

CHAPTER 13

Détente to Disarray: The Breakdown of the Bipolar World, 1969–1981

Those who know what happened to Salvador Allende are not talking about it. Allende, the president of Chile, died shortly after his government was overthrown by a military junta in 1973, perhaps by his own hand or perhaps by execution.

The coup was not entirely unexpected. Allende's political base had been weak to begin with. He had won a narrow electoral victory in 1970 against a divided opposition, polling only 36 percent of the total vote. Allende, a former professor with socialist views, aroused intense enthusiasm in Chile's powerful labor unions, but conservatives viewed his election as a fluke, made possible only by their own divisions and a slump in Chile's economy.

Indeed, Chile was facing a combination of economic stagnation and inflation, later dubbed stagflation, that would soon afflict most of the industrial West. While in office, Allende had tackled this problem and broader issues of social inequality with controversial measures: a freeze on prices, mandatory wage increases, an acceleration in the land redistribution begun by a predecessor, and the nationalization of copper mines and other large industries, which were often owned by foreigners. Although winning plaudits from organized labor and socialists at home and abroad, Allende made implacable enemies among Chile's elites and U.S. investors, who feared that Chile was on the path taken by Cuba in 1959.

Salvador Allende was a charismatic leader but a poor economist. Government-ordered wage increases stimulated consumer demand for goods while price controls restricted the growth of supply, resulting in shortages and black markets.

Weak international prices for copper, Chile's main export, reduced income from abroad as costs increased at home, and Chile's struggling central bank found it impossible to borrow from foreign lenders who doubted Chile's will or capacity to repay. Middle-class housewives in Chile's capital, Santiago, took to the streets, banging pots to protest rising food prices. Independent truckers, squeezed by price controls and rising costs, tied up transportation in a nationwide strike. The U.S. government, dismayed by Allende's seizure of American-owned property and outspoken friendliness to Castro, amplified Chile's difficulties by denying the country credit and by pumping funds into conservative opposition parties.

The precise role that the United States played in toppling Allende's regime is still uncertain, but the American president, Richard Nixon, and his secretary of state, Henry Kissinger, had made no secret of their distaste for Allende's politics. They quickly offered the new military government, led by General Augusto Pinochet, the diplomatic and financial support they had withheld from Allende. Pinochet, for his part, returned the industries that had been seized by Allende to private control, lowered tariffs, and renewed warm commercial ties with U.S. banks and business firms.

Yet despite its pro-American leanings, the new regime soon proved an embarrassment to Washington. Pinochet was determined to eradicate Marxism from Chile by any and all means. The new regime imposed draconian controls on political life, suspended Chile's democratic constitution, outlawed political parties, and filled prisons with those it suspected of leftist sympathies. In the end, the Pinochet government became infamous for its torture and execution of opponents, many of whom simply "disappeared" without warrant or trial—a technique that would soon be emulated on a larger scale by a military junta in Argentina. Fearing another Cuba, the United States had midwived a brutal police state.

The 1970s: An Overview

Making change is often dangerous. But the tragic history of the Allende government also offers a parable about the seam between the 1960s and the 1970s. The most remarkable feature of the 1960s was the number of people, across the world, who entertained extravagant hopes for a better future. In North America, utopians dreamed of a colorblind society without poverty or war, an Age of Aquarius in which evils would dissolve in a sea of spontaneous love and harmony, or more prosaically, a future of ever-greater abundance and leisure. Western Europe, heartened by years of rapid growth, looked forward to the sustained extension of middle-class prosperity and social welfare benefits. Nation builders in Africa and Asia eagerly planned takeoffs into economic development, and in Latin America the Cuban revolution and the Alliance for Progress offered competing—but equally rosy—visions of the future. Even in the Soviet bloc, citizens saw hope that a warming of relations between East and West, soon to be called *détente*, might allow some of the long-postponed promises of communism to be realized. Neither the ongoing war in Vietnam nor the periodic crises in such hot spots as



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The young Salvador Allende addresses a meeting of his Socialist Party in Santiago, Chile, July 1, 1959. Allende became a hero of the left in Latin America and globally not so much for what he accomplished in a three-year term as Chile's president as for dying for the cause of socialism.

Berlin and Korea deterred optimists from imagining that a new and better world was in the making.

The disappointments of the 1970s were as remarkable as the hopes of the 1960s. In Latin America, the new decade belonged not to the socialists or to progressive reformers but to strongmen. It often looked that way in other regions as well as authoritarian governments took charge in much of Africa and Asia. Democratic institutions were subverted or suspended in the Philippines, Pakistan, and India. South Africa's white government intensified controls on the black majority, imprisoning and murdering black leaders and censoring or exiling critics. Meanwhile, in the rolling hills of Rhodesia, white supremacists struggled to retain power against an even larger black majority. Especially gruesome abuses of power occurred in Uganda, where an unpredictable dictator, Idi Amin, humiliated and terrorized his people, and in Cambodia, where a Marxist regime extinguished approximately a million lives in the name of ideological purity. In those regions where autocratic government had long been the norm, such as Eastern Europe, citizens suffered less egregious but nonetheless brutal forms of intimidation and repression.

Local circumstances and personalities shaped these conditions, but so, too, did global political and economic conditions. Despite improved bilateral relations, neither the United States nor the USSR could refrain from viewing the world as an arena of struggle, and regional conflicts such as the one in Chile continued to

draw their involvement. The superpowers could embolden partisans, moving them from violent words to violent deeds. Regional contests, in turn, strengthened the hand of Cold War warriors in Washington and Moscow by confirming their doubts about the intentions of the other side. Détente was among the casualties. By the end of the 1970s, relations between the two giants were more acrimonious than they had been at any time since the Cuban missile crisis of 1962.

Economics displayed much the same reciprocal relationship between local and global as did politics. In Chile, the main nexus was copper. The country's arid northern provinces held about a quarter of the world's known reserves of this industrially important metal. The rich deposits lured foreign investment, but they also tied Chile's economy to fluctuations in international prices of that one commodity, creating a volatility that had broad political effects. Other nations had similarly critical resources. Zaire (the former Belgian Congo) had 60 percent of the world's cobalt, along with abundant uranium and copper; South Africa had about half the world's gold resources; and Southern Rhodesia (later Zimbabwe) held a significant fraction of the world's chromium. These critical materials gave outside powers strong motives to deal with governments that could promise stability, even at the cost of human rights, and afforded these nations a status in global politics out of proportion to their size.

No natural resource was more critical to industrial economies than oil, which had powered much of the world's postwar economic expansion. Swelling demand focused attention on those parts of the world that had it, and no region had more than the Middle East. Long a scene of international disputes because of its strategic location and its significance to three major religions, the region now became crucial to the global economy. Twice during the 1970s, upheavals in the Middle East disrupted global energy markets: a war between Israel and its neighbors in 1973 triggered an Arab-led oil boycott of Israel's Western allies. In addition, a revolution in Iran at the end of the decade drastically reduced exports from the world's second largest oil producer. By constricting the supply of oil, these events drove energy prices far beyond the levels anyone had anticipated at the beginning of the decade. The higher prices touched lives around the world by pushing the cost of living higher, reducing rates of economic growth, and shifting huge amounts of capital from oil-importing to oil-exporting nations.

The economic turmoil of the 1970s had political consequences. In North America and Western Europe, many voters became disillusioned with liberal governments, which seemed helpless to remedy economic malaise, and turned rightward at the end of the decade. In poorer nations, rising energy costs derailed development plans, fed uncontrolled inflation, and undermined political stability. Even the Soviet bloc, which was largely insulated from global trade, felt the after-shocks as the states of Eastern Europe had to borrow money and tighten budgets to meet the higher prices charged by the Soviet Union, which was eager to capitalize on its petroleum riches.

Nor did oil importers alone suffer the consequences of rising prices. Blessings had a way of turning into curses. The oil-exporting nations, the main economic winners in the 1970s, experienced exhilarating booms, but these often led to

excesses of spending that were no less destabilizing than the poverty of their oil-poor neighbors. Only in the Pacific, where Japan proved remarkably resilient to economic malaise and political upheaval, were some of the hopes of the 1960s realized. The Japanese economy steamed ahead despite oil shortages, pulling many other Asian nations in its wake.

The 1970s, then, were hardly what the 1960s had aspired to. Instead of sustained economic growth, there was widespread economic stagnation. Instead of constructive cooperation between the superpowers, there was renewed enmity. Instead of an Age of Aquarius, there was a proliferation of dictatorships, atrocities, and repression.

What general themes run through this welter of disappointed hopes? The broad answer is that economic and political changes were making many of the patterns of the postwar world obsolete. The long postwar economic expansion, fed at first by reconstruction projects and later by expanding markets for consumer products and higher defense expenditures, came to a temporary halt in the 1970s. The interruption tested assumptions that had prevailed since the war in both East and West. Neither Soviet Marxism nor the liberal democracies of the West seemed to have an elixir that could restore robust economic growth. By the end of the decade, Marxist states were turning to free enterprise, while the United States and Western Europe explored a variety of remedies, some homegrown and others influenced by the singular economic health of Japan, but most of them decidedly more business-friendly than the policies of the 1960s. The era of big government and command economies was not over, but the economic setbacks of the 1970s chastened all those who believed that growth could be readily managed by central economic planners.

The 1970s also provided a second economic lesson: The North Atlantic was no longer the undisputed center of global economic activity, as it long had been. This was apparent not only in the huge capital flows from Europe and the United States into the Middle East and other oil-producing areas but also in the more gradual but still stunning economic growth of Japan and the economies most directly linked to it. The Pacific Rim, including South Korea, Taiwan, Hong Kong, Singapore, and the west coast of North America, was coming to rival the North Atlantic in trade, investment, and manufacturing and showed much faster and steadier growth. These shifts in economic power, from energy consumers to energy producers and from the economies of the Atlantic to those of the Pacific, posed difficult challenges to an international system of trade and finance that was built on cheap energy, stable currencies, and the dominance of the U.S.–Europe axis.

The 1970s saw the beginnings of a reorientation of world politics that was no less important than the reorganization of the global economy. The United States and the USSR remained the world's dominant military powers, but they were beset with political and economic troubles at home and shrinking leverage abroad. Not only could China and Western Europe challenge the superpowers diplomatically, as they had for over a decade, but regional powers became increasingly adept at playing the superpowers off against each other in contests for local

advantage. The pressures of this new world, with its many competing and overlapping fields of influence, gave the United States and the USSR new reasons to talk and new reasons to argue. At the same time, other forms of conflict—religious, ethnic, and economic—competed with the old Cold War issues for center stage.

The bipolar world had imposed a crude sort of order on global politics. As that world evolved into something more complex—a hope that had long been nourished in many regions—conflict didn't end; in fact, it often intensified. Neither the democracies of Western Europe and North America nor the Communist regimes of Eastern Europe and Asia were prepared for the change. The fragile democracies in Latin America and the nations evolving from Europe's old empires were even less prepared. The economic and political turmoil of the 1970s toppled many governments in the industrial West and undercut Communist regimes in the East, but it spelled disaster for large parts of the developing world.

Regional Rivalries and the Decay of Détente

After an enormously expensive effort, the Soviet Union attained rough parity with the United States in strategic nuclear forces during the 1970s. Each side possessed more than ten thousand nuclear weapons, including many that were a hundred times more powerful than the Hiroshima bomb. Each had two to three thousand missiles or bombers of intercontinental range. Many of these were armed with multiple warheads. Most were protected from attack. Some bombers were airborne at all times, and others were on fifteen-minute alert. Missiles were concealed under the sea on silent and wide-ranging submarines or housed in dispersed underground silos. Both superpowers had also equipped their armies and navies with tactical nuclear weapons—explosives carried by artillery, torpedoes, short-range rockets, or short-range aircraft. These huge nuclear arsenals gave each superpower the capacity to obliterate the other, even after suffering a first strike—a standoff called “mutually assured destruction,” or MAD for short.

