weaknesses played a major role in the end of the communist system and of the Cold War: communist states were unable to provide their citizens with the consumer goods their capitalist rivals could offer, and from the later 1960s it was clear to many among of the world’s elites – both communist and non-communist – that the state socialist economic model was not competing effectively with its capitalist rivals. However, as this essay will argue, the notion that the Cold War between East and West was the story of a long battle between a non-market ‘utopia’ and a ‘natural’ market, which the market inevitably won, is an oversimplified one. Firstly, the nature of the ‘capitalism’ which challenged the state socialist model changed drastically over time as did the interests of the main capitalist power, the United States; secondly the attitudes of communist regimes to the market, consumerism and market mechanisms were much more varied than the conventional story suggests; and thirdly economics was not all-powerful in determining the course of the Cold War, and other issues – such as attitudes to militarism and democracy – were also crucial, especially in ending the conflict.

We therefore need to see the ideological struggle between state socialist and capitalist economic models in the broader context of changes in the world economy and attitudes towards it in the course of the twentieth century. Both ‘plan’ and ‘market’ responded to economic and ideological environments, and to their rivals, and changes in those environments were hugely important for the viability of each system. Thus the collapse of the *laissez-faire*, finance-dominated capitalist system after the 1929 Wall Street Crash not only contributed to the development of the communist

‘command economy’ under Stalin, but also propelled the capitalist world towards a more statist ‘Social Democratic’ model, especially after World War II. And at the same time, following Stalin’s death, state socialist economies became less oriented towards war, more consumerist and less hostile to the market. Between the 1930s and the 1970s, therefore, the competing capitalist and state socialist systems became more similar economically (though not politically).⁴ It was only from the 1970s, with the crisis of statist models and economic thinking throughout the world, and the revival of a finance-dominated, more *laissez-faire* international economy that the systems diverged again, and state socialist economies came under increasing economic and ideological pressure. Even so, the extent of the victory of free markets and the political-economic philosophy that justified them – neoliberalism – was not the result of an inevitable triumph of the ‘market’ over the ‘plan’. It was the consequence of a conjunctural crisis, driven by a mixture of social, economic and ideological change, and reinforced by American Cold War strategy. Both the USSR and China sought to introduce a statist ‘third way’ between planning and markets, and China had much greater success than the USSR, ensuring the survival of a version of communist politics, though at the cost of making major retreats from communist economics.

The Early Cold War Confrontation

It would be wrong to deny the centrality of the debate over markets and planning to the Cold War ideological conflict. The version of Marxism promoted by Lenin, the Bolsheviks and their successors saw the ultimate society of the future, ‘communism’, as one free of markets and all market mechanisms: people would work for the love of it, and receive goods, produced in abundance, according to their needs.

However, Marxist-Leninists were not implacably opposed to markets in all circumstances. Following Marx, they argued that before ‘communist’ society could emerge, humanity would have to go through two prior stages: a ‘capitalist’ one, where markets survived; and a ‘socialist’ one, where production was determined and organized by state planners rather than the market, but where people were still incentivised using market mechanisms: the harder they worked, the more they earned.⁵ Implicit within this model was an element of consumerism, for the state realised that to make the extra money seem worth earning, it had to stimulate the production of, and desire for, consumer goods.

Marxist-Leninists, therefore, could justify various types of relationship between state and market, depending on which stage of history they judged society to have reached. In practice combinations of three different models were available to communist rulers: the first founded on quasi-military mobilization, the second based on top-down technocratic planning, and the third an explicitly ‘market socialist’ one, in which the state controlled the main industrial parts of the economy, and the market operated in some areas of retail and consumer industry.

Throughout most of the 1920s, when the world economy was operating according to relatively *laissez-faire* principles, the Soviet Union, a poor, fundamentally agrarian country, pursued a policy of market socialism and integration into the global market. However, the weakness of that system for commodity producers like the USSR at the end of the 1920s, and its collapse after the Wall Street crash of 1929, contributed to

the conviction among Soviet leaders that the capitalist economy had to be abandoned completely.⁶ The Stalinist system was largely founded on a mixture of mobilization and technocratic planning, with markets confined to the margins.

The regime did rely on elements of consumerism: even in the USSR of the mid-1930s, Stakhanovite ‘hero-workers’ were both mobilized in a quasi-military way, and incentivized with gramophones and bicycles, while a burgeoning educated ‘middle class’ was encouraged to aspire to a life-style of ‘comfort’ – pianos, pink lampshades and Hollywood-style comedy musicals.⁷ Stalinist Communists always presented rises in living standards as the ultimate goal of the regime, and after the end of World War II, Stalin hoped to demobilize the economy, explaining in February 1946 that now the war was over ‘special attention will be devoted to the expansion of the production of consumers’ goods, to raising the standard of living of the working people’.⁸

However, even at his most relaxed, Stalin was never an advocate of consumerism, in the sense of an economy largely directed towards the production of consumer goods, in which consumer desire was encouraged by mass advertising, citizens competed for these goods, and social status was largely judged by one’s consumption. And with the start of the Cold War, as the focus changed to remilitarization, it is no surprise that promises of improved living standards were abandoned from 1947-8.⁹ Stalin was convinced that this militarized model of technocratic planning and mobilization, not that of consumerism and market incentives, was the only way to win the new war. As he told his loyal lieutenant Andrei Zhdanov in 1947: ‘There is only one thing which these gentlemen who long for the “Western way of life” cannot explain: why we beat Hitler’.¹⁰

The result was a political and economic system that was particularly skewed against the interests of industrial workers and peasants, paradoxically given Soviet regimes’ claims to be ‘Dictatorships of the Proletariat’. Wage differentials between white and blue collar workers may have been much smaller than those in the West, but post-war Stalinist socialism, purged of a populism that had survived into the 1930s, was politically very hierarchical. While it massively expanded educational opportunities for the educated, gave them high status and granted power to managers in factories and officials in offices, the peasantry suffered from collectivization and pro-urban policies, while the working class bore the burden of harsh discipline, high production targets and squeezed consumption.¹¹ It is no surprise that it was the working class that became the most rebellious group when the system entered a period of crisis after Stalin’s death in 1953 – especially in occupied eastern Europe.

