

TINA and the market turn: why deindustrialization proceeded under democratic capitalism but not state socialism¹

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Abstract (148 words): Deindustrialization was one of the most social disruptive transformation of the 20th century. Why did democratic capitalist regimes permit and survive this process, while state socialist regimes did not? Drawing on historical evidence from the UK, Poland, and the US, this article advances two mechanisms as explanation: first, enabled by the economy-polity distinction characteristic of capitalism, the belief that “there is no alternative” (TINA) could appear credible in the West, but not the East. Second, the Western turn towards market-led deindustrialization reduced the economic costs of deindustrialization and, more importantly, deprived unrest in the West of focal points to mobilize against. Strengthening the case for these two mechanisms, I rule out four alternative explanations: generic inefficiency in planned economies, differential elite views on the necessity of structural change, immediate acquiescence by Western electorates or trade unions, and a uniquely successful return to high growth rates in the West.

Keywords: democratic capitalism, state socialism, deindustrialization, United Kingdom, Poland, USA

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1. Introduction

Deindustrialization was among the most disruptive social transformations of the 20th century.² Moreover, it was recognized as such early in its unfolding.³ Why, then, did democratic capitalist regimes permit and survive this process, while state socialist regimes did not, so that deindustrialization arrived in Eastern Europe and the former USSR only after the fall of the Berlin Wall?⁴

This outcome is particularly puzzling given that, when the pressures for and the challenges of deindustrialization first became prominent in the 1970s, it was far from obvious that the West would eventually let deindustrialization proceed or that the East would, for as long as it remained state socialist, refuse to undertake it. Nor was it obvious that the regimes of democratic capitalism would survive the unfolding process, while the state socialist regimes would fall, in part, over their inability to manage it.

² E.g. Barry Eichengreen, *The European Economy since 1945* (Princeton, N.J.: Princeton University Press, 2007), chaps. 7–9; Tony Judt, *Postwar: A History of Europe since 1945* (London: Penguin, 2005), chaps. 14–17; Eric Hobsbawm, *The Age of Extremes: The Short Twentieth Century, 1914-1991*, 2nd ed. (London: Penguin, 1994), chap. 14.

³ Alain Touraine, *The Post-Industrial Society. Tomorrow's Social History: Classes, Conflicts and Culture in the Programmed Society*, trans. Leonard Mayhew (New York: Random House, 1971); Gary Gappert, *Post-Affluent America: The Social Economy of the Future* (New York: Franklin Watts, 1979); Michel Aglietta, *A Theory of Capitalist Regulation*, trans. David Fernbach (London: NLB, 1979).

⁴ The article uses 'liberal capitalist states', 'command economies', 'the West', 'the East', etc. to refer, respectively, to the seven European COMECON members (the U.S.S.R., Poland, Romania, East Germany, Czechoslovakia, Hungary and Bulgaria), and to the G7 (the seven largest market economies of the 1970s and 1980s, the United States, Japan, West Germany, the United Kingdom, France, Italy, and Canada) and the smaller democratic capitalist states like Australia, the BeNeLux states, Switzerland, or the Nordics.

Concerning the West, freedom of the press, the post-War strength of trade unions and labour parties, and the rights to strike and protest enabled resistance to deindustrialization to manifest itself openly. Contemporary observers were sceptical concerning states' ability to govern the economy: squeezed between the wage demands of electorates and unions and a free market system that, in principle, allowed firms to raise prices at will, democratic governments were seen as powerless in the face of inflation.⁵ Stagflation, 'malaise', and 'crisis' talk pervaded the West, the Trilateral Commission published a report entitled *The Crisis of Democracy*, and *Time Magazine* ran a cover with the headline "Can Capitalism Survive?"⁶ Seen against this context of instability, even crisis, Western governments may have preferred to check a predictably destabilizing process like deindustrialization—especially since Western governments had limited tools at their disposal, comparatively speaking, to prevent the associated discontent from manifesting itself.

Further, it was unclear to what extent Western governments were capable of acting on such a preference, i.e. capable of stopping or slowing down the process of deindustrialisation: beside the generic difficulties of politically managing a capitalist economy, Crozier, Huntington, and Watanuki identified "a breakdown of traditional means of social control, a delegitimation of political and other forms of authority, and an overload of demands on government."⁷ Habermas and others concurred, diagnosing a crisis of legitimacy and

⁵ James Buchanan and Richard Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes* (New York: Academic Press, 1977).