Despite the seeming absurdity of building forces that neither side could safely use, the rough equivalence in nuclear weapons created new opportunities for arms control. Previously, neither the United States nor the USSR had seen much advantage in bargaining. The United States enjoyed a superiority that it would not negotiate away, and the USSR refused to accept second-class status. Now, both parties stood to gain. Moscow was spending over 15 percent of its gross domestic product (GDP) on defense, a level that it sustained only at great sacrifice to other sectors of the economy, notably agriculture and the production of consumer products. Although Washington could match Soviet spending by devoting only about 5 percent of its much larger GDP to defense, even that level troubled economists and voters. Liberals believed that tax dollars could be much better devoted to schools or public health; many conservatives maintained that taxes were better left uncollected so that individuals and firms could invest the money more productively.

The Politics of Détente

Recognizing a mutual interest, Soviet and American diplomats opened talks focusing on limiting strategic nuclear weapons soon after Richard Nixon and his top foreign policy adviser, Henry Kissinger, entered the White House in 1969. The talks proceeded against a broader backdrop of easing tensions, or détente, between East and West. Both Washington and Moscow had come to the sober realization that a nuclear exchange would be mutually disastrous; neither any longer harbored expectations about the imminent collapse of its adversary. Talk of a rollback of Soviet forces from Eastern Europe had all but ended in the United States in the late 1960s, as had Soviet predictions of the imminent collapse of capitalism. “Peaceful coexistence,” a slogan of the 1950s, became a shared premise.

Détente, however, was not just about the United States and the USSR; it also involved dynamic new centers of power in Europe and the Far East. The bipolar postwar world was becoming a game with many players, in which diplomacy might be more important than rhetoric or the size of nuclear arsenals. Thus, while Soviet and American negotiators painstakingly discussed arms control, West Germany, under Chancellor Willy Brandt, signed a nonaggression pact with Moscow in return for Soviet recognition of its statehood, trade concessions, and freer movement of East Germans across the wall. While Brandt practiced this “*Ostpolitik*” or “politics of the east,” Mao’s foreign minister, Zhou Enlai, was negotiating warmer Sino-American relations with Kissinger. Their talks culminated in a visit by Nixon to Beijing and the normalization of Sino-American relations.

A rigid bipolar world served the interests of neither the Europeans nor the Chinese. Their diplomatic maneuvers, in turn, amplified pressures on the superpowers to reach mutual accommodations. Soviet leaders wanted to forestall collusion between the United States and China. The Americans wanted to quell criticism from their European allies, who desired better trade relations with the East. Détente, in short, was driven by the bilateral interests of the United States and the USSR, but also by calculations involving other powers.

Despite the economic and political pressures moving the United States and the USSR toward détente, agreements were slow in coming and narrowly drawn. The first round of Strategic Arms Limitation Talks (SALT) produced a treaty, signed in 1971, that merely imposed constraints on the pace of future arms increases rather than actually reducing stockpiles. Both parties agreed to limit the number and payload of delivery vehicles to roughly the levels that were then prevailing. More important, both agreed to refrain from building full-scale antiballistic missile (ABM) systems, which were then in the early stages of deployment. These antiballistic missiles were intended to destroy incoming warheads in the upper atmosphere by detonating their own nuclear warheads. Both sides were preparing to spend tens of billions of dollars to shield their cities and missile fields with these ABMs, although neither knew if they would prove effective. The SALT I agreement had the great merit for both sides of preventing, or at least postponing, an enormously expensive escalation of the arms race.

In the early 1970s, the United States and the USSR reached other agreements governing trade, scientific cooperation, immigration from the Soviet Union, and the control of chemical and biological weapons. The two parties also commenced a second round of SALT negotiations aimed at extending the first SALT treaty to include reductions in offensive weapons, as well as talks aimed at reducing the levels of conventional forces in Europe. Perhaps the high point of détente arrived in 1975, when, after two years of negotiations, the United States, Canada, the USSR, and thirty-two European nations signed accords in Helsinki that acknowledged the legitimacy of existing European borders and committed the signatories to a common statement regarding human rights.

The agreement could be seen as ending two eras of conflict. By validating the borders imposed by the Allies in 1945, it constituted the long-postponed settlement of the war against Germany. East and West Germany renounced any ambitions to recover lands that had been lost in the two world wars. At the same time, the Helsinki accords appeared to resolve one of the long-standing issues of the Cold War by recognizing Germany's division into two states and the paramount Soviet influence over Eastern Europe. Acknowledgment of these political facts reassured the Soviet leadership and further eased the way for the opening of its trading bloc to Western goods and capital—an opening that all parties had come to see as economically desirable.

The Superpowers and Regional Conflict

The very fact that the United States and the USSR were negotiating and finding common ground was a marked change from the 1950s and 1960s when serious diplomatic exchanges were few and far between. Diplomatic progress, however, barely concealed enduring mistrust. Some of these suspicions were justified. The Soviets did not live up to the Helsinki statement on human rights and continued to harass, imprison, and exile political dissidents. Recent revelations by former Soviet officials also reveal that Moscow continued to produce potent biological weapons long after signing a 1972 treaty outlawing them. More significant, however, was the enduring reflex of both sides to contest the other's position in regional conflicts. Indeed, clashes involving clients of the two superpowers were at least as numerous in the 1970s as they had been in the two preceding decades. Wherever political conflicts became intense, the leaders of both superpowers tended to see the hand of their rival at work, as was the case in Chile. And, as in Chile, factional leaders in civil wars, coups, and border disputes were quick to appreciate the advantages of enrolling one superpower or the other in their cause.

Both Moscow and Washington used the ideological terms of the 1950s and 1960s to justify these engagements. Soviet leaders defended socialist comrades against reactionary forces or assisted progressive forces in struggles of national liberation. Their counterparts in Washington, meanwhile, backed freedom fighters against communist aggression or helped legitimate governments contend with communist subversion. But the ideological rhetoric often bore only a distant relationship to the reality. Age-old balance-of-power considerations drove policy.

Ultimately, the ideological slogans of the Cold War mattered even less to the participants in these struggles than to their distant patrons.

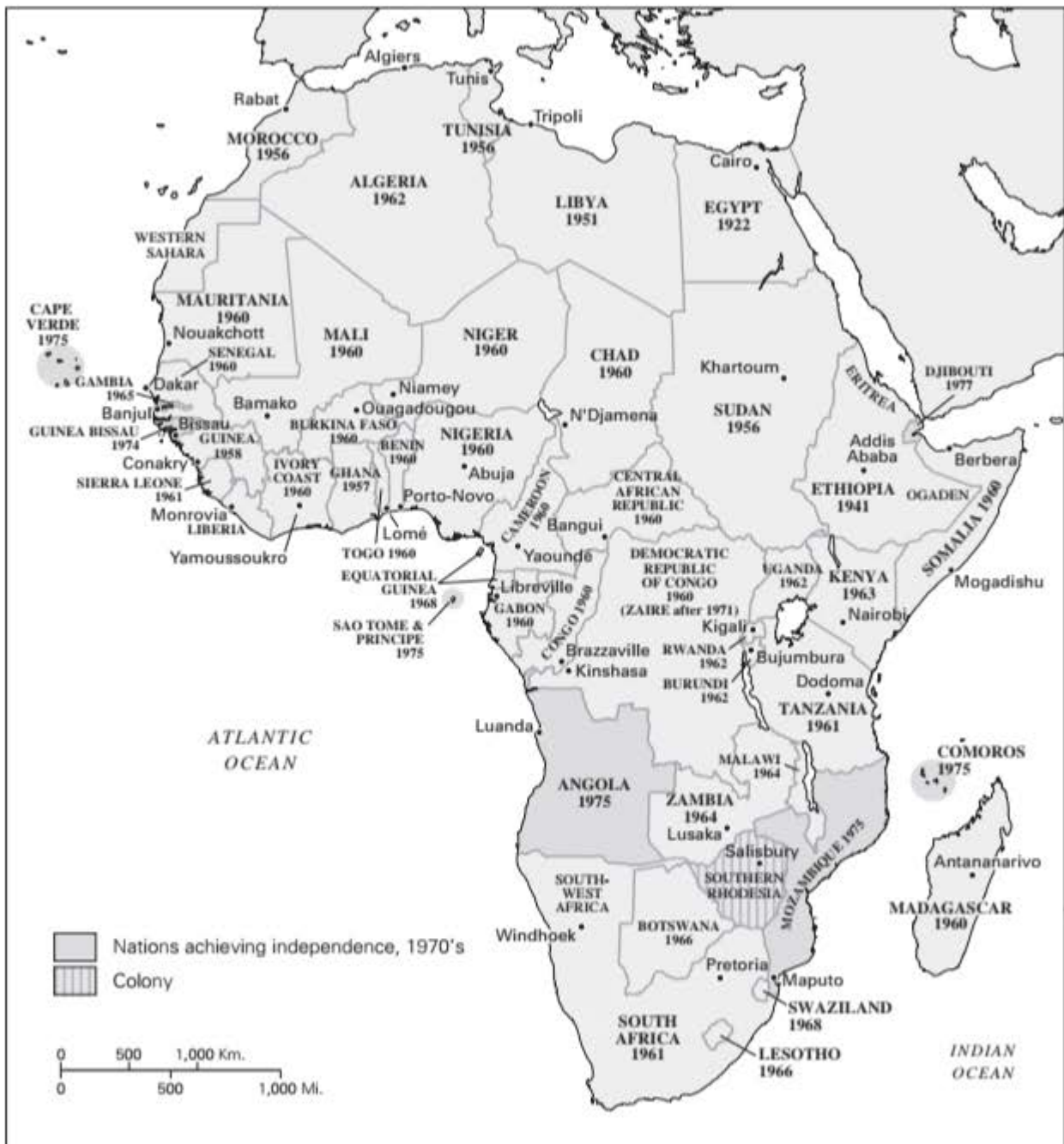
Some of the worst conflicts occurred where decolonization had left a legacy of uncertain borders, weak institutions, economic dependency, and bitter ethnic and religious divisions. Nowhere was this legacy clearer than in Africa. Only a handful of states in sub-Saharan Africa maintained their equilibrium through the 1970s; many, including the two largest and richest, Nigeria and Zaire, fell into destructive civil war. Swelling populations, declining agricultural productivity, decaying infrastructure, and volatile commodity prices overwhelmed governments that could call on neither deep financial resources nor broad public support. Impoverished and ill-educated people migrated by the thousands from villages that seemed to offer no future into slapdash cities that promised more but often delivered less. There they became easy prey to hucksters and criminals, not the least of whom were political leaders ready to exploit office for personal gain. Propped up by their control of armed militias, political parties, and outside powers, these kleptocrats and petty dictators squeezed wealth from their impoverished peoples, exploiting whatever tools came to hand—ideology, ethnic loyalties, and the greed of willing henchmen.

The grand geopolitical ambitions of the superpowers repeatedly intersected the local politics of sub-Saharan Africa during the 1970s. These intersections sometimes had beneficial results. Agile African diplomats, for example, could parlay votes in the UN into development assistance from the United States or the USSR. And in a few cases, the great powers found opportunities for productive cooperation, as in an ultimately successful effort to eradicate smallpox through mass vaccination. But at least as often, the superpowers' subventions and military assistance became tools in brutal struggles for political power that both damaged U.S.–Soviet relations and wreaked havoc across wide swaths of the continent. Such was the outcome in two of the bloodiest and most chaotic wars of the 1970s, one between several factions seeking control of the former Portuguese colony of Angola and the other a border fight between Ethiopia and Somalia.

Civil War in Angola, War Between Ethiopia and Somalia

The war in Angola commenced in 1974, when Portugal, itself undergoing a difficult transition from dictatorial rule to democracy, abruptly announced that it was dissolving its African empire. Three groups, each with its own regional and ethnic strongholds, promptly laid claim to control of this prized colony, rich in minerals and oil. One group, the Progressive Movement for the Liberation of Angola, or MPLA, occupied the capital, Luanda, and secured recognition from both the Soviet Union and a number of African states. Other factions established control of regions in the north and south of the country and took what aid they could get from China, South Africa, the United States, and Zaire (see Map 13.1). A civil war ensued, in which rebels backed by the United States and South Africa first seized the initiative and then lost it as Soviet aid and seventeen thousand Cuban troops tipped the balance decisively toward the MPLA government. For the Ford

administration, support for Angolan rebels was a way both to check the expansion of Soviet influence and to counter conservative critics at home who saw détente as a Soviet plot. For Brezhnev and his colleagues, it was equally important to demonstrate to Marxist hard-liners at home and abroad that détente did not mean stasis.



