



**Branko  
Milanovic**

# The Great Global Transformation

National Market  
Liberalism in a  
Multipolar World

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Multipolar World*

BRANKO MILANOVIC



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*The Great Global Transformation* deals with three global developments that have taken place over the past half-century and are likely to influence the world in the decades to come. They all stem from the economic and technological rise of Asia compared to the rest of the world, and in particular compared to the West. Economically, the rise of Asia has shifted the centre of global production and trade to the Pacific. At the level of nations, and thus politically, the rise of China has sharpened geopolitical competition with the United States in both Asia and perhaps globally. At the level of individuals, the rise of Asian middle classes has displaced parts of Western middle classes from the high global income positions they have enjoyed for the past two centuries. It has thus led to the greatest reshuffling of incomes since the Industrial Revolution. The dissatisfaction of the Western middle classes was translated into a political reaction that has shaken the post-Cold War domestic political order in Western democracies.

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## Preface

One day, in the spring or summer of 1989, at lunchtime, I went to a Bookstore on I Street in Washington DC. There I ran into Jeffrey Sachs and David Lipton, two American economists whom I had known from their involvement in the Polish economic reforms, long before the change of government in June 1989. They were carrying a pile of books on Eastern Europe and the history of communism that they had just bought, and I mentioned to Jeff that my book *Liberalization and Entrepreneurship* had been published only a couple of months ago. He asked me whether a copy was available in the bookstore. I checked and found one. Jeff bought it. It was then up to me to write a dedication. I wrote, 'To Jeff who is trying to save socialism (despite itself)'. The part between the brackets was supposed to be cute, and to refer to the Communist blockheads who were undermining all efforts at reform in the region. But the part before the brackets was very genuine. Jeff looked up at me in some bewilderment: 'But I am trying to bury socialism, not to save it,' he exclaimed. I gave him some lame explanation, probably mentioning socialist market economy or something similar – there was no time to say more: Jeff was juggling with difficulty a dozen books in his hands.

But my thinking then went as follows. The mid- to late 1980s was a period of rising Reaganism and Thatcherism in the West (only later known under the umbrella framework of 'neoliberalism') and sharp crisis of growth in socialist economies. Their decline began in most cases with an inability to repay foreign loans, incurred in hard currencies after the twin oil shocks of the 1970s. This is the often-forgotten background to the rise of the Solidarity movement in Poland, centrifugal forces in Yugoslavia, brutal austerity in Romania, the slowdown of goulash socialism in Hungary, and East Germany's begging for Soviet and West German money.

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I saw the socialist crisis as a perfect analogue to the 1929–32 Great Depression in capitalist countries. The Depression was overcome thanks to Keynesian policies. What Keynesianism did was introduce a dose of statism in an otherwise free-market economy that simply could not, on its own, get out of the Depression. Thus, capitalism was saved thanks to what many regarded as proto-socialist policies of government spending, unemployment benefits, public works and the nationalization of private companies. By analogy, I reasoned in 1989, the grave crisis of socialist economies had to be solved through the introduction of doses of capitalism: a greater role of the market, a more incentivized wage structure, liberalization of the small and medium sector for private companies, greater independence in decision-making for state-owned enterprises and paring down of central planning. It seemed to me perfectly clear that the way out of the socialist crisis was more capitalism – yet, as in the analogous case of the Great Depression – without the abandonment of the main socialist model. Just as capitalist economies did not cease to be capitalist when a greater role of the state was introduced, socialist economies, I thought then, would not cease to be socialist if the private sector played a much greater role than before.

Indeed, in the book that Jeff bought, I developed this argument, even before the socialist crisis became obvious, by among other things showing the data on the size of the private and state sectors in various economies. Capitalist economies ranged from having less than 5 per cent of Gross Domestic Product (GDP) produced in the public sector to having more than 20 per cent; socialist economies ranged from almost 100 per cent of GDP produced by the state sector to only 70 per cent. I argued: why could not the percentage of the state sector in socialist economies be reduced to a range from (say) 50 to 70 per cent without changing the fundamental nature of socialism? Eventually, the two systems may still be recognizably ‘socialist’ and ‘capitalist’ in ideology, but in reality they would both be ‘mixed’ systems with relatively small differences between them. Instead of studying varieties of capitalism as branches of only one system, we would then be studying a much richer set of economies

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that combined, in various proportions, the market and the state. System convergence would 'solve' the ideological dispute between them and make world peace more tenable. It seemed to me a win-win proposition. This was my thinking underlying the book and its dedication.