⁶ Michel Crozier, Samuel Huntington, and Joji Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission* (New York: New York University Press, 1975); "Can Capitalism Survive?," *Time Magazine*, July 14, 1975; Charles Maier, "'Malaise': The Crisis of Capitalism in the 1970s," in *The Shock of the Global: The 1970s in Perspective* (Cambridge, MA: Harvard University Press, 2010).

⁷ Crozier, Huntington, and Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to*

governability alongside the economic and cultural woes afflicting the West.⁸ Potentially unable to stop the process, and encountering great difficulties in managing it, it was unclear whether the democratic capitalist regimes of the West would survive deindustrialisation at all.

In contrast, at the time the command economies were seen as stable, both economically and socially: their administrative control over prices and production decision was thought to render them immune to wage-price inflation spirals; the absence of rival power centres—such as independent trade unions, opposition parties, or civil society organizations—to social unrest. This belief was widely shared, and not just in socialist countries: Robert Dahl observed in 1971 that “hegemonic regimes, especially those with centrally dominated social orders, have at their disposal much more comprehensive means of coercion which they can employ to suppress the expression of discontent [...] Competitive political systems have fewer resources at their disposal for coercing their people, because the essential conditions for a competitive regime, and particularly for a polyarchy, include a more or less pluralistic social order and a variety of effective legal and constitutional constraints on government coercion.”⁹ Alec Nove, the leading British expert on the Soviet economy, wrote in 1977: “in the last few years the Western industrialized economies have been shaken by inflation and recession. The Soviet-type economies have appeared to be relatively stable in an increasingly unstable world.”¹⁰ And as late as 1986, a popular US textbook on the USSR could ask: “Soviet consumers, just like their counterparts everywhere, complain, but why will this form the basis of meaningful pressure

the Trilateral Commission, 8.

⁸ Jürgen Habermas, *Legitimation Crisis* (Boston, MA: Beacon Press, 1975); James O’Connor, *The Fiscal Crisis of the State* (New Brunswick, N.J.: Transaction, 1973).

⁹ Robert A. Dahl, *Polyarchy: Participation and Opposition* (New Haven: Yale University Press, 1971), pp. 92–93.

¹⁰ Alec Nove, *The Soviet Economic System* (London: George Allen & Unwin, 1977), p. 8.

when there is improvement and the vast bulk of the population has a strong, basic admiration for the system?”¹¹

In addition to this backdrop of perceived stability, the Eastern Bloc struggled with a well-known productivity lag vis-à-vis the West and experienced perennial shortages of consumer goods.¹² Given the combination of Eastern stability, Cold-War competition, and the East’s explicit ambition to “catch up and overtake,” one might have expected Eastern governments to do whatever it takes to boost productivity—even if this entailed shrinking the headcount (if not the output) of ideologically valorized heavy industry to free up labour for other uses, i.e. even if it entailed imposing deindustrialization from above.

Why, then, focussing on the period 1970 to 1990, did democratic capitalist regimes permit deindustrialization and survive the process, while state socialist regimes did not?

The argument of this article, defended through process tracing and historical analysis, is that two mechanisms explain the asymmetry of deindustrialization: first, I contend that the *polity-economy distinction* at the heart of capitalism allowed elites durably to shift down expectations in Western, capitalist countries, while its absence greatly hindered a similar process in state socialist countries. In particular, in the West, but not in the East, the claim that “There is no alternative” (TINA) to deindustrialization could be rendered credible, at least to a sufficient number of veto players. Western elites had a discursive object—the non-political economy—to which they could point in justification. Eastern Bloc elites did not.

Second, I argue that the Western turn towards *market-led*, as opposed to centrally directed, deindustrialization was important. Organizing deindustrialization through markets

¹¹ Paul R. Gregory and Robert C. Stuart, *Soviet Economic Structure and Performance*, 3rd ed. (New York: Harper & Row, 1986), p. 430.

¹² János Kornai, *Economics of Shortage* (Amsterdam: North-Holland, 1980); János Kornai, *The Socialist System: The Political Economy of Communism* (Oxford: Oxford University Press, 1992), chaps. 11, 12.

both reduced the aggregate economic costs of adapting to deindustrialization, and, more importantly, led to a diffusion of decision-making and responsibility that deprived unrest in the West of a clear focal point to mobilize against. Taken together, these mechanisms—TINA and the market turn—allowed elites in capitalist societies, but not in state socialist ones, to permit and at times encourage the transition from Fordism to post-industrial society, to break with industrial society without breaking their regimes.