MAP 13.1 Africa in the 1970's.

The collapse of the Portuguese Empire in 1975 added half a dozen new states to the United Nations and all but ended the era of formal European colonial rule in Africa. Nevertheless, the former colonial powers continued to exercise economic and political clout in their former colonies, and South Africa and Southern Rhodesia remained under the control of their white minorities for a few more years.

By the end of 1976, the MPLA had consolidated its power in most of Angola. Cuban troops had stiffened the government's army. At the same time, Democrats in the U.S. Congress, uneasy about American sponsorship of a rebellion with uncertain prospects, had voted a cutoff of U.S. aid to the rebels. The outcome appeared to be a victory for Soviet policy, but this quickly proved illusory. The Marxist leadership of Angola proved as receptive to American investment as any capitalists. Indeed, even when U.S. aid was flowing to the rebels, Cuban troops were assigned to protect U.S.-owned oil wells from rebel sabotage.

Nor did the Marxist government remain enamored of having a large Cuban presence or Soviet advice. By the end of the 1970s, the Cuban troops had been sent home and the MPLA government, alarmed by Soviet meddling, had distanced itself from its former sponsor. Angola's civil war was never purely an East-West issue, even though the superpowers had persistently framed it in those terms. Nor was its outcome of any real significance to the balance of power between the superpowers, although both saw in it ample reason to suspect the other's motives.

Much the same thing could be said of other episodes in the 1970s. A coup in Ethiopia in 1974, for example, triggered another confrontation between Soviet- and American-backed forces that was even more complex than the free-for-all in Angola. The United States had lent Ethiopia modest economic and military support for decades. The Soviets, for their part, had cultivated Ethiopia's eastern neighbor, Somalia, in hopes of securing a naval base near the strategic shipping lines between the Persian Gulf and Asia. The 1974 coup at first seemed a victory for Soviet interests because it brought a self-proclaimed Marxist, Colonel Mengistu Haile Mariam, to power in Ethiopia, thereby giving the U.S.S.R. dominant influence throughout the region. But Mengistu's brutal efforts to consolidate power in Ethiopia soon provoked a civil war in its arid southeastern province of Ogaden where nearly a million Somalis lived. In July 1977, hoping to take advantage of Ethiopia's internal turmoil, Somali forces marched into the Ogaden.

The invasion created a dilemma for the Soviet Union. After an effort to broker a peace collapsed, the Kremlin threw in its lot with the larger nation, Ethiopia, and airlifted equipment and Cuban troops to support Mengistu. Somalia promptly ejected its Soviet advisers and closed its ports to Soviet vessels. The reversal of alignments became complete when Somalia requested U.S. aid and an alarmed American government, under President Jimmy Carter, arranged arms transfers to Somalia from friendly Arab states in the Middle East.

Neither superpower was comfortable with its new ally. Mengistu's ruthlessness chilled his Soviet sponsors; the equally brutal methods of Somalia's military dictator, Mohammed Siyad Barre, made open American patronage impossible. But, as in Angola, the lingering dynamic of the Cold War dictated that the enemy of your enemy must be a friend. And, also as in Angola, none of the parties reaped lasting benefit from the political maneuvers and violence. Ethiopia, having checked Somali advances with Soviet aid, denied Moscow a naval base to replace the facilities the Soviet Union had lost in Somalia. The United States, having lost all influence in Ethiopia, proved unable to exert much control in Somalia. Futile

combat over the Ogaden sputtered on until a peace was signed in 1988. By then, both belligerents had all but disintegrated amid rebellions and factional strife. Coups overturned Mengistu in 1990 and Barre in 1991. The greatest losers, however, were the unfortunate citizens of Ethiopia and Somalia, who were cursed by recurring drought, famine, epidemic, and leaders who placed their political ambitions above human needs.

Tilts on the Subcontinent: India Versus Pakistan

The tragic wars in Africa had their counterparts in Latin America and Asia. Although these wars often drew in the superpowers and sometimes had ideological overtones, most were fueled by more traditional motives: territorial ambition, religious and ethnic hatreds, and the common tendency of weak rulers to seek power at home through victories abroad. All three motives were on display in 1971, when Pakistan and India fought a two-week war over issues that had been accumulating for more than two decades.

India and Pakistan were divided by religion, a disputed border, and a history of suspicion reaching back to their violent partition in 1947. That partition had left Pakistan itself a divided state. A wedge of Indian territory nearly a thousand miles wide separated its mostly arid western half, which was almost entirely Muslim and home to the nation's capital, from its tropical, densely populated, and religiously diverse eastern half. Divisions between the two halves grew during the 1960s, as Pakistan's government gave top priority to the arms race with India and the economic development of West Pakistan. By the late 1960s, demands for regional autonomy in the much-neglected East led to the imposition of martial law.

Civil unrest only grew as a vastly outnumbered army struggled to maintain control of a civilian population that was increasingly bent on independence. Riots provoked repression, and during the spring and summer of 1970–1971 nearly ten million refugees fled across the border into India. Indira Gandhi, India's prime minister since 1966, no doubt found some satisfaction in the disintegration of a long-time adversary, but she was also dismayed by the burden of feeding and housing the refugees. In August 1971, perhaps with an eye toward an eventual war with Pakistan, Gandhi signed a friendship pact with the USSR. India needed Soviet military and diplomatic support, especially since Pakistan enjoyed close relations with both the United States and China.

Pakistan's leaders, seeing their control over their eastern provinces slipping away and anticipating an Indian attack, launched a preemptive strike on India in December 1971. It was futile. The Indian army was larger, better equipped, and united rather than divided. Pakistan's tanks made limited headway in the west before being repulsed; in the east, Indian and secessionist forces quickly forced the Pakistani army to capitulate. The fighting was over in twelve days.

A new nation, Bangladesh, emerged from the former East Pakistan, and India and Pakistan found new reasons to nurse their mutual suspicions. But the war also had effects in more distant areas. The Soviet treaty with India reawakened Western anxieties about Soviet designs on warm-water ports on the Indian Ocean. After

World War II, the United States had sought to make Turkey, Iran, and Pakistan sturdy sentinels against Soviet expansion southward. A blow to Pakistan was a strike against this cordon, and hence the U.S. government made a well-publicized tilt toward Pakistan during the war, going so far as to order a naval battle group to the waters off India. As far as the Soviets were concerned, America was meddling along its borders and using Pakistan as a base for espionage and propaganda campaigns. Moscow was especially concerned with joint U.S.–Pakistani efforts to stir up ethnic and religious separatism among the largely Muslim peoples of the USSR's southern republics. In short, both superpowers read events on the subcontinent through the lens of Cold War politics.

Neither the war on the Indian subcontinent nor the conflicts in Africa engaged the vital interests of the United States or the USSR, as the earlier crises over Berlin and Soviet missiles in Cuba had done. Nor did the troops of either superpower play a direct role, as they had in Korea and Vietnam and in the suppression of revolutions in Hungary and Czechoslovakia. But these regional crises again and again brought Soviet and American diplomatic goals into collision. They formed a steady background noise to negotiations over arms control, giving each side reason to be suspicious of the motives of its partner.

Equally important, they provided American and Soviet critics with evidence to support hardline policies. In truth, the government of neither superpower viewed détente as a full settlement of their differences or a resolution of their rivalry. For Moscow, détente promised Western recognition of the legitimacy of the Soviet empire, equivalency to the United States in international councils, and an opportunity to break through the walls of containment and obtain access to much-needed Western technology and goods. It did not mean that the Soviet Union would cease to support revolutionary movements in developing nations or to extend its influence in the developing world. For Washington, détente promised Soviet cooperation in restoring peace to troubled regions and new markets but also an end to Soviet support for wars of national liberation and an opportunity to penetrate the Iron Curtain with Western ideas. Both parties wanted to avoid direct confrontation, but neither was willing to give up all hope of undermining the other's international position. Détente, then, was not a fundamental shift in U.S.–Soviet relations but rather a tactical adaptation to new conditions, most notably parity in strategic weapons and the growing capacity of third parties, such as China and West Germany, to influence international events.

The Yom Kippur War, 1973

The Middle East posed the most dangerous threat to international stability during the era of détente (see Map 13.2). Once critical because it straddled trade routes between Europe and Asia, the region was now vital because of what it produced: petroleum. Saudi Arabia, Kuwait, the string of Arab emirates along the western shore of the Persian Gulf, Iraq, Iran, and Libya were all major producers of oil and natural gas. Together, these nations, all Muslim although not all Arab,

produced a third of the world's petroleum in 1970 and held over half of the world's known reserves. Their oil had powered the vast industrial expansion of Western Europe and Japan in the postwar era and was even coming to have a modest but significant role in the United States, which had been nearly self-sufficient in oil until the 1950s.

The strategic significance of oil made the Middle East vital to the interests of the industrial West, and this made it significant for the Soviet Union as well. The Soviets did not need Middle Eastern oil; Soviet territories held reserves almost as great as those of Saudi Arabia. But they understood that political dominance of that oil-rich region could be parlayed into economic influence over the West. Indeed, it was the one part of the nonaligned world that was truly crucial to Western interests.

Sources of Instability

To speak of the Middle East as a single region is to greatly simplify a complex reality. The Middle East was a palimpsest of old and new. Mullahs and socialists preached to the young. Monarchs ruled beside military strongmen and democratically elected politicians. Engineers built oil refineries beside Bedouin tents. In Iran, a shah who ruled courtesy of a CIA-sponsored revolution used oil revenues to try to rebuild the ancient Persian Empire of Cyrus the Great, while in Israel Jews from around the world sought to restore the biblical state of Solomon. In Jordan, a king trained at Britain's military academy, Sandhurst, accepted CIA funds while publicly denouncing America's ally, Israel. And throughout the region, there were deeply religious Muslims who looked to atheistic Moscow for help in destroying other "peoples of the book": Israeli Jews and Lebanese Christians.

The turmoil of the postwar years, when the Middle East threw off colonial rule and the state of Israel was founded, gave way in the 1970s to an era of yet more destructive conflict. Terrorists, better armed and more numerous than ever before, made bombings, plane hijackings, and cross-border mortar attacks routine features of Israeli life. Lebanon, an island of constitutional government and prosperity in the 1960s, disintegrated as extremist factions of Christians and Muslims went to war with one another, with support from Israeli, Syrian, and Palestinian allies intent on advancing their own interests. Assassinations of political leaders afflicted all the lands of the Middle East, and states throughout the region struggled to balance extravagant military spending with the needs of economic development and social welfare.

The unresolved problem of Palestinian refugees was one root of the instability. Hundreds of thousands of Arab Palestinians, displaced by the expansion of Israel, grew increasingly bitter as years passed and their hopes of regaining their lost lands dwindled. Ignored by Israel, they were treated as stateless refugees by the rest of the world, including fellow Arabs. Many lifted themselves out of poverty by education and hard work, their children becoming the engineers and accountants who managed the refineries and investments of oil-rich sheikdoms. But

many others became eager disciples of extremists preaching violence. Their refugee camps became states within states; their political organizations, of which Yasser Arafat's Palestine Liberation Organization had become the largest, organized their own militias, often with Soviet bloc aid.

Whereas the leaders of Arab states publicly vowed unity with Palestinians, they privately saw Palestinian refugees as a burden and a danger to their own societies. Indeed, the common desire to repatriate these troublesome refugees fueled hostility to Israel. So long as Israel existed, its neighbors believed that they would have a Palestinian problem. Vocal support for the Palestinian cause was a moral necessity for Arab leaders, but it also reflected self-interest.

Uneven economic development was a second root of instability in the Middle East. Israel had the financial and human resources to compensate for its meager natural endowments. It enjoyed large-scale aid from Western states and Jewish philanthropies; its citizenry was far better educated than the peoples of neighboring states, giving it a greater capacity to harness science and engineering for both economic development and defense. Alone in the Middle East, Israel had the know-how to design and build advanced fighter aircraft and radar equipment—and, by some accounts, nuclear weapons.