But reality went the other way. 1989 was an important year on the road to total domination of neoliberal economics across the world. Reagan's economic policies were continued by his Republican successor, George H. W. Bush, and a few years later consolidated by the Democrat Bill Clinton. Margaret Thatcher was on her way to becoming the longest-serving UK Prime Minister in modern history. Reagan's and Thatcher's anti-union stance, deregulation, privatization of infrastructure and housing, and lower tax rates for capital owners and the rich, all hallmarks of policies that aimed to refashion the New Deal order and reduce the welfare state, continued unabated. Moreover, such policies expanded geographically to include no longer only the West and Japan. Between 1989 and 1992, all formerly communist economies folded and flipped to the other side: some went from 100 per cent public to 100 per cent private ownership. They did not go 'mixed' as I imagined. Most moved towards a Thatcherite system where the public sector (or the government) had no business in the production of anything, not even in infrastructure, and hopefully, it was thought, not much role in spending either. Of course, such extreme precepts were impossible to implement for any length of time and 'transition' economies still ended up keeping an important role for the state, especially so in Central Europe. Nevertheless, all of them were unmistakably capitalist and neoliberal.

Elsewhere, things changed in the same direction. In 1991, India entered neoliberalism with the dismantlement of numerous regulations that had stymied the growth of the private sector. The famous Indian 'Licence Raj' ended with the government of Manmohan Singh and the International Monetary Fund (IMF) bailout. After the Tiananmen Square crackdown in 1989, China, following the historic Southern Tour by Deng Xiaoping, accelerated its pro-capitalist

development. It turned out that lots of youthful energy that had been directed towards political reform in the late 1980s could be easily rechannelled into economics and self-enrichment. The youthful proponents of Mr Democracy became millionaire entrepreneurs. The Soviet Union not only disappeared from the map but all new states espoused extreme versions of the neoliberal creed. It helped that the new elites interpreted neoliberal capitalism as an ideological licence to steal. They were thus very happy to be neoliberal.

The peak of global neoliberalism came around the turn of the millennium when China entered the World Trade Organization (WTO); the Glass-Steagall Act was repealed in the United States; the euro became a common European currency; and globalization was accepted as the new normal. Intellectual prophets of political liberalism and unfettered market economy believed that this particular combination of democracy and market commanded universal support, and would soon be accepted even by those small recalcitrant islets that, like the Gaulish village in *Asterix*, stubbornly clung to the old ways.

In the developing world, the triumph involved an ideologically coherent trinity of the Washington Consensus, basic needs (reduction of absolute poverty globally) and protection of human rights. The role of the nation-state, especially of the weaker nation-states, became nil: they received their policy prescription straight from the Washington-based international organizations, whether about the budget deficits or the best ways to organize social assistance, and then from the equally Washington-based, and often State Department-affiliated, human rights non-governmental organizations (NGOs).

Two events put paid to the neoliberal domination. Both were brought about by its success. The success of globalization made China increasingly rich and powerful. That triggered the geopolitical response among the politicians, geo-strategists and militaristic circles in the West that saw China as a competitor and even as a foe, at least in the East Asian region, and in the future possibly globally as well. China, too, emboldened by its success and seeing clearly the

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advantages that its vast size, long history of concentrated state power, high literacy and hard-working ethic of its population gave it, developed, at times even if jejunely, a hubristic mentality. For the first time in two centuries, China was challenging Western supremacy. Its century of humiliations was over.

China's success, which owed so much to neoliberal globalization, brought on another issue: the loss of jobs, income and self-esteem among the workers of the Western countries who were either replaced indirectly by Chinese imports or directly through Western, and especially American, offshoring of production to cheaper locales. The counterpart of China's geopolitical rise was the increase in incomes for large swathes of its population who, for the first time in two centuries, moved into the secluded ranks of the top one or two richest global income deciles, displacing from their global income positions parts of the Western middle class. The latter did not like it.

The rise of China that was made possible thanks to global neoliberalism made the end of global neoliberalism inevitable.