The Challenge of ‘Social Democratic’ Consumerism

Therefore the ‘Soviet model’ that confronted the West at the beginning of the cold war was a highly militarized and hierarchical version of state socialism. And partly in response, western Europe developed a new model, very different from the *laissez faire* capitalism that had failed so spectacularly in the inter-war period – what might be called a ‘Social Democratic’ (or, for a slightly more conservative version, ‘Christian Democratic’) consumerism. Given the dominance of these versions of ‘communism’ and ‘capitalism’, it is not surprising that the Soviet bloc was on the defensive in the battle of economic ideas in Europe in the immediate post-war years.

The production and consumption of consumer goods have played an important role in many economies in history, but most historians agree that it was only in the pre-World War I United States that a truly 'consumerist' economy and society emerged. Previous societies were divided between the mass of people who had subsistence living standards, and a small elite who consumed luxury products. However, the United States saw for the first time a new economic model which allowed the mass of the population to become consumers.¹² Production lines on the model of Henry Ford's automobile plant achieved the economies of scale that both allowed employers to make high profits and to pay workers enough to buy the products they made. Professional advertising and attractive shops then helped create the desire for consumer goods, and after World War I consumer credit helped the averagely-paid to buy washing machines, cars and houses.

Consumerism was therefore closely associated with the United States, especially after World War I, when American branded goods, together with advertising and Hollywood films, arrived in Europe in profusion for the first time. However, the American mass production/consumerist economic model was not exported as a whole: European consumption remained highly segmented, and general living standards remained low. Wartime debt, the *laissez faire* economic framework, the Gold Standard fixed currency system and overly short-termist international capital markets all prevented the necessary resources needed for investment and expansion of consumption.

Banks did allow high levels of consumption in the United States, but the result was debt, share speculation, and the collapse of the economy in 1929, triggering a world-wide depression. The result was a gradual reassessment of the role of the state in capitalism. As the increasingly influential economist John Maynard Keynes argued, consumerist economies could only grow in a stable way if governments helped ordinary people consume, by stimulating economic activity, creating jobs and establishing welfare systems. This would avoid excessive reliance on private banks, and debt.¹³

These ideas lay behind Franklin D. Roosevelt's New Deal in the 1930s – effectively a centre-left, 'Social Democratic', programme - and it was an even more statist and welfarist version of this model which the United States promoted in western Europe after World War II. The threat of communist electoral victories empowered New Dealers in Washington, who could successfully argue that state intervention in free markets was vital to avoid social conflict. And with Marshall Aid, US government help was given to western Europe on the understanding that states became involved in its investment, and that welfare systems were established.¹⁴ Most importantly, all this was underpinned by a new international trading and monetary system established at Bretton Woods in 1944, by which governments, led by that of the United States, cooperated to curb the power of an international finance that was seen as volatile and unreliable. Free trade was balanced by capital controls, managed currencies and institutions like the IMF and World Bank which could rescue countries in distress.¹⁵ Governments were no longer reliant on international investors, who could punish them for potentially inflationary policies, such as spending money on welfare and developing their economies.

Post-war Europeans, both Social Democrats and the more influential conservative Christian Democrats, welcomed this project. After the disastrous social conflicts of the interwar era, elites and middle classes were much more willing to accept that the American notion that economic policy should be directed towards 'a decent standard of living' for the whole population. As Victoria de Grazia has argued in her seminal work, *Irresistible Empire. America's Advance through 20th Century Europe*, there were differences between the European vision, which emphasized a concept of 'social citizenship', with standard of living as a matter of right for citizens, guaranteed by the state; and an American 'sovereign consumer' model, which stressed the free play of the market, especially dominant as American politics turned to the right after the War.¹⁶

State spending on war helped the mass production-high consumption model revive in the United States after the Depression, though it took rather longer for it to take hold in western Europe. This was because rebuilding production had to come before consumption, and Marshall Aid was founded on a 'politics of productivity', which required wage restraint and austerity in the early years; it was also based on organized labour accepting the Fordist 'contract' – the end of union and craft autonomy and managerial and production-line discipline in return for higher wages.

In the early years of the Cold War, the Marshall Aiders therefore had to put a great deal of effort into propagandizing this new mass consumerist economic model, especially at a time when the socialist world was posting high growth rates. In Japan and those parts of Germany and Austria occupied by the United States the propaganda was particularly direct, sometimes operating through newspapers financed by the United States government; Reinhold Wagnleitner has described this process of cultural imperialism as 'coca-colonization'.¹⁷

From the early 1950s, as trade recovered, economies grew, more was spent on welfare, and ordinary west Europeans very gradually benefited from higher living standards, perceived differences between the American and Soviet models became sharper. However, there was still a great deal of admiration for the Soviet model in western Europe, which seemed to be achieving major feats of reconstruction, while preserving a high culture of opera, ballet and literature. When French workers were asked by pollsters to rank countries according to their standards of living, a quarter saw the USSR as the best place, with a slightly larger proportion as the worst; of those on the left, half thought that American workers had the best lifestyles, while half preferred the Soviet model because workers were granted more respect and were working for the collective good rather than for their employers.¹⁸

The Eisenhower administration became particularly concerned with the appeal of the Soviet message, and poured much greater resources into promoting the benefits of American consumerism.¹⁹ The Americans were particularly worried about the positive effect of Soviet propaganda at trade fairs, and they staged a number of exhibitions. Particularly popular were model houses and kitchens, full of consumer appliances and price tags showing how many days it took American workers to pay for them.²⁰ From 1956, the central message of these exhibitions was the claim that the United States had achieved a democratic 'People's Capitalism', in which everybody was equal as a consumer, destroying the old social snobberies and hierarchies. Exhibits

would be entitled 'CLASS LINES BEGIN TO DISAPPEAR' and 'ALMOST EVERYBODY BECOMES A CAPITALIST'.²¹

It was therefore hoped that not only would material comfort overcome the siren calls of communism, but also the appeal of cultural egalitarianism.²² And there is a great deal of evidence that in the course of the 1950s and 1960s it did precisely that. Stephen Gundle, in his book *Between Hollywood and Moscow*, argues that the Italian Communist Party, the largest and most successful in western Europe, found the challenge of consumer culture extremely difficult to counter.²³ Its leadership was committed to bringing high culture to the masses, and was highly critical of consumer culture, but found itself on the defensive as its main opponents, the right-wing Christian Democrats, embraced it. And although it remained the largest and most successful communist party in western Europe, its stance on culture weakened it among an increasingly consumerist Italian public.