The oil-rich states along the Persian Gulf could buy expertise and weapons abroad, and some were financing liberal social services for their populations. But despite their wealth, the oil sheikdoms had only begun to take steps toward diversified economic development by the early 1970s. Those states that lacked significant oil reserves, such as Egypt, faced many of the same problems that plagued many parts of Latin America and Africa: growing populations that were concentrated more and more in bloated cities, chronic underemployment, shortages of capital for investment, and corrupt government.

A third root of conflict was the religious and political fractiousness of the Muslim world. An ancient schism divided Muslims between the Sunni and Shia communities, with the latter tending to favor a broader role for religion in government than the former. Shiites, a minority in most Arab states, also tended to be poorer than their fellow Muslims. Poverty and suspicion of secular authority disposed Shiite youth toward religious radicalism and solidarity with the dispossessed Palestinians. It also made them a growing threat to moderate politicians across the region.

The colonial adventures of European powers had generated additional layers of suspicion and hatred. While some ruling families, notably those of Jordan and the Arabian Peninsula, owed their thrones to former colonial masters, elsewhere political revolutions in the 1950s and 1960s had shifted power to nationalists with military support and socialist leanings, such as Gamal Abdel Nasser in Egypt. Some of those revolutions had come at the expense of monarchs related by blood to the royal families of the more conservative Arab states. The military officers who took control of Iraq in 1958, for example, ousted members of the same Hashemite clan that governed Jordan.

Ethnic divisions further scrambled the politics of the Middle East. While both Turks and Iranians might feel solidarity with fellow Muslims, they had distinct

histories, languages, and national interests. Ottoman Turks had ruled the Arab world long before the era of European control, and Turkey still controlled the headwaters of the rivers that supplied Iraq and Syria with water essential for irrigation. To the east, Iran's megalomaniacal shah, Mohammad Reza Pahlavi, spoke openly of restoring the regional dominance enjoyed by Persia in ancient times. His ambition and his arsenal of U.S.-supplied weapons alarmed Arab neighbors all around the Persian Gulf. Both Turkey and Iran relied on U.S. diplomatic and military support as a counterweight to their powerful neighbor to the north, the Soviet Union.

War's Consequences

The bitter dispute between Israel and its neighbors was but one element in a tapestry of Middle Eastern conflicts. The complexity of the fabric helps explain why a peaceful settlement between Israel and its neighbors was so difficult. Major changes of any kind had secondary effects that were hard to anticipate or control. Arab governments understood that any recognition of Israel might precipitate internal disorder and political isolation. Israeli governments feared that concessions on land or Palestinian rights would jeopardize the very existence of their state. The 1967 war had made a settlement even more difficult. Israel's easy victory and enlarged borders bred complacency with the status quo and cemented the already strong ties between the United States and Israel. The Arabs' embarrassing defeat reinforced old angers and made any negotiations appear to be a form of surrender.

Unwilling to negotiate from a position of weakness and unable to accept the status quo, Syria and Egypt, Israel's main adversaries, accepted huge Soviet loans and thousands of Soviet advisers in an effort to rebuild their war-shattered armies. New regimes had taken power in both states and were consolidating their power. Hafez al-Assad, who assumed the presidency of Syria in 1970, was the shrewd but unproven leader of a party committed to Arab nationalism and socialist modernization, the Ba'ath or Resurrection Party. Anwar Sadat, widely viewed as a placeholder, succeeded to Egypt's presidency when Nasser suffered a fatal heart attack in 1970.

While Assad strengthened Syria's links with the USSR, Sadat experimented with a new policy. In hopes of loosening the U.S. alliance with Israel or at least securing some U.S. aid, Sadat dramatically ejected tens of thousands of Soviet military and economic advisers from Egypt in 1972. But the move produced little change in U.S. policy and appears to have left Sadat with the lesson that Arab states would have to go to war to change the status quo.

After careful planning, Sadat and Assad launched an attack on Israel on October 6, 1973. It was Yom Kippur, a holy day of the Jewish calendar. The size, suddenness, and intensity of the assault immediately threw Israeli forces into retreat, both in the south, where Egyptian forces vaulted across the Suez Canal and into the Sinai desert, and in the north, where Syrian armor reclaimed much of the Golan Heights, which had been lost to Israel in the 1967 war. The

stunning Arab advances soon ended, however, as Israel mobilized its reserves and counterattacked. Within a week, the Israeli army had regained the initiative. Within two weeks, it had retaken lost territory, surrounded the main Egyptian army west of the Suez Canal, and was poised to strike toward Cairo and Damascus, the capitals of both its adversaries. Both Syria and Egypt were forced to seek a truce.

The truce appeared to reaffirm the situation prior to the start of the war. Israeli armies were once again in control of the lands occupied in 1967, and the Arab states had suffered staggering losses. But the Yom Kippur War had a far different effect on morale than had the war of 1967. The early victories of Arab arms had exposed Israel's vulnerability and bolstered Arab confidence. Even in their subsequent defeats, Arab armies had retreated in good order rather than panic. Both sides now had new reason to bargain. Israel no longer felt itself invulnerable, and its adversaries no longer felt powerless.

The war also moved the Middle East to the top of the U.S. government's diplomatic agenda. No U.S. administration could ignore Israel, a state with a democratic government and a people that were closely linked to Americans by blood and history. Until 1967, however, the United States had generally followed a passive strategy in the Middle East, giving Israel firm support while hoping that the Arabs and Israelis would find their own way toward a settlement. The war stimulated a much more aggressive policy, not only because Israel itself was now disposed to talk, but also because Arab-Israeli relations impinged on American interests in new and more vital ways.

The United States and the USSR had both airlifted ammunition to their clients during the desperate fighting of October. During the final days of the war, tension between the superpowers had briefly threatened to get out of hand. After Israel had won the initiative on the battlefield, Brezhnev sent Nixon a note that raised the possibility of Soviet intervention to impose a cease-fire. Brezhnev was eager to halt the Israeli armies that were threatening Cairo and Baghdad. Nixon was determined to keep Soviet forces out of the Middle East and to demonstrate his toughness. Citing intelligence reports that Soviet airborne troops might be preparing for action, Nixon ordered a worldwide alert of American forces, including units armed for nuclear war. The scare evaporated when the Soviets disavowed unilateral intervention, but the episode illustrated the potential for Middle Eastern conflict to expand into superpower confrontation.

The Yom Kippur War also had economic and political consequences for the United States that mandated active diplomacy. The renewal of fighting inflamed anti-American sentiments throughout the Arab world, and in many non-Arab Muslim countries as well. Vitriolic rhetoric by Arab leaders escalated into attacks on U.S. embassies. Yet more ominous, Arab producers of oil, including the conservative sheikdoms of Arabia, imposed a boycott on the sale of oil to the United States and other nations supporting Israel. That support had long been an obstacle to warm relations between the United States and the Arab Middle East, despite their other shared economic and political interests. The war eclipsed all other issues and turned what had been a fissure into a deep chasm. The only

way to restore American influence in the region (and to limit Soviet influence) would be to bring Israel and its neighbors to a settlement. This became the Holy Grail of U.S. diplomacy in the region for the next three decades.

And so, whereas the Six-Day War of 1967 had hardened divisions in the Middle East, the Yom Kippur War created opportunities for diplomatic movement. Sadat had won new respect for Arab arms; Israel was shaken by its losses; and the United States had new reasons to wield promises of economic and military aid to facilitate a peace. Building on a series of agreements that disengaged the combatants and a stunning trip by Sadat to Israeli-occupied Jerusalem, Egypt and Israel signed a peace treaty in Washington in 1979 that restored the Sinai Peninsula to Egypt in exchange for Egyptian recognition of Israel. The settlement relieved Israel of the threat of attack from its most populous neighbor while giving Egypt much-needed U.S. economic help. At the same time, the agreement served American interests not only by reducing the likelihood of another war but also by demonstrating to conservative Arab states that the United States could deliver what the Soviets could not: Israeli-occupied lands.

The war and its aftermath had other consequences. Despite the influence of U.S. arms and wealth, evident both in the Israeli victory during the war and in the American-brokered peace between Egypt and Israel, the region's problems ultimately demonstrated the limits of U.S. power. The U.S. diplomatic offensive failed to resolve many critical issues, including the status of Palestinian refugees, the ultimate disposition of Jerusalem, and the Israeli occupation of territories seized in the Six-Day War. Syria's Assad refused to follow Sadat's lead and remained hostile to both Israel and U.S. interests, and Israel, having neutralized one adversary, felt no urgent need to negotiate with another.

One reason for Assad's intransigence was popular anti-Israeli sentiment, both at home and throughout the Arab world. Neither a truce nor a treaty could extinguish passions that had been decades in the making. Palestinians and fundamentalists alike feared that secular Arab leaders were betraying their interests in return for U.S. dollars and Western approval, and some sought to derail the process through terrorist acts that intimidated Arab leaders and stoked Israeli anger and anxiety. Indeed, extremist groups grew stronger and more active while the negotiations went on. Their growth represented a dilemma for diplomats. Peacemaking seemed to demand an American midwife, but the larger the U.S. role, the greater the popular suspicion of the process and the greater the threat to the stability of those regimes engaged in negotiations. An assassination in October 1981 illustrated the risks. Egypt's Sadat fell victim to soldiers of his own army, members of one of the many fundamentalist Islamic groups that had come to see him as a traitor to his people and his faith.

Oil Embargo and Economic Change

The erosion of the bipolar political system coincided with the emergence of a new, more complex international economic order. The United States remained



Egypt's President Anwar Sadat, U.S. President Jimmy Carter, and Israeli Prime Minister Menachem Begin after signing the Camp David Accords, September 17, 1978. The Accords became the basis of a formal peace treaty between Egypt and Israel, signed the following year, and cemented the position of the United States as mediator and power broker in the Middle East.

the world's largest economy during the 1970s, but it no longer held unchallenged supremacy in industry, banking, and agriculture. The economies of Western Europe had grown at stunning rates since being jump-started by American reconstruction aid and the formation of a Common Market. By the early 1970s, Western Europe had attained parity with the United States in trade and production, although not as yet in personal income or technological innovation. Even more dramatic was the long-term boom in Japan, where growth rates during the 1950s and 1960s had often been double those of Western Europe and triple those of the United States. By 1969, Japan's GDP had surpassed that of West Germany, Britain, and France and was fast overtaking that of the much larger USSR.

Growth of the European and Japanese economies obscured a broader shift in economic power. The Pacific was gradually supplanting the North Atlantic as the crossroads of world trade. The trend had been under way for some time, but it became increasingly evident in the 1970s, not only through Japan's dramatic

economic growth but also by the migration of jobs, wealth, and population from America's East and Midwest to the shores of the Pacific. The volume of trans-Pacific trade grew by leaps and bounds as Japanese ceramics, steel, TVs, and automobiles moved east to Seattle, San Diego, and Long Beach, and U.S. lumber and commercial aircraft moved west to Yokohama.

The growing trans-Pacific commerce had many repercussions, not least of all for Japan's neighbors. Deficient in most raw materials, Japan had to import in order to thrive, and that meant orders for Australian iron, zinc, and bauxite; Indonesian nickel and oil; and Malaysian tin and rubber. Trade boomed as Japan's suppliers in turn became consumers of its textiles, bicycles, and radios. Later, as wages in Japan grew, Japanese firms looked to low-wage neighbors such as South Korea and Taiwan as sites for assembly of labor-intensive items such as circuit boards and auto parts. Other forms of investment, in banks and real estate, followed trade. By 1970, Japan had become the hub of a large and expanding region of industrial development, thereby achieving a commercial version of the regional dominance that had been its aim in 1941.

Pacific trade also had consequences for U.S. politics. Increasingly sophisticated Japanese products, often made better and at lower cost than their U.S. counterparts, undercut many sectors of American manufacturing and created a backlash of resentment against Japan. At the same time, growing trade created interdependence and an economic interest in the enlargement of commerce. While U.S. automakers and autoworkers complained about unfair Japanese competition, dealers of Japanese cars in the United States enjoyed year after year of record sales and profits.