The second success of neoliberalism – the enrichment of the elites in the West – became, after the Global Financial Crisis in 2008, unsupportable for the left-behind and other, to use Hillary Clinton's term, 'deplorables'. The costs of the crisis were not borne by those who caused it but by those who lost because of it. The crisis undermined the ideological basis of neoliberalism, not only by showing that not all are likely to benefit equally from globalization, but by clearly displaying the irresponsibility of the rich and their ability to manipulate governments. Inchoate coalitions of malcontents formed in practically all Western countries. Their amalgam of complaints ranged from economic (low income growth) and cultural (cosmopolitanism and deracination of the elites) to social (elite contempt for those who were not educated and smart enough to profit from opportunities in the globalized world).

Thus, the end of neoliberal ideological and 'factual' hegemony came as a by-product of its two biggest successes: the rise of Asia and the new wealth of the highly educated Western elites. The

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so-called populist revolt was led by a great variety of forces, reflecting in turn the variety of complaints. Its success is not only dubious in the sense that its leaders are not likely to come to positions of authority; but even when they do, the policies the 'rebel' movements apply once in office are not so different from the policies they reviled when fighting for power. This is due to their ideological confusion and inability to think through, and prosecute, alternative policies. But it is wrong to judge the success or failure of these movements by simply looking at whether they are in power, or noting that they offer much less in terms of actually different policies than they claim. The importance of the movements of malcontents is in their being 'anti', that is, in bringing to an end the hegemony of global neoliberalism and questioning the power and the ideological and cultural bases of the newly created elites. Most importantly, they have forced the elites to change many ideas that defined neoliberalism in the past several decades. Tariff wars and reversal of parts of globalization through 'friend-shoring' and similar discriminatory practices have entered the lexicon of mainstream parties; so has concern with immigration and a desire to curb it; as well as the use of economic coercion through innumerable sanctions to achieve international political or economic goals. All of these things put together represent a departure from the ideology of global neoliberalism. The global or international part no longer applies. Instead, the new ruling model can be appropriately called 'national market liberalism'. It retains key features of neoliberalism in the domestic market sphere, but abandons its internationalism, and often even the application of liberalism to domestic social issues. The epithets or qualifiers 'national' and 'market' are needed to show where the new order still uses classical liberal or neoliberal principles: they are restricted to the domestic market, revised as to the social sphere, and almost entirely abandoned in the international space.

This book is about these two developments that have marked the apogee and the decline of global neoliberalism: the rise of Asia, and China in particular, and the emergence of new plutocratic ruling

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elites in the United States and China. These new elites were brought into existence, and power, thanks to global neoliberalism, and their success created the conditions for its decline. The actions of a Trump or a Xi Jinping, and many other leaders since, are, despite what they and even their supporters might think, reactions against the winners of neoliberal globalization and their excesses. These reactions have ended one historical period and opened another whose contours are only dimly apprehended today.

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## *Introduction*

This book deals with two important topics that have attracted a huge amount of interest and a groundswell of literature and debate. They are the rise of China and more generally of Asia, and the increasing questioning of the power and position of domestic elites who have benefited from global neoliberalism. The contention of this book is that the two topics are interrelated. The rise of China has created geopolitical tensions because the global neoliberal order is hierarchically structured and cannot easily accept a country as big and potentially powerful as China. This has led to the reversal of globalization. But the rise of Asia has also displaced many people in the 'political West' from their global income positions, reinforced the gap between the educated well-to-do and the rest of the population within Western countries, and created a state of incipient political unrest.

The rise of Asia represents a return to the distribution of economic power that existed before the Industrial Revolution. It is therefore as momentous an event as the Industrial Revolution of the nineteenth century that enabled European countries, benefiting from economic and military superiority, to conquer different parts of the world. With the rise of China and Asia this period has come to a close.

This change in economic power has impacted two areas. First, it has transformed the relative economic standing of states and thereby the geopolitical balance of power. In terms of international relations this can lead to tensions, conflicts and even wars; or differently, greater trade and interdependence may be associated with incentives for peace. Second, it has had an impact on individuals in the sense that it has altered their positions in the global income distribution. For the past two hundred years, citizens of Western countries and Japan have been practically the only ones in the top quintile (20 per cent) of the

global income distribution. Citizens of other countries, of the three continents of Asia, Latin America and Africa, were there only sporadically and never in large numbers. That too is changing with the rise of Asia. It is not only the Chinese who are entering the top 20, the top 10, or the top 5 per cent of the global income distribution; they are being followed by people from India, Vietnam, Indonesia, Thailand and other Asian countries. As they enter these top groups, some people who were there previously are pushed down. The change is dramatic given the numbers of people involved in the reshuffling.