Indeed, it seems that consumerist culture, in combination with state economic intervention, did reduce previously sharp social conflicts – much as it had in the United States of the 1920s. As the French intellectual Raymond Aron famously argued in 1957, 'The affluent society banks the fires of indignation'. In part this was because material comfort reconciled workers to the status quo: they were happier to accept discipline in the workplace in exchange for the promise of higher living standards. But it was also because consumerism challenged old status hierarchies and played a role in integrating society, as it had in the United States of the 1920s. It was easier for workers to aspire to become 'middle class' through wealth and consumption than it was to become culturally 'bourgeois'. Critics of American-inspired 'materialism', from left and right, could therefore appear snobbish and elitist.

The Rise of 'Consumer Socialism'

By the mid-1950s, the challenge of consumerism was affecting the eastern bloc as well, and, led by the Soviet leadership, Communist regimes found themselves making significant alterations to the Stalinist model. The Communist turn to higher levels of consumption was the result of a number of internal factors, and not only the western 'demonstration effect'. As has been seen, higher living standards were always a goal of the Communist regimes, and even before Stalin's death, the new generation of Soviet leaders had concluded that this militarized system, reliant on increasingly ineffective top-down controls, was undesirable and unsustainable.²⁴ All of the three major leadership contenders – Lavrenty Beria, Georgii Malenkov and Nikita Khrushchev, were convinced by 1953 that socialist regimes had to increase living standards in the bloc, especially for workers and peasants, and the first two accepted that this involved less emphasis on the military and the heavy industries associated with it.²⁵

The rebellions sparked by Stalin's death in 1953 and by the official denunciation of Stalin's use of terror in 1956 merely confirmed the need for change. Protest was not entirely caused by economic discontent; nationalist resentments at Soviet imperialism (especially in Poland and Hungary), and anger at the rigid political hierarchies of the Communist states were crucial reasons for discontent. But the late Stalinist economic model, relying on extracting maximum production from workers while keeping consumption to a minimum, combined with the weak legitimacy of these regimes,

inevitably brought crisis – especially in the northern and western part of the region which had enjoyed higher living standards before the war, had lower growth after it, and where there was greatest awareness of living standards in western Europe, most notably in east Germany.²⁶

The response of Khrushchev and the post-Stalin Soviet bloc leaderships was to improve living standards, and particularly those of the working class. Blue collar wages rose throughout the Soviet bloc - in the USSR, for instance, the differential between an engineer and a worker fell from 2.15 in 1940 to 1.11 in 1984. Soviet bloc leaderships also sought to improve the consumer economy for everybody, partly in order to compete with the West. This was especially the case in the GDR, where party leader Walter Ulbricht declared ‘we simply cannot choose against whom we would like to compete. We are simply forced to square off against West Germany’.²⁷ However, Soviet bloc leaders were determined that consumerism be controlled and not ‘fall prey to capitalist decadence and commodity fetishism’.²⁸

Over the next two decades, consumerism and markets became an increasingly important part of people’s lives, as some regimes relaxed restrictions on private business activity, though to a varying degrees.²⁹ Market socialism was at its most powerful in Yugoslavia outside the Soviet bloc, and Hungary within: by the end of the 1960s, a substantial proportion of Hungarian workers was taking second jobs in the private sector to earn money for ever more plentiful consumer goods.³⁰ In Albania, by contrast, the old Stalinist economic order largely remained.

So how far did this new model of consumer socialism in stabilizing the system? There is a case for arguing that it had a great deal of success in shoring up regimes that had initially suffered from a major legitimacy deficit, and in meeting the challenge of Social Democratic consumerism. Indeed, east European regimes were moving closer to the Social Democratic model, in social and economic respects, if not in political ones. Overall living standards were lower than those in the West, but wages became very equal, basic goods were kept cheap, and consumer goods gradually became more plentiful.³¹

The system at least defused opposition, even if it did not satisfy populations as much as Social Democracy satisfied their western counterparts. The dissident playwright Vaclav Havel was convinced that the majority of Czechoslovaks had been bought off by consumer goods, and he and his fellows felt very isolated.³² And in some respects, he seems to have been right. Opinion surveys from Hungary in the 1980s show that while majorities wanted more political liberties and more market reforms, they had egalitarian attitudes to welfare and the economy, and did not want a capitalist system which they regarded as less just in its willingness to accept higher levels of poverty; opinion surveys among Soviet émigrés show a similar set of attitudes.³³

Also, while consumerism undermined the collectivism that socialist regimes hoped to encourage this was not necessarily incompatible with the survival of, or even support for socialism. As Aleksei Yurchak has shown in his study of the ‘last Soviet generation’, in the USSR, love of the Beatles and western heavy metal was as strong amongst idealistic Communist youth members as it was among the much smaller number of dissidents.³⁴

On the other hand, the acceptance of consumerism could be seen to have corroded socialist regimes. A major reason was that they were now competing on the same ground as their capitalist neighbours, and in that competition, they were bound to fail. Economic plans that targeted quantity rather than quality, were bound to be less effective at responding to the demands of consumers than the market, which is driven by consumer preferences. The result was that consumer goods were less attractive and well-made than their western equivalents. And also the continuing political influence of heavy industry and the military, combined with the absence of important market mechanisms (such as a market-based price system and bankruptcy) to ensure capital was used efficiently, led to a chronic lack of investment in consumer industries. The result was black markets and queues: in 1989, east Germans were still waiting for cars they had ordered in 1976.³⁵ These failures inevitably entrenched the association of desirable consumer goods and the associated culture of Romanticism and self-expression with the West, particularly among young people who admired rock music and youth fashion. They also undermined the prestige of socialist states among the population. As an 'Institute of Market Research' established by the GDR party reported, the 'gap between supply and demand' of modern well made furniture deepened resentment towards and criticism of the state.³⁶