The debate between protectionists and free traders was as old as the U.S. republic, but it had fallen silent during the postwar decades when few Americans saw foreign competition as a threat to their jobs or their profits. But as international accounts in the United States fell into deficit in the 1970s, the debate revived. It would remain a central element in U.S. politics and a destabilizing factor in world politics for the rest of the century. While free traders maintained control of U.S. policy, any hint of ambivalence aroused intense concern among America's trade partners. American demand had fueled postwar growth in Japan and Europe; U.S. leadership had been vital in lowering international trade barriers and building institutions to manage the international flow of goods and payments. An uncertain commitment by the United States to the free movement of goods and money therefore seemed to jeopardize the entire structure of world trade that had evolved since 1945.

The Economics and Politics of Petroleum

The extended boom of the postwar years had depended on more than U.S. hunger for foreign products and the expansion of trade. Energy was an essential factor in the production and distribution of goods, and in the postwar decades energy prices were both low and stable. The United States remained essentially self-sufficient in petroleum until the late 1950s; Western Europe and Japan met their growing needs through the exploitation of the huge oil fields of the Middle

East, North Africa, and Indonesia. But through most of the 1950s and 1960s, demand was expanding faster than supply.

Sales of automobiles soared in North America, and more and more of the well-to-do were taking to wheels in Western Europe, Japan, and Latin America. Where the affluent didn't drive, they flew. As jet-powered aircraft replaced piston-driven models, the miles flown by passengers doubled and redoubled, as did the consumption of fuel. Oil was steadily supplanting coal as a source of heat and power because it was inexpensive, relatively clean-burning, and easy to transport. It was also finding new uses in the chemical industry, where it was a starting point for products ranging from plastics to synthetic fibers. By the early 1970s, this unrelenting growth in consumption had eliminated most of the world's excess capacity for oil production. There were still abundant reserves in the ground, but the world's wells, pumps, and pipelines were working near their maximum. In such a situation, even modest reductions in supply can have large effects on prices, and the Arab-led oil embargo of 1973 was much more than a small reduction. By 1972, Saudi Arabia was supplying 13 percent of the world's oil.

The cessation of sales of oil to the United States and other supporters of Israel in October 1973 created chaotic conditions in world markets. The price of crude oil quadrupled, rising from under \$3 a barrel (42 gallons) at the beginning of the year to nearly \$12 at the end as consumers bid against one another for the much-reduced supply. Panicky drivers in the United States waited in line for hours to fill their gas tanks, corporations broke commercial ties with Israel to curry favor with Arab oil producers, and some nations, including France, agreed to sell advanced weapons in exchange for long-term supplies.

Oil prices stabilized when the boycott ended early in 1974, but at levels far above those of the early 1970s. The United States, which as late as the 1950s could crank up production from its own wells to balance supply and demand, no longer had sufficient reserves to meet its own needs, never mind those of the rest of the industrial world. That power now resided in the member states of the Organization of Petroleum Exporting Countries (OPEC), an organization formed in 1960 to protect the interests of oil producers in a market that then favored buyers. Now, with the tables reversed, OPEC used its control of supplies to set prices at levels far above those that would have prevailed in a free marketplace.

Member states maintained, with some justice, that the price of oil had long been manipulated by Western oil companies and that higher prices would better reflect the true value of a nonrenewable resource. Consumers, by contrast, saw such reasoning as little more than a thin veil for greed. Justified or not, OPEC had derived a clear lesson from the 1973 oil boycott: If oil producers could agree to limit sales, consumers would pay extraordinary prices to ensure supplies.

The Oil Needy and the Oil Rich

After the embargo ended in 1974, oil started to flow again, but the effects of the boycott continued to ripple through the global economy. Inflation was one such effect. Petroleum prices affected the costs of almost all goods and services, and



GLOBAL Technologies

Nuclear Power

The shortages of the 1970s prompted intense work on alternatives to OPEC's oil in countries around the globe. South Africa built massive plants to convert coal to oil using technologies pioneered in Germany during the world wars. In the Rocky Mountains, firms built pilot plants to squeeze petroleum from oil sands in Canada and from oil-containing shale in the U.S. Multi-national oil firms rushed to bring new wells into production, especially on Alaska's North Slope and in Europe's North Sea, where rich reserves had been found in the late 1960s. Meanwhile, utilities converted oil-fired plants to other fossil fuels that were in more plentiful supply—coal, natural gas, and even wood.

Oil, natural gas, coal are all fuels derived from decaying organic matter. Their abundance reflects our planet's long history and remarkable fertility. Scientists differed (and still do) about how best to estimate reserves of fossil fuels, but all recognized that supplies were finite. Nuclear power was the

most plausible alternative to such fuels in the early 1970s.

Research on the first atomic bombs had opened doors to the use of nuclear energy for the generation of power. In both a bomb and a nuclear power plant, energy is produced by a self-sustaining chain reaction in which decaying atomic nuclei release neutrons that go on to split other nuclei. The fissionable material is either a rare isotope of uranium with an atomic weight of 235 or plutonium, an element that itself is created as the byproduct of neutron bombardment of the more common uranium isotope with an atomic weight of 238. The cleavage of either type of atom is accompanied by the release of tremendous energy. In an atomic bomb the fissionable material is very nearly pure U-235 or plutonium, and energy is released almost instantaneously upon detonation. In a nuclear reactor, fuels have lower percentages of neutron-producing U-235 and plutonium, and neutron-absorbing moderators, such as graphite or deuterium (heavy water) are used to slow the chain reaction so that the fuel will release energy over a period of months or years. That energy, mostly released in the form of heat, is then used to produce steam for turbines much as in a conventional plant burning oil or coal.

both the taxi driver and the international conglomerate raised prices to recoup their higher costs. A second effect was unemployment. The long gasoline lines of late 1973 gave way to long unemployment lines in 1974 as Europe and North America suffered the worst economic downturn since the depression decade. The recession hit older manufacturing regions in Britain and the United States especially hard because they were already feeling the effects of competition

The U.S. built experimental nuclear reactors during World War II as part of its atomic bomb project; by the late 1950s, nuclear power stations were coming on line in the United States, Britain, the Soviet Union, and France. Some scientists believed that nuclear power would prove the most important application of nuclear physics. Nations with an advantage in the production of energy have long enjoyed economic leverage out of proportion to their size or other assets. In the nineteenth century, England's huge coal reserves gave it a significant advantage over states such as France that had fewer and less productive coal mines. Later, North America's abundant coal, oil, and natural gas powered American industry to global dominance. In the 1950s, it seemed that nuclear power would become the new prime mover, prompting speculation about "electricity would be too cheap to meter."

The enthusiasm waned in the 1960s, as experience showed that nuclear power plants had very significant costs. It was expensive to mine and enrich uranium, to build multiple tiers of safety equipment into plants, and to dispose of the radioactive byproducts of their operation. But the oil embargo of 1973 altered both the economics and the politics of the industry. Higher oil prices made electricity from nuclear plants more competitive; at the same

time big oil consumers grew eager to reduce the vulnerability of their oil supplies. In the U.S., where the first large-scale civilian nuclear power plant had been commissioned in 1957, electric utilities ordered forty-one new nuclear power plants in 1973 alone. In that same year, France's government declared a goal of producing the nation's entire electrical needs from nuclear energy, an undertaking that required construction of scores of nuclear power plants by the end of the century. Germany, Britain, the Soviet Union, and Japan likewise invested heavily in a nuclear future.

That future did not arrive not in the form the nuclear optimists had projected. In 1979, operators lost control of a reactor at the Three Mile Island nuclear power plant in Pennsylvania, leading to the release of modest amounts of radioactive materials and panic among the millions living in its vicinity. Although the accident had no discernable effect on public health, it scarred the image of nuclear power. Far more serious incidents occurred in 1984 at Chernobyl in the Soviet Union and in 2011 at Fukushima in Japan. In both cases, runaway nuclear reactions led to extensive environmental contamination and injuries, leaving many to wonder if power too cheap to meter had become energy too risky to use.

from the more efficient plants of West Germany and Japan. Even after a recovery began, the combination of economic stagnation and inflation persisted. And just as the Western economies were beginning to regain their footing at the end of the decade, a revolution in Iran provoked a new round of oil price increases that again threw the major economies into recession. By 1981 the price of oil was touching \$40 a barrel, more than ten times the level prevailing a decade earlier.



Owen Franken/Cortis

The Yom Kippur War precipitated a shut-off of oil from Arab states to the West and triggered both gasoline and oil shortages and the economic recession of the mid-1970s. This photo was taken beside a road in Connecticut in 1974.

The stagflation of the 1970s jeopardized the well-being of nearly all social groups. Those who were living on fixed incomes (pensions, for example) saw the purchasing value of their income erode. Where labor unions were comparatively weak, as in the United States, workers found it hard to bargain for better wages. Where organized labor was stronger, as in Western Europe, wages generally kept up with inflation, but often at the expense of employment and productivity. Britain's economy grew at an average rate of less than 0.5 percent a year between 1973 and 1981.

These economic pressures had effects on behavior. The young found it harder to establish independent households. The growing costs of child rearing led to smaller families. Declines in the real income of wage earners led to unprecedented increases in the number of young mothers in the labor force as more and more families found it impossible to get along on one salary. Government welfare programs mitigated the worst effects of this stagflation in the industrial West, but even so, poverty grew. The percentage of Americans living below the official poverty level, for example, expanded steadily from the early 1970s into the early 1980s, reversing many of the gains made during the 1960s.

Higher energy prices struck harder in poor regions of the world and where economic development was uneven. Nations without scarce commodities or internationally competitive industries had to cut budgets, shelve development projects, and slice spending on health care, education, and infrastructure. The one hundred million inhabitants of Bangladesh, for example, had to make do with a national income that averaged only a little over \$100 per person; they could ill afford

higher prices for kerosene, which was still used for lighting and power in rural areas, or for the petroleum products that were essential to urban life. Bangladesh, parts of west and equatorial Africa, and many small island republics in the Pacific and the Caribbean became increasingly dependent on the charity of foreign governments and nongovernmental organizations to bridge the growing gap between essential needs and resources.

Developing nations that had significant reserves of oil and minerals fared better, at least during the early stages of the global recession. Mexico and Brazil, for example, became favorite customers of lenders who were seeking faster growth than seemed possible in the struggling economies of Europe and North America. But heavy borrowing left these nations dependent on their earnings from commodities to meet loan payments; when prices began to fall in the 1980s—in part as a result of new oil production in such areas as the North Sea and Alaska—they found themselves saddled with impossibly high debt service. By 1983 developing nations around the world, including seventeen in Latin America alone, were in or near default on their international loans. This debt crisis paved the way for intervention by the World Bank, which imposed drastic terms on borrowers as the price for loan extensions. The resulting austerity measures, including sharp reductions in imports, cuts in social services, and currency devaluations, erased a decade of gains in living standards.

While most of the globe struggled to pay for energy, the major exporters of oil faced another sort of challenge: absorbing windfall profits. The dramatic increase in oil prices had shifted huge amounts of money from the accounts of oil-consuming nations to those of oil producers. Saudi Arabia's income from the sale of petroleum, for instance, grew from about \$6 billion in 1972 to \$102 billion in 1981. Awash in petrodollars, Saudi Arabia, Iran, and other major producers went on shopping sprees, building armies and infrastructure at home and investment portfolios abroad.

Iran, second only to Saudi Arabia as an oil exporter, illustrates the benefits and risks of the sudden windfall. Intent on making Iran the dominant power in his region, the shah purchased \$10 billion of advanced weapons, roads, ports, and railroads; a modern telephone system; and ambitious new oil refineries. Palaces and schools, office buildings and apartment houses rose up in Iran's cities, and in the countryside the government purchased the estates of absentee landlords for redistribution to peasants. Billions more went for health care and education, and the new schools were opened to women, who were granted broad new political and economic rights as part of the larger project of modernization.

Yet the sudden and massive changes also created hardships, anxieties, and grievances. Traditional elites—the merchants of the marketplace, the Muslim clergy, and many landowners—saw their influence and authority being eclipsed by professionals and bureaucrats. Western styles of dress for women and women's new legal rights violated traditional ideas and customs. Boom-driven inflation consumed workers' wage increases, and the excesses of the shah's court disgusted many of the civil servants upon whom the regime depended.

Ultimately, the pressures generated by the shah's top-down program of economic and social change overwhelmed the state's rickety political institutions.