These global changes (at the country level: geopolitical; at the individual level: economic) are accompanied by political conflicts at the national level. What has happened during the past forty years of neoliberalism is the formation of new moneyed elites in all large countries of the world. Their ways to the top might have been different but they were all beneficiaries of neoliberal policies. These policies have, however, also created opponents among people in the West: those who have been left out of the benefits of globalization, lost their jobs, or feel socially slighted by the new elite. They have become increasingly critical of the status quo. In the case of China, there is growing discontent among those who believe that the Communist Party should retain its leading role in the running of the country, and who are afraid that the rich, with their greater numbers and economic power, might come to dominate the Party, and thereby determine the direction of the nation.

The excesses of wealth and the power accumulated by the new elites have created what might be called the ‘counter-revolutionary’ feelings among the people who, for various reasons, feel left out – ideologically, economically, or socially.

It is the contention of this book that it is only within this context that we can grasp and understand the rear-guard or counter-revolutionary action, in the most powerful nations, spearheaded by Donald Trump and the so-called populists in the United States, by Xi Jinping and those in favour of reinforcement of the Party role in China, and by Vladimir Putin and the national security complex in Russia. In all three cases the policies are the reaction to the dominant political

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and economic position of the neoliberal ruling class and the narrative that accompanied it. In the case of Trump, the counter-narrative is directed against the liberal and cosmopolitan establishment; in the case of Xi Jinping, it is directed against the nouveaux riches who have infiltrated the Party; and in the case of Putin, it is directed against the oligarchs who have tried to control the state. But we see this pattern spread all over the world. Nationalism is blended into domestic politics and narratives as a way to make policies look 'tougher', harden them and present them as a defence of a nation, not just of a group.

This book revolves around these great themes: the realignment in economic power between countries around the world (Chapter 1, 'Countries'; and Chapter 2); the reshuffling of global income positions (Chapter 1, 'Peoples'); the creation of new elites (Chapter 3); and the 'counter-revolutionary' reaction to the accumulated power and wealth of the elites (Chapter 4). A brief Chapter 5 speculates on the main ideological forces that shape the current era.

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I.

## *The Rise of Asia*

The most important economic fact of the past fifty or even one hundred years is the economic rise of Asia. It has displaced the centre of gravity of the global economy and trade towards the Pacific and the Indian oceans, brought the most populous part of the world to play a role that is broadly equivalent to its importance in the world population, and reshuffled the global upper class in such a way that, for the first time since the Industrial Revolution, it contains a sizeable share of non-Western citizens. This chapter is dedicated to documenting this dramatic change and asking the question: how has it impacted the world and its people?

### *Countries*

#### *The New International Economic Order: the first challenge to the West<sup>1</sup>*

Exactly fifty years ago to the time of this writing, the Group of 77 (G77), the non-aligned countries – or as they were colloquially called, the ‘Third World’ – came up with a proposal for the New International Economic Order (NIEO).<sup>2</sup> The aim of the NIEO was to give greater voting power to the Third World countries in international organizations, most notably the IMF and the World Bank, to pressurize rich countries into providing more aid to the poorest countries, improve the terms of trade for developing countries’ exports, establish the rules of non-interference in political and economic matters of the countries of the Third World, and, in a nutshell, to have

developing countries treated as equal members of the international community, neither subject to the externally organized coups, nor treated with hauteur by the IMF.

At that time, as Figure 1.1 shows, countries of the Third World produced just under a quarter of the global GDP even if they accounted for almost one-half of the world population. In other words, their GDP per capita was about half of the world average. There were of course two other worlds: the 'First World' composed of rich capitalist (or core) countries that included North America, Western Europe, Oceania, and Japan and South Korea, and the 'Second World' of the socialist countries aligned with the Soviet Union. The First World produced 62 per cent of global GDP with 21 per cent of the world population; the Second World produced 13 per cent of global GDP with 9 per cent share of the world population. The First World produced 62 per cent of global GDP with 21 per cent of the world population; the Second World produced 13 per cent of global GDP with 9 per cent share of the world population. The three worlds