The new power of consumerism upset the legitimacy of socialist states in other ways too. It fuelled a more individualistic culture of self-expression, as it had in the West: opinion surveys in Poland showed that the principle of self-sacrifice for the collective became less important for ordinary people between 1966 and 1977 (though that of equality became more so).³⁷ Also, in contrast to capitalist societies, where inequalities are often seen as the consequence of a 'natural' market, distribution was a highly politicized issue, and competition over consumer goods in short supply only drew attention to allocations that many believed was unjust. In many states, officials used their power to secure privileged access to goods, inevitably undermining the prestige of the regime among ordinary citizens – Poland was a particularly egregious example. But other groups were also seen as benefiting from unearned privileges – the increasing numbers of semi-legal black-marketeers, and those with access to hard currency (such as those GDR citizens with relatives in the West). The educated also resented workers, who benefited from egalitarian wage policies and sometimes had better access to consumer goods through their workplaces.

The convergence with 'Social Democratic' consumerism and economic egalitarianism, therefore both strengthened and undermined state socialist systems, but the balance sheet was probably more negative when it came to the younger and more educated. Most, of course, were not politically active and were deterred from speaking out by threats of repression. However, as in the West, many educated members of the generations that grew up after the war were more individualistic and hostile to state paternalism than their parents. But this 'sixties' generation was much more influential in some areas than others – most notably in eastern and central Europe.³⁸ It was these people who created what Pádraig Kenney has called the 'carnavalesque' culture of 1989.³⁹ And while the small group who actually drove political change in the late 1980s – the communist reformers around Mikhail Gorbachev – were more impressed by the success of western Social Democracy and consumerism, as will be shown, their Romantic politics, both Marxist and, increasingly, liberal, gave them a very un-Social Democratic radical, even revolutionary hostility to technocratic authority.

The Struggle over Development

If in the global 'North' - East and West - both *laissez-faire* capitalism and state socialism adapted to each other and to the environment and converged on a Social Democratic consumerism, in the global 'South' the confrontation between the two systems was much sharper because scepticism of the market was greater. In these largely agrarian societies, many of them shaking off the bonds of European empire, inter-war *laissez-faire* was not only perceived as a failure, but was as a tool of empire. Businessmen were often seen by nationalists as a 'comprador' elite that had collaborated with the imperial power and had little interest in developing the country as a whole. Nationalists were even more negative towards foreign and multinational companies; they were convinced that collective effort and states were much more able than 'chaotic' and 'selfish' markets to achieve the huge tasks of development their countries required.

Compounding this was the failure of the dominant United States to moderate the market as fully in the South as it did in the North, by incorporating it fully into the Bretton Woods system. The United States did throw its weight behind statist development programmes, usually to help Cold War allies like South Korea.⁴⁰ But there was no general Marshall Aid-style programme for the Third World, and despite Keynes's appeals, nor was there any attempt to deal with the problem of low commodity prices which had plagued the developing world between the wars.⁴¹ After a brief period of high commodity prices after World War II, prices for most goods (except for oil) drifted down from the 1950s as technology improved production. The advantages of involvement in international trade were therefore not decisive.

In this environment, the Soviet Union had a considerable advantage over the United States in the war of ideas. As Arne Westad has argued in *The Global Cold War*, the cold war in the developing world was as much an ideological struggle between rival visions of development as a military confrontation, and the Soviet model seemed to have more relevance than its American rival: Stalin had industrialized his country, dragged it out of agrarian backwardness and secured its independence from imperialist rivals.⁴² Soviet advocacy of land redistribution also seemed to meet demands for social justice. The United States did seek to provide an attractive alternative developmental model – that of 'modernization' – which promoted a 'middle-class revolution', as Kennedy's adviser, Arthur Schlesinger, put it.⁴³ However, given the low esteem in which trader and business classes were held, the negative terms of trade for commodity producers, and the increasing association between ⁴⁴ Washington's 'modernization' projects and its efforts to support authoritarian Cold War allies – most notoriously in South Vietnam – understandably discredited American strategies among many nationalists.

High tariffs, nationalization and import substituting industrialization became much more fashionable, and most of the first generation of nationalist, post-colonial rulers adopted some form of socialism. But as hopes of rapid development were disappointed, a more orthodox Marxism-Leninism became more fashionable among third world nationalists from the late 1960s. In the course of the 1970s several Soviet-

backed Marxist-Leninist regimes, such as Ethiopia and Mozambique, embarked on full-scale Soviet-style campaigns of industrialization.⁴⁵

Yet even many non-Marxist-Leninist regimes – from India to Mexico, and Syria to South Korea, pursued strategies of national development in which the state played a major role. And this made sense during the Bretton Woods era: international finance was weak, there was little international capital available for investment, and at the same time there were few external constraints on states pursuing economic policies that were not oriented towards the market.

Soviet-style command systems suffered from particular problems of over-centralization, which was difficult for the new state apparatuses to manage. But these post-war statist economies, both capitalist and command, had similar flaws. The absence of competition allowed the new industries to become inefficient and dependent on subsidies and the heavy involvement of the state ensured that political priorities often trumped economic ones. It was where these state capitalisms were subject to international competition, as in the ‘Asian Tiger’ exporting economies of East Asia, that they were most successful. It is therefore no surprise that by the 1970s, many from both left and right were criticizing this model and the old nationalist forces who had established it – whether the Institutional Revolutionary Party in Mexico, or the Congress Party in India.⁴⁶

The Rise of Neoliberalism and Global Finance

By the late 1960s, weaknesses in state socialist systems in the communist world, state capitalist systems in the developing world, and Social Democratic systems in the West were becoming evident, and they all had their critics on the left and the right. But that did not make their demise inevitable. Rather, it was changes in the international environment, and the response of political and intellectual elites to those changes, which brought about the rise of their great rival – global finance – and the free-market ideology which justified its pre-eminence – neoliberalism.