The remainder of this paper is structured as follows: after giving brief definitions, I show that deindustrialization went ahead in the West, while Eastern elites made attempts at, but ultimately backed down from, a similar economic restructuring. Next, I show the working of the two mechanisms—the polity-economy distinction’s rendering credible of TINA, and the turn to market-led deindustrialization—in case studies on the UK, Poland, and the United States in the 1970s. Having laid out these two mechanisms, before concluding I bolster my case by ruling out four competing explanations: generic inefficiency in planned economies, differential elite views on the necessity of structural change, immediate acquiescence by Western electorates or trade unions, and a uniquely successful return to high growth rates in the West.

2. Asymmetric deindustrialization

I define deindustrialization as a decline in industrial employment as percentage of total employment. I use this definition, rather than a definition in terms of industry’s share in GDP or the amount of goods and products produced, since it is the (anticipated and actual) social and political consequences of deindustrialization that are foregrounded in this article; these in turn are better captured by trends in employment rather than value-add or material production.

So defined, the West deindustrialized during the 1970s and 1980s, while the East did not—until the collapse of 1989-1990 (figure 1).¹³

[FIGURE 1 HERE]

Figure title: Asymmetric deindustrialisation during the Cold War

Legend: G7; COMECON

Notes: “G7” refers to the United States, Japan, West Germany, the United Kingdom, France, Italy, and Canada. “COMECON” refers to the seven European COMECON members, the U.S.S.R., Poland, Romania, East Germany, Czechoslovakia, Hungary and Bulgaria

The process of deindustrialization, where it was allowed to go ahead, was highly disruptive. While fundamentally driven by productivity gains—often in reaction to intensifying import competition from the East Asian tiger economies—specific places and communities experienced it as the socially disruptive loss of well-paying and stable jobs.¹⁴ And while in aggregate, it took place gradually and over decades, in particular places it often arrived suddenly, further amplifying its socially disruptive impacts. In Glasgow, for example, the rate of manufacturing job loss held steady at around 2% p.a. from 1961 to 1978, before accelerating to more than 9% per year, or around 20,000 jobs annually, from 1978 to 1981.¹⁵ In New Haven,

¹³ Sources for figure: author’s calculations, based on U.S. Department of Commerce Directorate of Intelligence, *Handbook of Economic Statistics* (Springfield, VA: National Technical Information Service, 1989); U.S. Department of Commerce Directorate of Intelligence, *Handbook of Economic Statistics* (Springfield, VA: National Technical Information Service, 1992).

¹⁴ Stephen Rose, *Is Foreign Trade the Cause of Manufacturing Job Losses?* (Washington, D.C.: Urban Institute, 2018); Martin Sandbu, *The Economics of Belonging* (Princeton: Princeton University Press, 2020), chaps. 2–3.

¹⁵ W. F. Lever, “Deindustrialisation and the Reality of the Post-Industrial City,” *Urban Studies* 28, no. 6 (1991),

CT, the loss rate of manufacturing jobs rose from around 3-4% p.a. from 1954 to 1967 to more than 10% p.a. from 1967 to 1972, eviscerating over forty per cent of the city's manufacturing base in five years.¹⁶ In Turin, the introduction of industrial robots by Fiat during the 1970s led to the loss of 65,000 jobs, or around 40% of Fiat's workforce, in just three years.¹⁷ Similar patterns of gradual decline punctuated by rapid bursts characterized industrial cities and regions between 1970 and 1990 throughout the West, from the Appalachians to Detroit, from Birmingham to county Durham, from Dortmund to the Nord-Pas-de-Calais.¹⁸ This highly concentrated nature of deindustrialization in the West, both temporally and spatially, meant that there was intense resistance, visibly especially in the strike waves of the 1970s, militant political activism, and—in places—the terrorist activity of that decade.¹⁹

This Western experience of deindustrialization contrasts with developments in the Eastern Bloc. Poland offers the clearest example of what was a characteristic pattern: after growing at approximately 3.5% per capita per year in the two post-war decades, the expansion of the Polish economy slowed down dramatically, with a final debt-led growth spurt in the first half of the 1970s gradually and secularly turning to bust from 1976 on.²⁰ Nevertheless, despite

p. 989.

¹⁶ Author's calculations, based on Douglas Rae, *City: Urbanism and Its End* (New Haven: Yale University Press, 2002), p. 362, table 11.1.

¹⁷ Judt, *Postwar: A History of Europe since 1945*, p. 459.

¹⁸ Rae, *City: Urbanism and Its End*; George Packer, *The Unwinding* (New York: Farrar, Straus and Giroux, 2013); J.D. Vance, *Hillbilly Elegy* (New York: Harper, 2016).