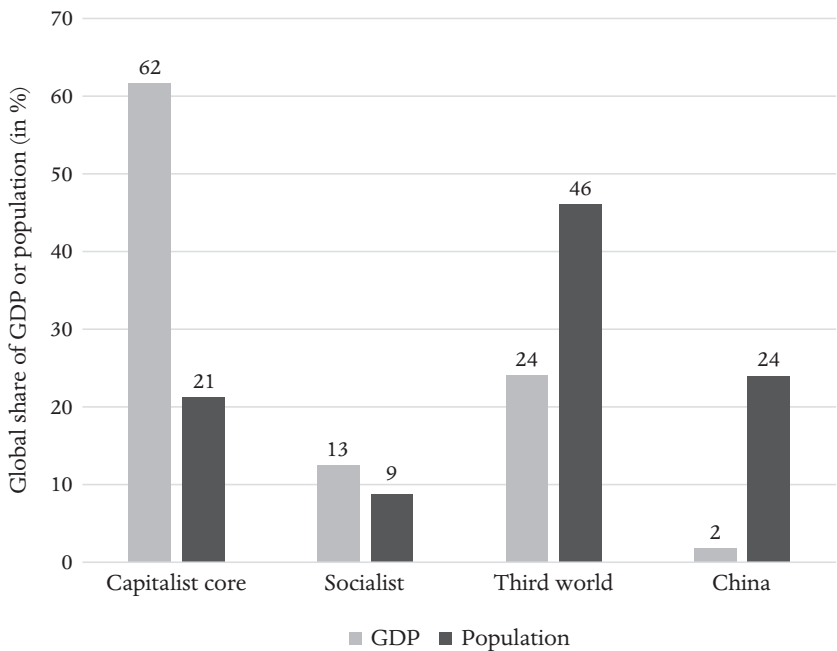


Figure 1.1. Geoeconomics of the world in 1974. Percentage shares of world GDP and world population<sup>3</sup>

between them accounted for 98 per cent of global output but ‘only’ three-quarters of the world population.

One large country stood outside this simplified order: China. While a communist state, China was in conflict with the Soviet Union since the mid-1950s, and even had a brief military conflict in 1969 along its border with the Soviet Union. Although it was a poor country, only liberated from all forms of foreign control after the 1949 Revolution, and thus had a lot in common with the Third World countries of Africa, Asia and Latin America, it stood apart from that group. Thanks to the support of the Third World, it had, just two years earlier, joined the United Nations, expelling the island of Taiwan, which pretended to represent the mainland of China. Yet the People’s Republic failed to officially join the non-aligned movement or the Group of 77. China already by then stood apart. This apartness, and even aloofness, will, as we shall argue throughout, continue to be one of its main features.

Despite its population size, the aloofness of China did not matter that much. The three worlds produced, as we have seen, 98 per cent of the world’s output. China’s contribution was minuscule: 2 per cent, even if one person out of each four in the world lived in the People’s Republic. It was obviously a very poor country, and many thought it was likely to stay so.<sup>4</sup> But there were others, fewer in number, who thought differently. Alain Peyrefitte wrote an influential book in French in 1973, *Quand la Chine s’éveillera . . . le monde tremblera* (‘When China wakes up the world will shake’). The book was never translated into English, but its French edition alone sold some 2 million copies. Peyrefitte saw the rising power of China but located it much more in the size of the population, its work ethic and ancient philosophy than in economic prowess. Nobody could imagine the economic success that China would become.

1974 was a year when the First World was on the defensive. The doubling and then the quadrupling of oil prices, following upon the Egyptian–Israeli war the year before and the oil embargo, shook the rich capitalist world. The scourge of stagflation appeared: prices went up while output stagnated. In fact, many years later, that

period, and even that very year (1974), would be taken as the end-mark of an era that became known as *Les Trente Glorieuses* ('the glorious thirty years'), popularized by the French economist Jean Fourastié.<sup>5</sup> It represented the end of the extraordinary post-war boom of the United States, Western European economies and Japan. It included at least two 'economic miracles' of Japan and West Germany, although one should not forget the almost equally dramatic transformations of France and Italy. Not only did Western countries in that period become richer, but their GDP per capita grew compared to the global GDP per capita, as we shall see in the 'People' section below. Thus the countries of the First World became better off in real (inflation-adjusted) and relative (with respect to the rest of the world) terms. For example, Italian GDP per capita was less than twice as high as the world average in 1952; by 1974, it was almost three times as high. Meanwhile, inequalities in most rich capitalist countries went down. This facet of development became known as the Great Compression (the term was probably introduced by Goldin and Margo in 1991, originally in reference to wage, not income, compression).<sup>6</sup> Finally, rich capitalist countries' incomes converged among themselves. This means that the poorer Western countries grew on average faster than the richer Western countries, and the gap among them diminished. This, in turn, led to the first studies of economic convergence within the rich countries, members of the Organization for Economic Cooperation and Development (OECD). Since it was established early on that this convergence did not spread to other parts of the world, it became fashionable to speak of 'club convergence', with the 'club' in this case including the OECD, or what the World System Theorists called the 'capitalist core'.