Central to those changes were the increasing difficulties the United States had in meeting the challenge of communism and nationalism in the global South in the 1960s, and the resulting demise of the Bretton Woods system in 1971. In Vietnam, Washington found itself having to finance an expensive war, at a time when its economy was losing competitiveness to its allies, especially Germany and Japan. It therefore unilaterally devalued the dollar, and in doing so destroyed the currency system that had underpinned governmental power over the international economy.⁴⁷

The result was a decade of economic turmoil. The devaluation of the dollar caused worldwide inflation – reinforced by the oil price hikes of 1973 and 1979, and this exacerbated conflicts between workers and employers brought by full employment and sixties radicalism. Increasing inflation led workers to demand higher wages to compensate, while capitalists refused to invest as profitability fell.⁴⁸ And all this was happening at a time of fundamental technological transition, when old heavy industries were suffering from overcapacity and the future lay in new high-tech industries. Western governments tried to keep the welfarist, high employment Social Democratic order going with regular Keynesian infusions of state spending, but this

just intensified inflation and, with it, industrial conflict. Countries with high degrees of social solidarity, such as west Germany and Sweden, were able to survive the storm and maintain high levels of state involvement in the economy. But where tensions were greater – and especially in the United States – economic crisis fuelled a powerful pro-market backlash.⁴⁹ The free-market ideas of the 1920s, promoted by neoliberal economists like Milton Friedman, were back in fashion, and it became increasingly fashionable to demand fundamental reductions in state spending and trade union power as the only way to defeat inflation and create economic stability.⁵⁰

The end of Bretton Woods also permitted the eclipse of government control in the international arena, and the beneficiaries were the international banks which had been disgraced in the 1930s. This process had begun in the late 1950s, as the United States and Britain informally relaxed controls on capital movements, but the 1970s saw a significant increase in the international banks' power, further encouraged by the United States.⁵¹ Flush with recycled oil wealth, they now had cash to lend, which benefited poorer, developing countries, who could tap a source of capital other than the US-controlled IMF or World Bank. But this was a Faustian pact, for the money had to be paid back and it was often not being borrowed for revenue-generating purposes. In the 1970s, communist states, especially in an oil-poor eastern Europe borrowed heavily from western banks, in part to fund consumer socialism, in part to invest in heavy industries whose profitability was declining at a time when markets for their products were saturated;⁵² import-substituting industrializers did the same.

The 1970s, then, saw a conflict between the old state-dominated order – both domestically and internationally – and the interests of international and domestic financial interests, which the latter were increasingly winning. But the decisive moment came in October 1979, when Paul Volcker, the free-market liberal head of the American central bank, the Federal Reserve, decided to hike interest rates to very high levels to attract international capital back to the crisis-ridden dollar and to restore business profits. This was the beginning of a fundamental change in American strategy. American governments began to depend on borrowing from international capital markets, and pursued economic policies, such as a strong currency and low inflation, which benefited them, often at domestic industry's expense. Reagan's 'second cold war' military build-up was effectively financed by Japanese loans, and for the next three decades, American defence and consumption would rely on international borrowing, initially from Japan, and then from China.

Volcker's alliance with the international financial markets not only helped the American military, but also dealt a severe blow to its enemies. As capital flowed into the high-interest-rate United States, it fled the indebted parts of the communist and Third Worlds, causing major economic crises. A \$46.8 billion outflow from the rich G7 countries became a \$347.4 billion inflow.⁵³ Most east European countries had to impose severe austerity at home, breaking socialist consumerist promises of higher living standards. Romania defaulted on its debt in 1981, and banned the use of refrigerators and vacuum cleaners to save energy. The crisis brought political collapse in Poland, as government limits to the distribution of meat brought strikes and the rise of the Solidarity Movement, which threatened to topple the regime in 1980-81. And this crisis in eastern Europe put huge pressure on the oil-producing USSR, which by the mid-1980s was no longer in a position to bail its satellites out now that oil prices had fallen from their 1970s highs.

Volcker's high interest rate policies and the ensuing debt crises empowered international finance, with its preference for low state spending and market reforms, and this was reinforced by the IMF and World Bank, which abandoned their old Keynesianism for the free-market so-called 'Washington Consensus'. Loans for debtor nations were tied to radical market reforms, and forced many communist and left-leaning nationalist regimes to abandon their old statist policies, from Latin America to Communist Mozambique, which accepted IMF prescriptions in exchange for loans in 1987. Though there was one region where neoliberalism had less purchase – in east Asia, where statist capitalist economies, like Japan's and the 'Asian Tigers', were more resilient and consensual.

These new conditions accelerated the transformation of economic thinking throughout much of the world. Development economists and governments were already becoming sceptical about the efficacy of large-scale state-led industrialization projects.⁵⁴ State management of the economy – whether Keynesian efforts to maintain high demand, or statist efforts to direct production, were in crisis, and neoliberal ideas seemed to offer a viable alternative. And at the same time, there were neoliberal intellectual elites waiting in the wings in many countries – in the case of Latin America often trained in the United States – who were eager to displace what they saw as a failed older generation.⁵⁵

Consumerism, Neoliberalism and the End of the Cold War

The rise of neoliberalism may have made the world a less comfortable place for long-established communist regimes, like China and the USSR, but it had less impact on the thinking of communists in the early-mid 1980s.⁵⁶ More influential among communist elites was the appeal of mixed state-market economies – whether 'Social Democratic' or capitalist developmental in nature.