Too much the autocrat to compromise and too much the reformer to make all-out war on his people, the shah fled when a coalition of conservative clerics and merchants, led by the Islamic leader Ayatollah Ruholla Khomeini, challenged him with a series of ever-more massive street demonstrations in 1978 and early 1979.

Iran's cycle of economic boom and political bust was exceptionally dramatic, but it illustrates tendencies visible among other oil exporters. Petrodollars often proved destabilizing. They overturned existing economic relationships, threatened traditional elites, and quickened the pace of social change. They could also lead to corruption and exacerbate political tensions between as well as within states. The clans that governed Saudi Arabia and the oil-rich states along the west coast of the Persian Gulf, including Kuwait and Bahrain, were intensely conscious of the vulnerability of their thinly populated nations both to predatory neighbors and to social upheaval. Their policies reflected these concerns. At home, they combined liberal profit sharing with the preservation of Islamic laws and practices; abroad, they showed solidarity with other Arab states in opposing Israel and supporting Palestinian statehood, while privately seeking assurances of American military support against potentially dangerous neighbors, including Syria, Iraq, and Iran. Contradictory as these policies sometimes seemed, they worked well enough to sustain order.

Japan, Inc.

Only one industrial nation rode out the oil shocks and stagflation of the 1970s: Japan. The Japanese economy shuddered briefly in 1974, but then resumed its extraordinary growth, suffering none of the unemployment and little of the inflation that dogged other nations during that decade. While steel mills in Pittsburgh and Manchester shut down, those of Tokyo and Osaka prospered. As Detroit's automakers stumbled, Japan's advanced from one record year to another. By 1981 the value of Japanese investments in the United States exceeded the value of American investments in Japan, a stunning reversal of conditions that had prevailed only a decade earlier.

Several factors account for the remarkable buoyancy of the Japanese economy in the 1970s. Energy had long been more expensive in Japan, which lacked significant domestic sources of oil and natural gas, than it was in the resource-rich United States. Consequently, Japanese firms had invested more heavily in energy conservation than their U.S. counterparts. In addition, they made products, such as automobiles, that were much stingier energy users than those made by their U.S. rivals because that was what the Japanese domestic market demanded. The sudden worldwide shortage of oil put a worldwide premium on these products.

Japanese business also showed a more realistic attitude toward shortages than their American counterparts. Power plants shifted quickly from oil to coal and natural gas. Firms concentrated on designing more efficient engines and electric motors, lighter vehicles, and methods for conserving power in housing, mass transportation, and household appliances. Japanese oil imports actually declined by 25 percent between 1973 and 1987 as the Japanese economy doubled in

size. By contrast, the slower growing U.S. economy consumed more foreign oil in 1987 than it had when the first oil shock struck in 1973.

Frugality and agility were important factors in the Japanese response to the oil shock of 1973, but so, too, were other strengths that had helped propel postwar Japan from the brink of economic collapse to a position as the world's second largest economy. The government worked closely with corporations, providing them with guidance about what to expect in the future and incentives to help them better adapt to changing conditions. Such incentives (tax concessions for investment in fuel-saving equipment, for example) also appeared in the United States, but only after bruising public battles. Cooperation between industry and government aroused deep public suspicions in the United States, whereas in Japan it was routine—as it had been going back to the late nineteenth century when government worked with business to begin the process of industrialization. This close cooperation sometimes degenerated into corruption, but when the interests of big business and the state largely coincided, as they did during Japan's postwar reconstruction and its response to the oil crisis, it could produce growth that seemed almost friction-free.

A second key to Japan's economic success was its skill at making incremental innovations in technology. Japanese automakers, for instance, fine-tuned the fuel efficiency (and cleanliness) of engines by making modest improvements in cylinder design to improve fuel combustion. Here, the Japanese were drawing on an old tradition. Japan had commenced industrial development in the late nineteenth century by systematically studying such foreign products as locomotives, seeking to adopt the best designs and adapt them to local needs. When Japan reentered world markets after World War II, it once again found itself playing catch-up with Western technology.

Lacking the resources to undertake pioneering research, Japanese firms instead licensed foreign patents, subcontracted with overseas producers, and reverse-engineered imported products. Beginning in the 1950s, Japanese industries did this in sector after sector. European steel mills became the model for even more efficient Japanese mills. The British sports car became the model for a much more refined Japanese two-seater. German cameras became the points of departure for smaller and less expensive Japanese models. And experience in the production of optical equipment prepared the way for entry into a fast-growing copier market that was at first dominated by U.S. firms. Consumer electronics became a special strength. Japanese firms were among the first to purchase licenses to manufacture transistors from U.S. giant AT&T, and they promptly used them to miniaturize radios. Building on this base, they went on to dominate world sales of television sets and audio equipment by the early 1970s. United States firms had assumed the high costs of developing new products, such as color television receivers and videocassette recorders, but Japanese firms had quickly improved on the early models by paying meticulous attention to design, reliability, and production costs.

Competitors often dismissed their Japanese rivals as imitative, but in so doing they underestimated the significance of incremental engineering improvement for market success. They also underestimated the importance of Japanese innovations

on the factory floor. Japanese businesses not only emulated and improved foreign products but also improved on foreign techniques for managing workers and the flow of materials. As in other respects, the postwar scarcity fostered frugality and painstaking attention to detail. Japanese manufacturers in the 1950s had a much smaller domestic market than did American firms. They could not expect buyers to snap up hundreds of thousands of identical units, and so they had to incorporate techniques for achieving flexibility into their production lines. This agility meant gains in productivity. Production of smaller quantities of a wide variety of products also created incentives to work with smaller inventories of parts. By the 1970s Japanese automakers had developed “just-in-time” methods for bringing components to the site of final assembly—methods that eliminated the need for large warehouses, placed a premium on minimizing defective parts, and further reduced the lead time for product changes.

Flexible and efficient production depended not only on machines and their arrangement, but also on human labor. Here, too, Japanese methods were different from those prevailing elsewhere. Many workers in Japan’s large conglomerates, or *keiretsu*, felt that they had lifetime commitments from their employers and gave them lifetime loyalty. Corporations invested heavily in training workers to be versatile and multiskilled—an investment that many U.S. firms were reluctant to make in their more mobile workforce. Workers on the floors of Japan’s factories had greater responsibility for the operation of the production line and greater influence over its arrangement than their U.S. counterparts. The benefits here were many: more stability in labor-management relations, faster feedback from the factory floor to the engineering laboratories, greater flexibility in work assignments, and greater worker involvement in quality control.

Japanese workers were also exceptionally diligent savers, putting away on average double and triple the percentage of their income that Americans saved during the 1960s and 1970s. These funds were typically deposited in low-yielding savings accounts, which could supply abundant capital to expanding business firms at low interest rates. So, when Nippon Steel borrowed money to build a new mill, it could often obtain the funds at a much lower rate than its competitors in the United States, where the savings rate was much lower and interest rates on borrowing tended to be correspondingly higher.

The high savings rate in Japan reflected the insecurities of individual workers and investors, who carried vivid memories of the poverty of the war and the immediate postwar years. They also reflected government policy, which was to restrict investment alternatives to encourage savings as a way to mobilize resources for industrial expansion. Here as elsewhere, government often worked hand in glove with big business to shape a society in which industrial efficiency was the highest value.

The formidable power of the Japanese economic engine became obvious in the 1970s through the growing market share of Japanese producers of steel, autos, ships, electronics, and other industrial products, and the growing financial clout of Japanese banks and insurers, not only in Asia but in the Americas and Europe as well. Foreign observers were both impressed with and intimidated by the successes of Japan, Inc., a society that seemed to have overcome both the economic

challenges of the turbulent 1970s and many of the social tensions that bedeviled Western industrial democracies.

The social costs of Japan's economic boom were less visible, at least to outsiders. Cozy relations between businesspeople and government officials sometimes led to lax regulation of environmental hazards. Protectionist barriers to imported goods, sustained long after Japanese firms could compete internationally, kept the prices of many basic agricultural and consumer products artificially high. Tax laws and banking regulations discouraged investment in housing, and so most Japanese families occupied apartments and homes that were a fraction the size of those common in the United States and Europe, despite their rapidly growing incomes.

Labor no less than consumers paid a price for rapid growth. While unions in the United States and Western Europe often represented workers in many firms, Japanese unions typically represented the workers in a single company. Officials in these company unions cooperated closely with employers, sometimes in ways that undercut workers' interests. Most Japanese workers had no union at all. Behind the huge assembly plants of Japan's *keiretsu* stood thousands of much smaller workshops, often family-owned, that made parts under contract to larger firms. Here workers often put in irregular hours at piece rates dictated by their powerful customers, shared little in profits, and enjoyed no assurances of long-term employment. By subcontracting to this army of small producers, giants like Toyota and Mitsubishi could expand or reduce their production without incurring large capital and employee costs. In busy times, captive suppliers had to drive their workers and machines harder and expand at their own risk; in slower times, they had to reduce the workforce and tighten their belts. The plenty and the hardship were often shared by members of a household because many of these small businesses were family-owned and family-run.

Even as Japan's wealth grew, some Japanese found themselves wondering whether the social discipline that had yielded the marketplace triumphs of Sony and Toyota might fetter the creativity that yielded breakthroughs in technology and science or the vital renewal of political and social thought. Nevertheless, it was hard to gainsay the economic progress that had been made since 1945, and the Japanese model of industrial capitalism exerted growing influence as other industrial nations saw their economies falter during the turbulent 1970s. Whereas Japanese businessmen, engineers, and economists had once looked to the United States and Europe for guidance, more and more Americans and Europeans now looked to Japan for solutions to the problems of their own economies. And the Japanese model proved even more influential among the capitalist societies of East Asia (Taiwan, South Korea, Hong Kong, Thailand, Malaysia, and Singapore), which hungered to achieve some of the economic growth that Japan had known since the 1950s.

The Hollowing Out of the Soviet Empire

Readers of Western newspapers in the 1970s saw ample evidence of the relative decline of the United States. Photos of the chaotic evacuation of American

citizens from Vietnam before advancing Communist armies and of U.S. diplomats held hostage in Tehran were vivid reminders of the limits of American military and diplomatic power. The dependence of the U.S. economy on oil imports was plain to see from the gas lines of 1973 and 1979. Shuttered steel mills and auto assembly plants testified to the decay of the old industrial region stretching from New England through the Midwest, which was coming to be known as the rust belt, while the swelling numbers of Japanese cars and TVs in U.S. households were daily reminders of the dynamism of the Japanese economy. The dissolution of the Nixon government amid scandal in 1974 shook confidence in American institutions at home and abroad, and neither the short-lived Ford administration nor the vacillating Carter administration could restore that confidence. The architect of American foreign policy in the first half of the decade, Henry Kissinger, spoke openly of the nation's need to adapt to a world in which it would be one among several competing centers of political, economic, and military power. President Carter, at the end of the decade, advised voters that they would have to tighten their belts, turn down their thermostats, curb their cars, and become accustomed to lower expectations in an age of limits.

The challenges facing the USSR were less evident, but more serious. Acutely sensitive about the shortcomings of the Communist system, Moscow's leadership made secrecy a fetish. Bureaucrats doctored published budgets and economic data to mislead foreign observers and its own citizens; even maps were systematically edited to conceal entire cities devoted to production of military goods. This secrecy sometimes served the state well. When the Soviets negotiated their first grain contracts with the United States in 1972, few Westerners realized how desperately the Soviets needed food and silage, and so Soviet buyers were able to lock in bargain prices. Much to the embarrassment of the Nixon administration, Americans ended up paying higher prices for U.S. cereals than their Russian customers. The commissars had outfoxed the Yankee traders.

Shortcomings of the Command Economy

Such occasional successes obscured more serious failures, as the grain shortages themselves suggest. Fifty years of Soviet agricultural policies had turned a food-exporting nation into the world's largest importer. The reasons were many. Stalin's use of force to drive peasants onto mammoth state-owned farms had generated enduring mistrust between Soviet farmers and their government and destroyed incentives for hard work. Grandiose land reclamation efforts under Krushchev had poured resources into districts where climate and soil made harvests risky at best. Both Stalin and Krushchev had placed agricultural research under the influence of a poorly educated agronomist, T. D. Lysenko, who purged Soviet research institutes of a generation of geneticists and wasted resources on hopeless experiments based more on folklore than on science.