All these fine developments of the First World were called into question by the crisis of 1973–74. The oil weapon was in the hands of less developed countries, and not surprisingly, they felt emboldened. The non-aligned movement that existed officially from 1961, and de facto since the Bandung Conference in 1955 that brought together twenty-nine newly liberated Asian and African nations, was the

natural vehicle through which the newly found self-confidence would be expressed.

The Second World, in the meantime, was languishing with gradually decreasing growth rates, widening economic distance from the rich world, and unsuccessful economic reforms that, from the mid-1960s, tried to lift the anaemic growth rates. But more than slow growth, the problem of the Second World was slow technological progress and inefficiency of investment that left it increasingly lagging behind the capitalist core. In order to solve the latter, East European countries turned to borrowing from the West, to buy the newest technological equipment and relaunch growth. It was, as we shall see, an expensive mistake that would, to a large extent, lead to the fall of communist regimes some fifteen years later.<sup>7</sup>

It could be thought that the natural allies of the Third World countries would be the socialist bloc. And indeed, the Soviet Union insisted on that, most strongly at the Havana 1979 conference of the non-aligned movement. Yet it was not obvious how this 'natural alliance' would work, except perhaps in a few matters of international politics like the vote, on certain issues, at the General Assembly of the UN. The Second World was, by its own decision, excluded from the most important international economic organizations. Only a few communist countries were members of the World Bank and the IMF, or participated in the General Agreement on Tariffs and Trade (GATT), and in none of these institutions did they play any important role. After 1945, the USSR stayed, demonstratively, out of all worldwide economic 'entanglements'. The socialist bloc experienced a constant shortage of 'hard currencies', a feature it shared with the Third World. It could not help the Third World in that area. It could not help much with direct investments either, or when it tried, it did it very inefficiently. Overall, compared to the activism, money and intellectual ferment regarding development provided by the West, the Soviet Union and its allied states looked more like observers. The British economist Peter Wiles, in his summary of fifty years of Soviet economic influence on Third World countries, lists only two instances of that influence: Mexican

agrarian reforms under Lázaro Cárdenas, and India's First Five-Year Plan.<sup>8</sup> For sure, the USSR provided enormous credits, mostly in goods and military matériel, to a select group of countries (Syria, Vietnam, Angola, first Eritrea then Ethiopia, Afghanistan), but their economic, as opposed to possible military effects, were small.<sup>9</sup> Many of these debts, after the USSR dissolved and both the Soviet debts and credits were taken by Russia, ended up not being repaid.

Thus, the Third World, in challenging the core capitalist countries in the international economic arena in 1974, was alone. Worse than that, the Third World, despite the single appellation that it shared, was hopelessly divided among itself. It included countries that were staunch US allies like Suharto's Indonesia, those with the elites in the pay of the US (most of Central America and the Caribbean), countries militarily dependent on the US (Iran and South Vietnam), and, at the other end of the spectrum, communist countries like Cuba that were suffering from the US trade embargo (at that time, for more than a decade). The ruling classes in most Third World countries depended, in order to remain in power, on US benevolence. Some leaders, like the Shah of Iran, encouraged by the sudden inflow of dollars, could afford to hector the West while skiing in St Moritz, but most knew well enough that their personal fortunes, in the literal as well as the figurative sense, were linked with the capitalist core. Moreover, the weapon of oil had an ambiguous role. Indeed, it was a tremendous help to countries that had oil (some of them only tenuously part of the Third World: Saudi Arabia, United Arab Emirates and Qatar), but it made life much more expensive and difficult for the Third World countries that were importers of oil. They never got much, if any, subsidized oil from their Third World fellow-members.