In China, the post-Mao leadership sought an alternative to the strongly anti-market mobilizational economy of the Cultural Revolution era by emulating the statist developmentalism of its 'Asian tiger' neighbours. Deng Xiaoping inaugurated a gradual, state-led transition to the market, insisting that the state retain a role in the industrial 'commanding heights' of the economy. It was only in the 1990s that marketization was accelerated. However, even though China resisted neoliberalism at home, it benefited from global neoliberalism and the investment and trade it promoted. Between 1972 and 1990, American investment in China rose from nothing to \$2 billion, while in the same period US-China trade rose nearly twenty times, from \$100 million to \$20 billion.⁵⁷ And from 1983, the United States was running a trade deficit with China – one that became increasingly substantial.⁵⁸ Washington's desire to divide the communist world and outflank the USSR gave it a strong interest in tolerating the imbalance. Meanwhile, China's increasing dependence on foreign trade gave it ever stronger incentives not to rejoin the Cold War against the United States.

Soviet elites also sought to establish a mixed economy, though they looked west, emulating their west European Social Democratic neighbours, not east and south, as China did. Yet, Gorbachev and his group were not straightforward Social Democrats: central to their world-view was a Romantic Marxism, which paradoxically allowed

them to forge a temporary alliance with neoliberal currents against communist technocrats. And we need to understand this complex relationship between Social Democracy, communist statism, Romantic Marxism and neoliberalism – in addition, of course, to the political tactics pursued by Gorbachev and his opponents – if we are to explain the end of the Cold War and the collapse of the command economy.

One of the main reasons for the end of the Cold War was the Gorbachev group's determination that it should end. In part, economics and consumerist pressure drove that conviction: the east European debt crisis and the rapid fall in the oil price after 1985 made it clear to the leadership that less had to be spent on the military if the system was to compete with the West on consumption and living standards. But arguably more important was the hostility to Stalinist militarism, rooted in the Romantic Marxism so popular among the educated of Gorbachev's 'sixties' (*shestidesiatnik*) generation.

Gorbachev's Romantic Marxism was also a central element in his (distinctly uninformed) economic thinking. Early in his General Secretaryship, he was convinced that the main problem with the Soviet economy lay in the absence of proper labour incentives, and a significant part of the solution consisted in strengthening 'moral' incentives – that is improving people's commitment to their work by encouraging more democratic participation. As he put it, the 'human factor' in the economy needed to be activated, and one of the main obstacles were 'bureaucratic styles of leadership' by officials, which suppressed these popular energies. These ideas were made more concrete in the 1987 Law on the State Enterprise, which introduced the election of enterprise directors.

However, none of these reforms dealt with the root of the Soviet economy's difficulties: the almost complete dominance of planners and plan targets, and the extreme marginalization of market mechanisms. Gorbachev, like much of the leadership, accepted that market reforms were essential if consumers were to be satisfied and the economy was to become more efficient in its use of resources. Yet the problem was how to make the transition from a system in which plan targets ruled to one in which markets and prices regulated the economy, in a way that firstly did not destroy a whole swathe of industry that would be unprofitable in free market conditions, and secondly preserved the living standards of a the population that was accustomed to a great deal of economic security. One group surrounding Nikolai Ryzhkov, a former planning official, advocated a Chinese-style solution – a gradual transition to markets, under the auspices of a powerful state which retained control of (and subsidised) much of industry, and involving staged price rises to bring them to market levels.⁵⁹ Another group – the radical economists – was strongly anti-communist, was increasingly aware of and enthusiastic about neoliberal western economics, and had considerable support from western commentators. Determined that the communist state should be destroyed and strongly opposed to any transitional measures that might justify the continuation of its power, they found in neoliberalism an ideology that reinforced their conviction that the state was unnecessary and gave them a new status as part of a global community of economists. The market, they argued, had to be introduced rapidly, through a form of 'shock therapy'; any 'third way' between state and market would only allow communists to thwart any market reform.⁶⁰

Gorbachev was never a neoliberal, and as he learnt more about other countries as leader, he increasingly became attracted to the Social Democratic model of welfare, regulated markets and consumerism.⁶¹ However, his Romantic Marxism and 'sixties' values gave him a very un-Social Democratic sympathy with the neoliberals' dislike of technocrats and state bureaucracies – a hostility that became greater as he sought to blame officials for the failures of his economic policies. There was also a more cynical reason for his alignment with neoliberal economists. Ryzhkov and the gradualists were calling for state-managed price rises as a way of making prices effective economic signals – crucial to a market economy – without too much social disruption. But Gorbachev, sensitive to the unpopularity of any price increases, repeatedly delayed them and used the neoliberals' opposition to state-managed, gradual reforms as cover.⁶²

Gorbachev therefore refused to decide between gradualists and radicals; and at the end of 1989 he even appointed the radicals' leader, Nikolai Petrakov ('a kind of Russian Milton Friedman', according to one American specialist⁶³), as a personal adviser, while Ryzhkov, as Prime Minister, was formulating his economic reform plan.⁶⁴ Gorbachev also delayed the price reforms that would bring in serious market disciplines, while simultaneously undermining the state structures that had traditionally imposed order on the economy – for instance, devolving power to enterprise managers from the planners, as demanded by the radical economists.⁶⁵ The result was the complete collapse of discipline in the economy, resulting in food shortages, high inflation, and the 'stealing of the state' by managers, officials and 'entrepreneurs', as Steve Solnick has put it.⁶⁶

However, Gorbachev refused to accept that there were structural reasons for the failure of his policies; rather, he blamed them on 'conservative bureaucrats' in the Communist Party, and his solution was to put pressure on them by subjecting all party bosses to popular elections. It was no surprise that the vast majority did badly, given the increasing economic disruption, together with the critique of abuses and past Communist violence under Gorbachev's pursuit of 'openness' (*glasnost*). Having undermined power structures in the economic sphere, he did the same in the political sphere, and the result was ultimately the collapse of the Soviet state in 1991.

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The Cold War, then, was not a simple conflict between the plan and markets, which markets won because they were more efficient and responsive to consumers, as the conventional story goes. To appreciate the real role of this struggle between economic systems during the Cold War, we need to understand the changing economic and ideological environments on the one hand, and the often unpredictable ways in which political leaderships and populations responded to them on the other.

