How the Energy Crises Paved the Way for a Path Dependence on Unregulated Financial Markets in Both the Capitalist West and the Socialist East

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The historiography on the global economy of the 1970s has portrayed the decade as a pivotal watershed to identify the roots of the age of financial capitalism the world has been living in the last forty years. Likewise, historians have provided compelling studies on the end of the Cold War and the collapse of the communist experiment in Eastern Europe all pointing to that decade as the origins of the fall of the Berlin Wall.

Notwithstanding this multiple attention to the 1970s, no research has provided a comprehensive history of the 15-year period dividing the first oil crisis and the dismantling of Bretton Woods from the end of the Cold War. A decade ago an expert of the fall of communism and Fordism correctly stressed the fact that the transformation of capitalism from a pyramid of manufacturing activities to a pool of speculative financial investments intimately tied to the introduction in western societies of economic discipline unravelled since the 1970s has long been explored without any systematic reference to the faltering of socialist economic system from the 1970s to 1989. Maier observed how the two dynamics run in parallel but neither economic nor cold war historians ventured on reconstructions building on their mutual influence.[1]

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[1] C.S.Maier, "'Malaise': The Crisis of Capitalism in the 1970s", in N. Ferguson, C.S. Maier, E. Manela, D.J. Sargent (eds.), *The Shock of the Global*, HUP, Cambridge-London, 2011, pp. 45-46.

By delving deep into the archives located eastward and westward of what once was the Iron Curtain, Bartel aims to fill up this largely overlooked connection. He links the rampant ascendancy of economic neoliberalism starting from the early 1980s to the powerful aftermath of perestroika in Soviet Union as the two parallel dynamics that converged in pushing the Cold War from a long-standing race between East and West to make promises of economic growth to one of breaking these promises to introduce economic discipline. According to Bartel, the last decade of the Cold War was a race to impose austerity on either side of the Iron Curtain and to prevent the other party from getting access to the two tools of Cold War confrontation: energy and finance.

The author considers energy resources and financial markets as the two pillars to explain why the end of the Cold War overlapped with the rise of economic neoliberalism. He points to the first energy crisis as the last of many events that since the 1960s had been setting the conditions for the infamous inflation of the 1970s. Here comes the first path-breaking approach of this book: the first oil crisis and the 1970s inflation are pinpointed as global phenomena that deeply affected the course of history of both capitalist and socialist economies. So far, a series of studies have portrayed the problem of inflation, oil price hikes, deregulation of financial markets as a western story of the 1970s and 1980s.

The first part of this study is engineered to disprove this interpretation: the first energy crisis hit the western economies so hard as to push governments from London to Rome, from Bonn to Washington, to rapidly retrenching from the expansionary models on which they had relied to fight the Cold War until about 1970. Likewise, they rapidly introduced economic discipline to reduce dependency on inflated world energy sources and to regain confidence of international private capital markets. According to Bartel, the dismantling of welfare provisions served this two-fold aim both east and west of the Iron Curtain. However, the advanced industrial societies were faced with this gordian knot much earlier. According to him the turning point is 1974: by the end of this year, the Western chancelleries had realized that the OPEC oil producing countries' huge financial assets accumulated on oil price hikes and reinvested in unregulated western capital markets, did not come with a menace to the sovereignty of the countries in which they were invested. It was clear that western banks had overcome their renitence to serve as financial outlet for the recycling of OPEC financial assets through short-term highly unregulated Euromarkets. Therefore, by roughly 1975 western governments depended on private capital markets to restructure their external disequilibria or to finance their energy requirements. This was the first step toward the ascendancy of "international capital holders" in reshuffling the nature of the Cold War. However, in the case of western governments, private capital immediately came to rescue in return for the adoption of discipline: the economic recession that followed the first oil crisis, the balance of payments crises, the fiscal crises and the declining competitive edge affecting most western economies made resorting to capital holders a turning point since circa 1975 in the ways in which on domestic economic grounds the Cold War had been fought west of the Iron Curtain.

The influential role of international capital holders East of the Berlin Wall came with a different timing. Here Bartel's book offers the most cutting-edge new reconstruction. From 1973 to the end of the decade oil price hikes increasingly undermined the system of subsidised Soviet oil deliveries to oil-scarce Eastern bloc states: these countries began facing the alternative between contracting domestic growth as a result of increased export of manufacturing, particularly petrochemical products, to pay for overpriced oil deliveries, or resorting to western capital to fuel import requirements essential to keep their economies upgraded. As long as Moscow kept alive its subsidised oil deliveries to Eastern Europe, from which Bartel's picks are East Germany, Hungary and Poland, inflation did not creep into the Eastern bloc. However, since 1977, when the USSR began imposing on its Eastern European partners a substantial revision of Comecon's trade agreements, East Germany, Poland and Hungary posited their hope to uphold promises of growth made to citizens in the hands of international capital. This was the origin of massive loans by West European banks specialising in trading in the Euromarkets to Eastern Europe. Therefore, Western countries resorted to international capital holders to break with redistributive policies whilst the Eastern European countries plead for assistance to the Euromarkets to keep afloat their promises of abundance: the author powerfully reconstructs the role of Polish, Hungarian and East German financial elites in negotiating assistance with west European finance.