The NIEO challenge fizzled out within a period equal to one five-year plan. By the late 1970s or early 1980s, the world had changed dramatically. Ideologically, the West abandoned the development of an ever more progressive welfare state, and turned towards neoliberalism, the movement that would continue until the Global Financial Crisis in 2008 and the rising challenge of China. The West

was willing to risk a deep recession in 1981 to break the stranglehold of trade unions (in Great Britain), to weaken organized labour (as in the United States), to slash inflation through inordinately increased interest rates (the Volcker effect) and thus to change the domestic political set-up. That domestic change produced dramatic effects on the rest of the world. Countries that borrowed the plentiful dollars in the mid-1970s (as the petrol-states could not use them profitably and had to lend them through the intermediary of Western banks) ran into the crisis of repayment. They borrowed with the expectation that the real interest rates would be low or even negative. After the US jacked up its own rates of interest to control double-digit inflation, the effects of higher rates propagated throughout the rest of the world and brought to the edge of bankruptcy Mexico, Brazil, Argentina, Venezuela and several other Latin American countries. In Eastern Europe, in a development that I have already mentioned, high costs of repayment, combined with the failed strategy to ramp up the efficiency of domestic investment through Western technology, led to popular unrest, most notably in Poland, and to either default or all-but-default to Western creditors in Poland, Hungary, Yugoslavia and Romania.<sup>10</sup> The Soviet Union, as we now know from officials' notes and transcripts of Politburo meetings, was unable to cover the income shortfall of its allies, or to provide more subsidized gas and oil, or to lend the foreign exchange of which it was itself short.<sup>11</sup>

The promises made to the working classes by the political parties in power had to be broken in both West and East. In an excellent book, American historian Fritz Bartel describes the process of promise-breaking in the First and Second Worlds in the 1980s, from coal miners in Britain to shipyard workers in Gdansk. 'The international financial system attacked the communist world for the same reason it attacked debtor countries in the Global South at the same time: the high interest rates and budget deficits in the United States began to monopolize the world's capital, and there was little left for everyone else.'<sup>12</sup> Only the strongest survived. The strongest was the West. It was able, after a deep but relatively short recession, to return

to growth – even if by now growth began to assume all the usual features of unequal income gains across classes that were to continue for the next forty years and that were so different from what had happened before 1974. Figure 1.2 shows the real (inflation-adjusted) income gains by decile in the United States between 1964 and 1979, and then between 1979 and 2019. The first line is downward sloping throughout, implying that proportionately higher real income gains were made by the lower deciles. The second-period line is entirely different. Not only is it upward sloping, implying the reverse, namely, that income gains are greater the higher one is in income distribution, but towards the very top the line becomes almost vertical, highly exponential, showing us what by now we all know: the top 1 per cent

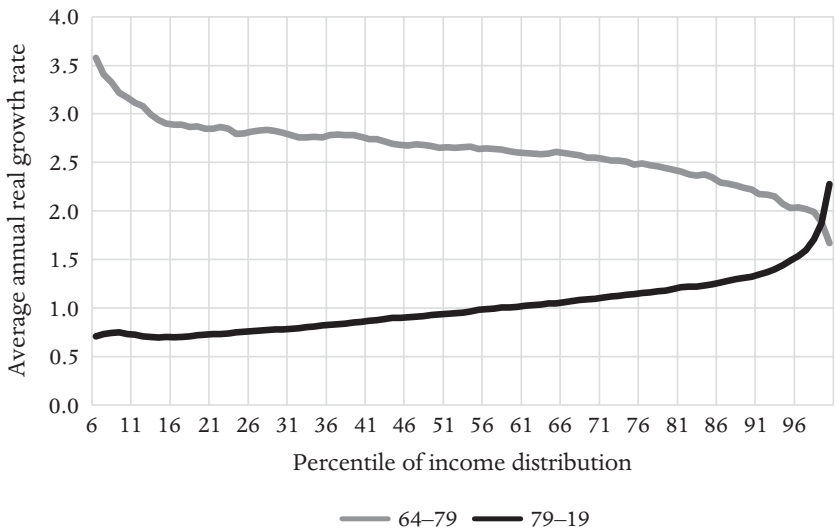


Figure 1.2. United States: Growth incidence curves for 1964–79 and 1979–2019 (average annual real per capita growth)<sup>13</sup>

Note: The growth incidence curves show the real (inflation-adjusted) average per capita growth rate for the periods 1964–79 and 1979–2019. The second period ends before the Covid-19 pandemic. The upward sloping curve implies that the relative (percentage) gains were greater for the rich than the poor. The downward sloping curve implies the opposite.