The economic environment was clearly of enormous importance. From an economic perspective, communism can be seen as a system that had much in common with Keynesian systems in the developed world, and statist economic systems in the global 'South'. Like them, it emerged in response to the crises of the 1930s, and World War II. And when that system in turn crumbled in the 1970s, and a version of the free-market systems of the pre-World War I era and the 1920s became dominant

internationally, it collapsed, along with many of its socialist and Social Democratic rivals.

However, the story is more complicated than one of a simple collapse in the face of inexorable economic change. For in many ways it was the appeal of western Social Democracy to Gorbachev that propelled the collapse of communism. And European Social Democracy was, in itself, partly a response to the perceived successes of communists after World War II.

Some economic systems are undoubtedly more sustainable than others in that they are more able to produce wealth; but they emerge and survive as a consequence of a whole range of other forces, including intellectual fashions, perceptions of the past, and leaders' decisions. State socialism and consumerist capitalism were no exception.

¹ Francis Fukuyama, *The End of History and the Last Man* (London: Penguin, 1992).

² For a recent debate between those who stress the American build-up and those who emphasize internal political change, see Robert Patman, 'Some Reflections on Archie Brown and the End of the Cold War', *Cold War History* 7 (3), August 2007, pp. 439-445.

³ Martin Malia, *The Soviet Tragedy: A History of Socialism in Russia* (New York: Free Press, 1990), p. 503.

⁴ Though this is not to argue for some form of political 'convergence', as some did in the 1970s and 1980s.

⁵ For an accessible account of Marxist-Leninist attitudes to the market, see Mark Sandle, *A Short History of Soviet Socialism* (London: UCL Press, 1999).

⁶ For the influence of global economic change on Stalin's 'Great Break' of 1928-31, see Oscar Sanchez-Sibony, 'Red Globalization: The Political Economy of Soviet Foreign Relations in the 1950s and 1960s' (PhD Dissertation, University of Chicago, 2009), ch. 1.

⁷ On Stalinist consumerism, see Vera Dunham, *In Stalin's Time. Middle-Class Values in Soviet Fiction* (Cambridge: Cambridge University Press, 1976); J. Grunow, *Caviar with Champagne. Common Luxury and the Ideals of the Good Life in Stalin's Russia* (Oxford: Berg, 2003).

⁸ J. Stalin, 'Speech at a Meeting of the Stalin Electoral District, February 9, 1946' in J. Stalin. *Speeches Delivered at Meetings of Voters of the Stalin Electoral District* (Moscow: Foreign Languages Publishing House, 1950), pp. 40-1.

⁹ Mark Pittaway, *Eastern Europe, 1939-2000* (London, 2004), ch. 2.

¹⁰ Quoted in E. Van Ree, 'Heroes and Merchants', pp. 58-9.

¹¹ For the relative power of white and blue collar in these systems, see David Priestland, *The Red Flag. Communism and the Making of the Modern World* (London: Penguin Press, 2010), ch. 7.

¹² See Gary Cross, *An All-Consuming Century. Why Commercialism Won in Modern America* (New York: Columbia University Press, 2000).

¹³ For the influence of Keynes, see Peter Hall (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations* (Oxford: Oxford University Press, 1989).

¹⁴ Michael Hogan, *The Marshall Plan. America, Britain and the Reconstruction of Western Europe* (Cambridge: Cambridge University press, 1987).

¹⁵ For this regime, see Jeffry Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century* (New York: W.W. Norton, 2006), ch. 12.

¹⁶ Victoria de Grazia, *Irresistible Empire. America's Advance through Twentieth-Century Europe* (Cambridge, MA: Harvard University Press, 2005), pp. 342-3

¹⁷ Reinhold Wagnleitner, *Coca-Colonization and the Cold War. The Cultural Mission of the United States in Austria after the Second World War*, trans Diana T. Wolf, (Chapel Hill: University of North Carolina Press (1994), pp. 75-6.

¹⁸ De Grazia, *Irresistible Empire*, pp. 354-5.

¹⁹ Kenneth Osgood, *Total Cold War: Eisenhower's Secret Propaganda Battle at Home and Abroad* (Lawrence, KS: University of Kansas Press, 2006).

²⁰ Greg Castillo, 'The American "Fat Kitchen" in Europe: Postwar Domestic Modernity and Marshall Plan Strategies of Enchantment', in Ruth Oldenziel and Karin Zachmann, *Cold War Kitchen. Americanization, Technology and European Users* (Cambridge, Mass.: The MIT Press, 2009), pp. 33-58