Bartel convincingly outlines the coming to centre stage of "international capital holders" in redefining the foundations of Cold War confrontation. Events external to this dynamics pushed for a realignment between the two blocs by the early 1980s. Firstly the freezing of Iranian assets in the United States as a retaliation to the seizure of US Embassy in Teheran ignited uncertainty among western banks overexposed on global scale, setting the stage for curtailing their lending to Eastern Europe; secondly, since the start of the new decade the combined attraction of foreign capital to US market caused by the incumbent Reagan administration's massive tax cut program and decreased Soviet oil deliveries to Eastern bloc countries caused a perfect financial storm to the Eastern bloc countries: "The decline in subsidised Soviet energy and the scarcity of global capitals left debtor countries of the region unable to pay their debts and in search of a lifeline" (p. 137). By the beginning of the 1980s it was clear that Eastern Europe was no longer able to finance its domestic growth by borrowing on western capital markets; it had to accept painful structural adjustment programs, epitomised by Gorbacev perestroika, to regain confidence of world capital markets as much as Western European democracies.

Bartel's monograph is a reconstruction of the coming to centre stage of private capitalism in global relations through the case study of the Cold War and the ways in which private capital exerted a powerful influence in changing the nature of this confrontation from a race to make promises of abundance to a race to break these promises and impose austerity. It also shed light on the transformative nature of the so called "economic Cold War": the intensification of East-West financial relations, in particular between East Germany and the giant private banks of the FRG to finance foreign oil supply and domestic investments, signalled the transformative nature of east-west trade by the start of the new decade, when trade exchanges in both investment and consumer goods between the two blocs were replaced by capital flows and credit lines vital to keep afloat the Eastern countries' domestic growth rates and their financing of import from either Moscow or Western countries. The rise of financial capitalism had for ever replaced the commercial essence of East-West economic relations.

Though Bartel's reconstruction coherently supports the author's thesis about the centrality of international capital holders in the global political economy, it looks like a preliminary study for a more detailed reconstruction of this ascendancy focused on negotiations between western banks and the Eastern bloc countries. On the other hand, the downside of his reconstruction is an overestimation of the Euromarkets in the framework of multiple short-term financial assets appearing since the 1970s, and their relationship to the monetary policies of US Federal Reserve. The role of central banks in the rise of globalised capital has been the subject of multiple studies.[2] Bartel maintains that unlike western governments, central banks had room for manoeuvre in shaping events: according to him the Fed favoured the ascendancy of the Euromarkets after the first oil crisis through a low-interest rate accommodating monetary policy. Likewise, the tightening of money supply by the US central bank at the beginning of the 1980s accounts for the rise of rate on the Eurocurrency markets. In either case, connecting monetary policy to dynamics of interest rates on the unregulated money markets appears to be a hard-to-achieve exercise. Considering that Euromarkets were short term interest-sensitive money-markets free from regulations and

[2] The literature is too vast to summarise here. See for reference M.J. Bordo, *The Federal Reserve's Role in the Global Economy*, CUP, Cambridge, 2016; H. James, *Making a Modern Central Bank*, CUP, Cambridge, 2020; L. Wansleben, *The Rise of Central Banks*, HUP, Cambridge MA, 2023.

costs proper to the national banking system, the federal fund rate could do little to alter the competitive advantage they could offer to borrowers and lenders. On the other hand, consistently with data on the Euromarkets rates following the second energy crisis, the author correctly stresses their upward movements: however, monetary tightening had an indirect impact on such uptick in the Euromarket rates, not a direct one. As they were traded overseas the Fed move to control money supply did not directly contribute to push up the cost of money on the Euromarkets. Rather, monetary tightening made the Euromarkets more attractive to US and international borrowers, and favoured capital outflow from the US. By pushing up the cost of money on the Euromarkets these dynamics deprived them of their role of financial outlet safe from the inflation that had crushed the national financial markets during the 1970s. Not coincidentally the beginning of the 1980s registered the search for alternative new financial products as securitised assets capable of offering cheap money as the Euromarkets did in the 1970s.

Bartel's work is certainly successful in connecting the end of the Cold War to the rise of neoliberalism and in portraying the rise of Perestroika and economic reforms in the Eastern bloc as the dynamics pivoted to the imposition of economic discipline and the centrality of private capital in Cold War politics. What is necessary is a more detailed study to connect these dynamics and financial relations, from credit lines and loans to operations in foreign exchange markets, underneath these global transformations.