By the 1970s, Soviet leaders were repairing some of these problems—by giving peasants rights to small plots to encourage greater productivity, for example, and by relieving Lysenko's disciples of authority over research. But the tinkering did

not address the greatest problem of all: crippling mismatches between the systems for producing and for distributing food. A fifth of the Soviet harvest never even reached market. Grain rotted because collective farms lacked access to paved roads or railheads. Fruits and vegetables spoiled in transit because factories built too few trucks and boxcars with refrigeration equipment. Tractors and combines rusted for shortages of spare parts and mechanics.

Agriculture was not just a matter of forming big farms and mass producing tractors. It was a system of many components that had to mesh smoothly and respond together to altering conditions. The Soviets' highly centralized command economy was too slow and clumsy to integrate the many parts successfully. As it responded to one crisis, another would already be rendering its solutions obsolete. And so the system lurched from one shortage to another, never quite able to find the right combination to ensure sustained growth.

Such mismatches were endemic in the Soviet economy. The goods that factories produced were dictated by quotas rather than the immediate calls of the market. Raw materials were delivered according to inflexible schedules—sometimes to destinations where they could not be used for lack of labor or equipment. Machines were sent to unfinished factories, to rust on rail sidings or loading docks. Universities turned out engineers on the basis of long-term projections that failed to take into account changing technological conditions. Innovative ideas and designs often went unexploited for lack of contact between research institutes and production facilities. The more complex and diversified the economy became, the greater the difficulties that central managers faced. The result was a society of recurring shortages and excesses.

Amplifying this fundamental problem was a second: The Soviet command economy had the tools to recognize quantity, but not quality. The system rewarded managers and workers who met the quotas, whether or not their products proved to be durable. Slapdash work might affect sales very little because consumers had few choices in the state-controlled marketplace. Only where the bureaucracy could focus intensively, as in the critical defense industry, did managers and workers suffer consequences for poor craftsmanship. This helps explain why the Soviet economy, despite its great size, failed to find export markets for much besides its raw materials and military equipment. As barriers to trade with the West began to fall in the 1970s, the Soviets paid for their grain imports not by selling tractors, telephones, or televisions but by exporting tanks, gold, and oil.

By the 1970s, these problems were familiar to every taxi driver in Moscow. But Brezhnev and his allies in the Soviet leadership showed little interest in reform. To question the wisdom of collective farms or state ownership of industry was to question the Marxist foundations of the party's authority. The Soviet leadership of the 1970s had grown to maturity during the era when farming and industry had been socialized at great human cost. The system had achieved undeniable successes—creating heavy industry, defeating Nazi Germany, and attaining parity with the United States in nuclear weapons and space exploration. These achievements inspired confidence in the wisdom of central planning and created bureaucracies that had a vested interest in maintaining the status quo. Whether or

not the system was efficient, it gave the Communist Party unchallenged authority over wages and prices, the allocation of resources, and the conditions of labor, housing, schooling, and the mass media. Those who enjoyed such power were reluctant to contemplate change.

Market Reforms in China and Eastern Europe

The other great communist power, China, suffered many of the same illnesses as its Soviet neighbor, as was plain to see in the gap between its economic performance and that of its traditional rival, Japan. Not only was Japan out-producing China, but its people enjoyed higher wages, longer lives, better food, and greater opportunities for education and travel. Japanese consumers could choose among products with a quality and variety unknown to their Chinese counterparts. Even the Red Army, upon which Mao lavished nearly 15 percent of his nation's GDP, had to make do with copies of obsolete Soviet aircraft and tanks while Japan's tiny self-defense force could afford the latest American jets. The Soviet Union could muddle through years of economic malaise. China, with unsettled institutions and a population four times that of the USSR, could not long live with failed experiments.

Mao, who had built a Soviet-style command economy, showed no more interest in market reform than his Soviet counterparts. Increasingly dogmatic with age, Mao tried to make a virtue of necessity by praising manual labor and decrying the dangers of excessive wealth. But during Mao's senescence and immediately following his death in 1976, an open struggle occurred between ideological purists (including Mao's third wife, Jiang Qing) who remained committed to a highly centralized economic system and pragmatists who urged the decentralization of agriculture and light industry. The pragmatists, led by Deng Xiaoping, won this struggle, in part by playing on the widespread fear that the radicals wished to renew the violence and confusion of the Cultural Revolution and in part by appealing to the ruling bureaucracy's self-interest. The Communist Party had to deliver food and goods to the people if it was to maintain legitimacy; it had to find ways to meet the challenge of technological change to avoid being hopelessly outclassed by foreign adversaries.

Deng was an unlikely reformer. A septuagenarian and a veteran of Mao's Long March, he was as dedicated to the supremacy of the Communist Party as his radical opponents, dubbed the Gang of Four. But he had little use for ideologues, having himself been humiliated by radicals during the Cultural Revolution. Above all, he was committed to enlarging the influence of China, and this depended on maintaining political order and robust economic growth. He saw no better way to achieve such growth than by establishing stronger incentives for productivity, and no better way to reward productivity than through the market.

Provincial leaders had already begun to free up parts of the market on a piecemeal basis. Peasants in some districts were being offered long-term leases on state-owned land; in others, laws regulating commercial activity were being relaxed to allow small businesses to buy raw materials, hire workers, and sell their products

for profit. Deng offered the movement official protection and encouragement. The Communist Party maintained a monopoly on political power and control over heavy industries, but it opened the country to foreign investors and small-scale private entrepreneurship. The new hybrid system had many problems, not least of them a resurgence of graft and corruption. But it also produced amazing economic growth. Exports grew by leaps and bounds, especially to new markets for textiles, tools, and inexpensive consumer products in North America and Europe; farm production soared. By 1986 market reforms had moved so far that the government authorized formation of a stock exchange in Shanghai to permit greater concentration of capital and the partial privatization of some state-owned industries. Wall Street, long the target of Communist scorn, had come to China.

And not just to China. Indeed, some of the socialist states of Eastern Europe had instituted market reforms a decade before China. Yugoslavia, which had jealously guarded its independence from Moscow since the end of World War II, was in many ways the leader. Dominated by the popular former partisan Marshal Tito, Yugoslavia had nationalized major industries and broken up big estates, but it had never embraced collectivized agriculture or shared Stalin's obsessive fear of private initiative. In 1965, Tito's regime liberalized its already permissive laws on the ownership of property to encourage small-scale private enterprise and profit sharing among employees of state-owned enterprises. By the early 1970s Yugoslavia had a bustling trade with the West and living standards that made it the envy of its Communist neighbors. Similar reforms occurred in Hungary in the late 1960s, although there, as elsewhere in Eastern Europe, change was tentative.

There was no lack of interest in reform. The top-down command economies that the Soviets had imposed on their satellites after World War II simply did not generate the productivity gains and growth of capitalist societies. The system could meet basic needs, but improvements in living standards came at a glacial pace. The shortcomings of Soviet-style communism became increasingly obvious in the 1960s and 1970s, not just to foreign observers but to the peoples of Eastern Europe, who encountered evidence of Western wealth in television transmissions, print advertising, and the firsthand accounts of friends and relatives living in the West. The disparity between standards of living in the East and the West was especially damaging to a political system that had made material well-being central to its legitimacy. The Communists had promised workers heaven and delivered a kind of limbo.

Market reforms threatened the authority of ruling Communist parties, the livelihoods of bureaucrats, and the interests of the Soviet Union, which viewed central economic planning as a powerful tool for maintaining political control of Eastern Europe. Decentralization of economic power could lead to the emergence of new institutions—businesses and trade unions, for example—that could challenge the Communist Party's monopoly on political association. It could also redirect trade and travel from the East to the West, creating new partnerships and dependencies that would displace the Soviet Union from the hub of Eastern European commerce.

As a result, market reforms spread slowly across Eastern Europe and were carefully calibrated to local political conditions. Hungary, which was governed by a regime that the Soviets deemed reliable (having imposed it by force in 1956), enjoyed more latitude in economic affairs than Czechoslovakia, which had only recently been the scene of aborted political reform. East Germany, whose leaders were second to none in Marxist dogmatism, did not countenance capitalist activity but nevertheless borrowed freely from Western banks and decentralized decision making from central economic planners to the managers of state-owned enterprises. Romania's autocratic dictator, Nicolae Ceausescu, found central control of the economy too appealing to sacrifice even while pursuing diplomatic openings to the West.

Poland, which had a strong Roman Catholic Church, a tradition of anti-Russian nationalism, and a history of close relations with the West, posed an exceptionally complex problem both for its domestic Communist leadership and for Moscow. Its Communist leaders saw economic progress as essential to domestic tranquility and borrowed heavily from the West in the 1970s to maintain standards of living and to modernize antiquated industries. But Poland's Communist political leaders were too insecure to follow Hungary's lead in tinting socialism with capitalism. Their reluctance to experiment with market reforms was shared in any case by Moscow, which kept a close watch on Poland both because of its size and its strategic position between the Soviet Union and East Germany. Consequently, Poland had the worst of both worlds in the 1970s, racking up huge debts to the West while laboring under an oppressive economic bureaucracy.

The Soviet Invasion of Afghanistan

While Soviet leaders worried about unrest in Eastern Europe, global competition with the United States, and their broken relationship with China, a new crisis emerged in an unexpected quarter. Afghanistan had been a backwater in the politics of the Cold War. Isolated and deficient in natural resources, industry, and wealth, the country had long been ruled by Muslim clansmen who were essentially indifferent to international politics but sufficiently canny to accept aid from both East and West. Conditions shifted suddenly in 1978, however, when the People's Democratic Party of Afghanistan, a Marxist group with a secular reform agenda, seized power.

The new government's program of land reform threatened long-established rural elites, and its promotion of secular education and greater rights for women offended Muslim clergy. Within months, revolts broke out among tribal leaders, and the regime itself disintegrated amidst vicious intraparty fighting. Soviet leaders watched these developments with a mixture of hope and anxiety. Afghanistan could evolve into a Marxist state with friendly relations to Moscow—a buttress against growing Islamic fundamentalism in the tier of nations along the USSR's southern border—or it could swing to the right and become an outpost of American or Islamic influence adjacent to Soviet districts with sensitive military installations and large Muslim populations. Seeing Afghanistan as within their sphere of

influence, Soviet leaders opted to risk military intervention. In the final days of December 1979, a Soviet army entered Afghanistan, put its favored faction in control of the government, and took charge of the campaign against rebels in the countryside.

The war in Afghanistan invited comparison with the war in Vietnam. In both cases, a superpower committed its forces to assist a friendly regime against guerilla insurrections that enjoyed strong rural support. And in both cases the superpower underestimated the strength of its adversaries and overestimated the power of its allies. Like the Americans in Vietnam, the Soviets could not translate superior weaponry into durable advantage. The more men and equipment they poured into the conflict, the weaker their allies became, as the very presence of foreign troops turned a civil war into a war of national liberation. The Soviets, like the Americans, found themselves destroying the villages they sought to pacify, demoralizing the allies they sought to assist, and alienating the people whose hearts and minds they sought to win. Both superpowers ultimately paid high prices for their miscalculations. Intervention alarmed neighboring states, discomfited allies, and invited regional and global adversaries to assist guerrilla forces with covert aid. The prices paid by the peoples of Vietnam and Afghanistan were much higher. Within two years, a fifth of Afghanistan's population had fled, most to neighboring Pakistan.

Soviet troops fought in Afghanistan for ten years and experienced many of the frustrations that U.S. forces had felt in Vietnam: ambushes along remote roads, surprise mortar and rocket attacks on bases, assassinations of off duty soldiers, and inconclusive skirmishes with an enemy that seemed to grow in strength despite frequent defeats in the field. But the war had broader repercussions. It mobilized opinion in the Islamic world and gave rise to networks of support for the Afghan rebels, some sponsored by governments and others by wealthy individuals. The war gave thousands of volunteers from the Islamic world experience in the organization and conduct of guerrilla operations. Some would later apply these lessons against Israel, in Muslim Bosnia's war with Serbia, and, ironically, in terrorist operations against the United States, which was a major supporter of the Afghan rebels.

