

A Decade After the Berlin Wall, 'Cold Peace' Replaces Cold War

James K. Galbraith

[Back to Previous Page](#)

We are now 10 years after the fall of the Berlin Wall. Ten years is a long time in economic life — as long as the Great Depression, twice as long as either World War. It is not too early to pass judgment on where we stand.

Since 1989, the governing principles of the world economy have been those of the Washington Consensus. These call for privatization and deregulation of domestic markets, openness to global capital, balanced budgets, sound money and a minimal role for the state. Under this system, the following have occurred:

- Europe has integrated under strict rules requiring balanced budgets and tight money; the result has been stagnation and incredibly high unemployment.
- Japan, which liberalized its banks in the 1980s, a decade ago underwent a bubble and a crash. There has been no significant growth in Japan in the 10 years since.
- The rest of Asia saw a boom fed by speculative finance and a massive crash in 1997. No country has fully recovered.
- In South America, countries already crippled by the lost decade of the 1980s have seen little improvement.

And so far, I have only mentioned the victors and their allies. For the losers, the picture is worse. No central European country has prospered in this decade. The Russian economy has collapsed, producing a public health crisis and a criminal takeover of state resources. Yugoslavia, a non-aligned power in the Cold War, was the greatest victim of its aftermath, suffering a full decade of war and humanitarian disaster.

Meanwhile, little wars or grim stalemates continue in Afghanistan, Angola, the Koreas, Kashmir and the Congo — all unsettled hangovers of the Cold War and its proxy battles.

The clear conclusion is that the Cold War did not end on economic terms as favorable, generous or sensible as those that followed World War II. There was no inter-allied write-off of debts. There was no Bretton Woods. There was no Marshall Plan. There was no re-creation of the United Nations system. Indeed, the U.N. system based on stable sovereignty is eroding, as we see ethnic statelets being set up under NATO protection in Bosnia and now Kosovo. Not to mention Chechnya, where a nasty war now rages on the nominal territory of the world's most unstable nuclear power.

Today's situation closely resembles the punitive and unregulated peace following World War I, with its hyperinflation, its depression, its irredentism, its rise of far-right parties in defeated countries and its steady slide toward new disaster. Then as now, freemarket orthodoxies, balanced budgets and tight money ruled.

There are three major exceptions to this grim overview, and none of them followed the Washington Consensus. They are:

- China, which has pursued gradual change and strong growth, has modified but not abandoned its national institutions and financial controls.

- Germany, having generously absorbed the moribund economy of the German Democratic Republic has the strongest economy in central Europe in spite of difficulties.
- And the United States itself which did not pursue balanced budgets in the 1980s, and in the 1990s has seen a monetary policy aimed at full employment, with expanding tax subsidies for low-income workers and a rising minimum wage.

These cases show that successful economic development is a long-term process that does not depend on simple-minded policy rules. It instead requires market stability, peace, and a measure of sustained and shared confidence or optimism, as well as policies that systematically raise the living standards of working people. These do not spring into existence on their own. They must be built. And in all the recorded cases of sustained development, notably in western Europe from 1945 to 1973, in Japan from 1950 to 1988, in South Korea from 1960 to 1997 and in China from 1979 to the present, that is exactly what happened.

Global capitalism cannot govern itself. It requires strong and sovereign states and effective international institutions. Neither global financial stability nor global peace can be secured by a single superpower; neither can it be left to unregulated markets. Financial flows are fickle, furtive, occult and subject to panics and crashes. In this respect, they resemble the flow of arms. And where financial instability undermines economic stability, violence and war are the usual result.

What we therefore must rebuild, to replace the illusions of the Washington Consensus, are stabilizing national and international institutions. The two dimensions — security and financial — are more closely linked than we are accustomed to think. Getting the institutions right will not be easy or cheap. But the alternative, wrapped in the twin illusions of free-market prosperity and missile shields, could be very much worse. We already know, from the first decade of the Cold Peace, that the alternative is not going to be better.

First published on-line by TheStreet.Com, this article is based on a speech given by James K. Galbraith for ECAAR-Japan at the United Nations University in Tokyo in October, 1999.

Economists for Peace and Security
<http://www.epsusa.org>