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- ²¹ Walter L. Hixson, *Parting the Curtain. Propaganda, Culture and the Cold War* (New York: St Martin's Griffin, 1998) pp. 138-9.
- ²² De Grazia, *Irresistible Empire*, pp. 354-5.
- ²³ Stephen Gundle, *Between Hollywood and Moscow. The Italian Communists and the Challenge of Mass Culture, 1943-1991* (Durham, NC: Duke University Press, 2000)
- ²⁴ Yoram Gorlizki and Oleg Khlevniuk, *Cold Peace. Stalin and the Soviet Ruling Circle* (Oxford: Oxford University Press, 2004).
- ²⁵ For these conflicts, see Philip Roeder, *Red Sunset. The Failure of Soviet Politics* (Princeton: Princeton University Press, 1993).
- ²⁶ Bren and Neuberger, *Communism Unwrapped*, p. 10.
- ²⁷ J. Kopstein, *The Politics of Economic Decline in East Germany, 1945-1989* (Chapel Hill: University of North Carolina Press, 1997), p. 41.
- ²⁸ Cited in P. Betts, *Within Walls. Private Life in the German Democratic Republic* (Oxford: Oxford University Press, 2010), p. 134. See also Bren and Neuberger, *Communism Unwrapped*, p. 9.
- ²⁹ See David Crowley, 'Warsaw's Shops, Stalinism and the Thaw', in Susan Reid and David Crowley, 'Style and Socialism. Modernity and Material Culture in Post-War Eastern Europe' (Oxford: Berg, 2009), pp. 25-47.
- ³⁰ Pittaway, *Eastern Europe*, p. 73.
- ³¹ For an account of this era, see David Priestland, *The Red Flag. Communism and the Making of the Modern World* (London: Penguin Press, 2010), pp. 430-50.
- ³² Václav Havel, *The Power of the Powerless* (London: Faber & Faber, 1987), pp. 37-40.
- ³³ R. Tokes, 'Murmur and Whispers: Public Opinion and Legitimacy Crisis in Hungary, 1972-1989' (Pittsburgh, 1997), pp. 37-9; D. Bahry, 'Society Transformed? Rethinking the Social Roots of Perestroika', *Slavic Review* 52 (1993), pp. 516-17.
- ³⁴ See, for instance, Alexei Yurchak, *Everything Was For Ever, Until it Was No More* (Princeton: Princeton University Press, 2006), p.234.
- ³⁵ J. Zatlin, 'The Vehicle of Desire: The Trabant, the Wartburg, and the End of the GDR', *German History* 15, 3 (1997), p. 358.
- ³⁶ Betts, *Within Walls*, p. 135.
- ³⁷ D. Mason, *Public Opinion and Political Change in Poland* (Cambridge, 1985), p. 63.
- ³⁸ For 'sixties' style revolutions in these regions, see Padraig Kenney, *Carnival of Revolution. Central Europe 1989* (Princeton: Princeton University press, 2002).
- ³⁹ Kenney, *Carnival of Revolution*.
- ⁴⁰ See especially D. Ekbladh, *The Great American Mission. Modernization and the Creation of an American World Order* (Princeton: Princeton University Press, 2010)
- ⁴¹ K. Raffer and H.W. Singer, *The Economic North-South Divide: Six Decades of Unequal Development* (Northampton MA.: Edward Elgar, 2001)
- ⁴² Odd Arne Westad, *The Global Cold War. Third World Interventions and the Making of Our Times* (Cambridge: Cambridge University Press, 2005), chs. 1-2.
- ⁴³ Quoted in Westad, *The Global Cold War*, p. 35. For American modernization ideologies and strategies, see N. Gilman, *Mandarins of the Future. Modernization Theory in Cold War America* (Baltimore: Johns Hopkins University Press, 2003); Ekbladh, *The Great American Mission*; N. Cullather, *The Hungry World. America's Cold War Battle Against Poverty in Asia* (Cambridge MA: Harvard University Press, 2010); Michael Latham, *The Right Kind of Revolution. Modernization, Development, and U.S. Foreign Policy from the Cold War to the Present* (Ithaca: Cornell University Press, 2011).
- ⁴⁴ Ekbladh, *The Great American Mission*, ch. 6.
- ⁴⁵ C. Clapham, *Change and Continuity in Revolutionary Ethiopia* (Cambridge: Cambridge University Press, 1988); M.A. Pitcher, *Transforming Mozambique. The Politics of Privatization, 1975-2000* (New York, 2002).
- ⁴⁶ For criticisms among Mexican economists, see Sarah Babb, *Managing Mexico. Economists from Nationalism to Neoliberalism* (Princeton: Princeton University Press, 2001), ch. 5.
- ⁴⁷ For an accessible account, see Frieden, *Global Capitalism*, ch. 15.
- ⁴⁸ See A. Glyn, *Capitalism Unleashed. Finance, Globalization and Welfare* (Oxford: Oxford University Press, 2006), pp. 13-15; B. Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond* (Princeton NJ: Princeton University Press, 2007), p. 220.
- ⁴⁹ See Eichengreen, *The European Economy since 1945*, pp. 222, 242; Monica Prasad, *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany and the United States* (Chicago: Chicago University Press, 2006).

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- ⁵¹ For the role of the United States, see L. Panitch and S. Gindin, *The Making of Global Capitalism. The Political Economy of the American Empire* (London: Verso, 2012), chs. 6-7.
- ⁵² I. Zloch-Christy, *Debt Problems of Eastern Europe* (Cambridge: Cambridge University Press, 1987).
- ⁵³ Giovanni Arrighi, 'The World Economy and the Cold War, 1970-1990' in Melvyn Leffler and Odd Arne Westad (eds.), *The Cambridge History of the Cold War*, vol. 3 (Cambridge: Cambridge University Press, 2010), pp. 16, 22.
- ⁵⁴ For this intellectual crisis, see Gilman, *Mandarins of the Future*, ch. 7.
- ⁵⁵ For this process in Latin America, see Yves Dezalay and Bryant Garth, *The Internationalization of Palace Wars. Lawyers, Economists, and the Contest to Transform Latin American States* (Chicago: University of Chicago press, 2002), Part 3.
- ⁵⁶ Though there was some western influence on non-official thinking in eastern Europe. See Paul Aligica and Anthony Evans, *The Neoliberal Revolution in Eastern Europe. Economic Ideas and the Transition from Communism* (Cheltenham: Edward Elgar, 2009), ch. 2.
- ⁵⁷ See H. Harding, *A Fragile Relationship: The United States and China since 1972* (Washington D.C.: The Brookings Institution, 1992), pp. 8-9.
- ⁵⁸ Dong Wang, 'China's Trade Relations with the United States in Perspective', *Journal of Current Chinese Affairs* 3 (2010), p. 179.
- ⁵⁹ J. Hough, *Democratization and Revolution in the USSR, 1985-1991* (Washington D.C.: The Brookings Institution, 1997), ch. 4.
- ⁶⁰ For the 'radical economists', see Hough, *Democratization*, pp. 118-22; P. Reddaway and D. Glinski, *The Tragedy of Russia's Reforms. Market Bolshevism against Democracy* (Washington D.C.: United States Institute of Peace Press, 2001), pp. 236-41.
- ⁶¹ Archie Brown, *The Gorbachev Factor in Soviet Politics*
- ⁶² Hough, *Democratization*, p. 132.
- ⁶³ *New York Times* March 25, 1990 (Ed Hewett).
- ⁶⁴ Hough, *Democratization*, pp. 352-3
- ⁶⁵ Hough, *Democratization*, p. 121.
- ⁶⁶ S. Solnick, *Stealing the State. Control and Collapse in Soviet Institutions* (Cambridge, MA: Harvard University Press, 1998).