The war also ate away at the self-confidence, the self-respect, and, ultimately, the political integrity of the Soviet Union. Mounting casualties shocked the Soviet people, as did the discovery that some Soviet troops were returning home with an addiction to Afghanistan's cheap heroin. Many found it hard to understand why a progressive Afghan government should require so much Soviet help to survive. The disparity between official claims of imminent victory and the realities of grinding combat further eroded the Soviet government's threadbare credibility with its citizens. Its brutal disregard of the claims of religion and national identity renewed old memories of Bolshevik repression under Stalin. It was easier for some Catholic Latvians or Islamic Tajikistanis to sympathize with the Afghan resistance than with their own government's policies.

These consequences of the war became apparent only gradually. Diplomatic repercussions were more immediate. Relations between Moscow and Washington

had been unsettled even before Soviet troops entered Afghanistan. The long string of conflicts of the 1970s had all but driven the word *détente* from the superpowers' official vocabulary. Yet some of the forms of *détente* persisted into the late 1970s even after the spirit was gone. Cultural exchanges, trade, cooperation in space, and talks on strategic arms limitation continued. Indeed, despite bitter disputes over regional issues, Carter and Brezhnev met in Vienna in June 1979 and signed a second SALT treaty that modestly reduced nuclear arsenals.

The Soviet invasion of Afghanistan put an end to any pretense of goodwill between the superpowers. Fearing that the Soviet invasion was the first move in a grand strategy for securing a land route to the Indian Ocean and the Middle East, the Carter administration struck back. It canceled grain sales to the Soviet Union and suspended nonessential contacts, including U.S. participation in the 1980 Olympic games being hosted by Moscow. It also increased military spending, funneled new military aid to Pakistan, and provided money, arms, and advice to the strugglers, or mujahideen guerillas who were fighting Soviet forces in Afghanistan. The Soviets responded in kind, reviving vituperative rhetoric about anti-Soviet conspiracies, limiting emigration of its citizens to Israel and the West, and clamping down on domestic dissidents. A decade of efforts to improve the tone of Soviet–American relations had come full circle.

The Turn to the Right

The failure of *détente*, which was clear for all to see in the U.S.–Soviet impasse over Afghanistan, had repercussions for domestic policy in both East and West. The conundrum of Afghanistan tied the Brezhnev government in knots. Brezhnev had invested his personal prestige in *détente*; his policy was now in tatters. The Soviet system did not allow for quick popular expression of disappointment. But the war in Afghanistan would eventually contribute to the dissolution of the Communist Party's monopoly on power.

In the West, the Soviet invasion of Afghanistan stimulated a turn toward the right—a movement toward larger defense expenditures, more aggressive condemnations of the Soviet system, and a more outspoken commitment to the principles of free enterprise. Jimmy Carter's policies in the late 1970s reflected this movement. But its most forceful American spokesman was Ronald Reagan, an actor turned Republican politician. Condemned as an extremist in a failed effort to wrest the Republican nomination from Gerald Ford in 1976, Reagan found a more receptive audience when he returned to national politics in 1980 and won the White House from Jimmy Carter.

Stiff anti-Communist rhetoric was only part of Reagan's appeal. The United States had never shaken off the effects of the 1974 recession and was facing the worst inflation since the end of World War II. Americans were demoralized by the political scandals of the Nixon era and the ongoing captivity of U.S. diplomats in Tehran, seized by radicals after the overthrow of the Shah in 1979. Many also found it hard to understand why such grand undertakings of the 1960s as the

war on poverty had yielded little fruit. Reagan knit these disappointments and anxieties into a broad and powerful argument for political change. Government needed to become smaller and less ambitious. Taxes should be lowered and made less progressive to encourage private entrepreneurship and economic growth. More resources should be focused on defense so that the United States could stand tall against a Soviet empire that exemplified the evils of big government.

Reagan's victory in 1980 was only part of a broader movement to the right that was under way in the Western world. Between 1979 and 1984, conservatives took control from left-of-center social democrats in Britain, West Germany, and Canada. France seemed to buck the trend, electing a socialist president in 1981, François Mitterrand. But after entering office, Mitterrand himself gradually shifted rightward until he came to embrace many of the positions of his conservative opposition. The breadth of this conservative trend owed less to the renewal of tensions between the United States and the USSR than to social and economic pressures that were at work across the industrialized societies of the West.

Britain, which was in the vanguard of this movement, illustrates both the nature of these pressures and the political response. Governed by the Labour Party through all but four of the years since 1964, Britain had suffered a steady erosion in the competitiveness of its industries, the purchasing value of its currency, and its share of international production, consumption, and trade. Powerful trade unions often resisted new technologies and methods of production out of fear of job losses or loss of control over the workplace. Steeply progressive taxes discouraged savings and investment. Orders for steel, ships, and textiles went to lower cost producers elsewhere in Europe or in Asia, and few new industries appeared to take their place. Trade imbalances undermined the value of the pound, making foreign goods more expensive for British consumers and stimulating inflation. Unemployment trended upward, putting ever greater pressure on government welfare agencies. Spending on social welfare programs seemed to expand inexorably, from 16 percent of GDP in 1965 to 24 percent in 1981.

Efforts by the Labour government to reverse these trends often seemed to do more harm than good. Uncompetitive industries that were nationalized to avert their closure became drains on the public purse. Efforts to focus government investment in new industries, such as the production of computers, miscarried as the new firms often proved less agile than their competitors abroad or unable to command sufficiently large markets to sustain expansion. Economist Joseph Schumpeter had described capitalism as a system of creative destruction, but Britain's mixed economy seemed to have the destruction without the creativity. Stunning increases in the cost of petroleum during the 1970s pushed the already fragile economy close to the breaking point, precipitating strikes and bankruptcies, and budget and balance of payment crises.

Government, labor unions, and business management all had a role in making Britain's economy dysfunctional in the 1970s, and some of Britain's problems were simply beyond control. But many British voters, rightly or wrongly, placed the blame on the Labour Party. In general elections held in 1979, the Conservative Party won a healthy majority.



Wally McNamee

Ronald Reagan and Margaret Thatcher, seen here at the White House, led a turn to the right as the 1970s ended. In the United Kingdom, “Thatcherism” came to mean the curtailment of public services and reassertion of British power overseas. In the United States, “Reaganism” was associated with lower taxes, monetarist economic policies, and a renewed aggressiveness against the Soviet Union.

Whereas Reagan clothed a firm message in genial storytelling, the leader of the British Conservatives had a manner that matched her message. Margaret Thatcher, “the Iron Lady,” sternly demanded reductions in social services, the privatization of government-owned industries, and tax incentives for private investment. Labour governments, she charged, had eroded Britain’s competitiveness through harmful meddling in the marketplace. Like Reagan, Thatcher celebrated the creative potential of free enterprise and turned a skeptical eye on central economic planning. And much like Reagan, only more forcefully, Thatcher insisted that the Western powers should defend their national interests aggressively when those interests were threatened.

She showed exactly what she meant in 1982 when the military junta ruling Argentina occupied a barren and thinly settled chain of islands six hundred miles off Argentina’s Atlantic coast. Called the Falklands by the British and the Malvinas by the Argentines, the islands had been in British hands since the early nineteenth century. Despite skepticism about Britain’s capacity to conduct a war over great distances, Thatcher responded with a lightning campaign that retook the islands in a matter of months. The stunning reversal precipitated the collapse of military rule in Argentina. It also propelled Thatcher’s Conservative Party to another mandate at home—a clear-cut victory in the general elections of 1983.

Britain's economic woes were worse than those of other industrial nations in the West, but they were hardly unique. Milder versions of many of the same problems afflicted the United States, France, and Canada. Even West Germany's spectacular postwar expansion stuttered during the 1970s as energy costs rose, productivity growth slowed, and unemployment and inflation rose to levels not seen since the 1940s. And while the turn toward the right was nowhere quite so dramatic as in Britain, the disappointments of the 1970s provoked debate everywhere over the optimum size and role of government. Confidence in the managerial role of government in the economy, undermined by years of stagflation, yielded to a new skepticism about the capacity of politicians to make wise choices regarding investment.

The shift reflected the changing opinion of many economists. Keynesian theory gave government fiscal policy a crucial role in smoothing out economic growth. Wise leaders would lower taxes and increase expenditures during economic slowdowns to quicken economic activity and create jobs; they would increase taxes and limit expenditures during boom times to forestall inflation. But Keynesian prescriptions seemed inappropriate for the combination of inflation and unemployment that plagued the Western economies in the 1970s. Another school of thought, which had been percolating among economists for over a decade, came to supplant or at least supplement Keynesian orthodoxy by the late 1970s. Called monetarism, the new school emphasized the role of the money supply in determining economic growth and de-emphasized the role of government spending policy.

The trouble with using fiscal policy to regulate the economy, the monetarists argued, was that it was a slow and clumsy instrument, prone to misuse for political purposes and often too feeble to much affect overall levels of economic activity. By the time new taxes or spending policies took effect, the conditions prompting them had often been resolved through the natural workings of the business cycle. Rather than tinker with taxation and spending, the real aim of government ought to be to expand the supply of money at a rate commensurate with sustainable growth in production. So long as the supply of currency stayed in balance with the needs of the economy, growth would occur naturally and without violent spasms of inflationary boom and deflationary bust.

The key instrument for adjusting the growth of the supply of money was the rate that central banks charged other banks for borrowing money. This was the true tiller of the economy. Increases in the interest rates charged by central banks for loans would restrict growth in the supply of money, reduce the level of borrowing by consumers and businesses, slow growth, and wring inflation out of an economy. Decreases in interest rates would pump new money into an economy, encourage borrowing for everything from houses and autos to the construction of new factories, and thereby reduce unemployment and promote expansion. By applying the brake when the supply of money exceeded the needs of the economy and the accelerator when it lagged, central banks could, in principle, smooth out the business cycle.

To work effectively, however, such policies were best pursued in markets that were free. Monetarists generally decried wage and price controls for distorting the efficient flow of capital and labor, criticized high taxes for penalizing private

savings and investment, and condemned Keynesian deficit spending because it led governments to compete with private industry for credit. The new economics, in other words, prescribed the sort of retrenchments in government that politicians such as Thatcher and Reagan were advocating.

CONCLUSION

During the early 1970s, it had been fashionable among political writers to argue that the Soviet and American systems were converging on some intermediate model, perhaps exemplified by the mixed socialist/capitalist economies of Scandinavia. By the beginning of the 1980s, that viewpoint seemed absurd. With conservative economists running central banks and conservative politicians running governments, the watchwords in the West had become privatization, entrepreneurship, free markets, and lower taxes. The new leadership had contempt for what it saw as failed experiments in socialism and an unshakeable conviction that state-managed economies bred not virtue but vice: the concentration of power in the hands of self-serving elites, a subordination of the rights of the citizen to the needs of the collective as interpreted by those elites, a decay of individual initiative, slovenliness in thought and work, and a preoccupation with redistributing rather than creating wealth. This message reverberated with voters in the United States, Britain, and other parts of the North Atlantic community, sometimes even among the very workers whose interests liberal governments had sought to promote.

The confluence of conservative politics and conservative economic thought halted a trend toward state-managed capitalism that stretched as far back as the New Deal in the United States and even farther in Europe. The election of Reagan also seemed to end any hope that détente, which had been all but shattered by the bitter dispute over the Soviet invasion of Afghanistan, could ever be restored. When seen against a backdrop of market reforms in China, the dissident movements of the Soviet bloc, the phenomenal economic growth of Japan, and swelling business activity in the Pacific Rim more generally, it seemed as though much of the globe was under renovation. The decade of the 1970s had dashed most of the hopes of the 1960s and had replaced them with others that might be less idealistic but were, perhaps, more realistic.

For Further Reading

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Related Websites

- A well-designed site that includes abundant links to Cold War documents and sources
<http://legacy.wilsoncenter.org/coldwarfiles/index.html>
- Links to many excellent websites on the Cold War and U.S. foreign policy
www.mtholyoke.edu/acad/intrel/coldwar.htm
- This link to Harvard University's Project on Cold War Studies provides access to recently declassified documents pertaining to the Cold War
<http://www.fas.harvard.edu/~hpcws/index2.htm>