¹⁹ Wolfgang Streeck, *Buying Time. The Delayed Crisis of Democratic Capitalism*, trans. Patrick Camiller (London: Verso, 2014), 37; Judt, *Postwar: A History of Europe since 1945*, chap. 14.

²⁰ International Monetary Fund, *World Economic Outlook* (Washington, D.C., 1990), 65, table 18; Kazimierz Poznanski, *Poland's Protracted Transition: Institutional Change and Economic Growth 1970-1994* (Cambridge:

this slow-down, the government was unable to impose adjustment costs—to lower-than-expected growth—on its citizens. When, in order to prevent food shortages, the government attempted to raise grocery prices by 30% to 40% in December 1970—after keeping them stable for over a decade—“[t]he result was an earthquake of working-class protest which toppled Gomulka and shook the regime.”²¹ The protests were violently suppressed, with dozens of deaths and over a thousand injured, but the lesson was clear: social peace and political stability depended on the government not violating the material expectations of Polish workers. A second attempt at imposing adjustment costs, in 1976, did not fare better: renewed protests broke out all across Poland. In Radom, workers “marched to the Party headquarters and, receiving no satisfaction, set fire to it.”²² The attempted price reform was revoked twelve hours after it was announced, the workers who had been arrested were released, and most who had been fired were reinstated to their jobs.²³

By the second half of the 1970s Poland had become “a state with monopoly control over everything—economy, education, the media, cultural institutions, unions, police, the military, entertainment—which could not raise the price of sausage without risking mass social protests.”²⁴ In other words, a state incapable of imposing or managing a predictably painful restructuring process like deindustrialization. Correspondingly, the Polish industrial workforce

Cambridge University Press, 1996), 5, table 1.1.

²¹ Timothy Garton Ash, *The Polish Revolution: Solidarity*, 3rd ed. (New Haven: Yale University Press, 2002), p. 13.

²² *ibid.*, p. 19.

²³ Garton Ash, 19; Poznanski, *Poland's Protracted Transition: Institutional Change and Economic Growth 1970-1994*, 65.

²⁴ Stephen Kotkin, “Kiss of Debt: The East Bloc Goes Borrowing,” in *Shock of the Global: The 1970s in Perspective*, ed. Niall Ferguson et al. (Cambridge, MA: Harvard University Press, 2010), p. 85.

continued growing throughout the 1970s, from 4.1 million workers in 1970 to 5.3 million in 1980. Even after the imposition of martial law in 1981, used to push through limited economic reforms, the industrial workforce shrunk by only a quarter million, settling at 5 million workers in the mid-1980s.²⁵

Fear of similar outbreaks of unrest prevented the imposition of structural change across most of Eastern Europe and the Soviet Union—in fact initially all of the COMECON Seven with the exception of Hungary: In 1970, the COMECON states had a total industrial workforce of 47 million, constituting 27% of their total labour force. In 1980, the COMECON's then-55 million industrial workers continued to constitute 27% of its (now larger) workforce. Only in Hungary did the industrial workforce shrink slightly, from 1.8 million workers (36% of the labour force) in 1970 to 1.7 million workers (33% of the labour force) in 1980.²⁶

Why, then, did the West, but not the East, permit deindustrialization to go ahead? Why, despite the apparent strengths that observers attributed to the state socialist countries, and despite the pervasive sense of malaise, crisis, and ungovernability afflicting Western societies at the time, was the West able to disappoint entrenched expectations, imposing or tolerating deindustrialization and hardship in its industrial regions, while the East did not—at the cost of subsidizing, often from borrowed funds, factories and plants that could be operated with far fewer workers?²⁷

²⁵ Directorate of Intelligence, *Handbook of Economic Statistics*, 1989, 46; Directorate of Intelligence, *Handbook of Economic Statistics*, 1992, p. 37.

²⁶ Directorate of Intelligence, *Handbook of Economic Statistics*, 1989, table 25. Insofar as Hungary was the most market-oriented of the Eastern Bloc economies after 1968, this supports the general thrust of the arguments offered here.

²⁷ On the Eastern Bloc's turn to borrowing from the West, see Kotkin, "Kiss of Debt: The East Bloc Goes Borrowing"; Michael De Groot, "'Nobody Has a Solution': The 1973 Oil Crisis in the Eastern Bloc," in

Leaving aside the causes of the underlying pressure towards deindustrialisation,²⁸ in the next section I argue that the West's ability to tolerate and at times encourage this process was the result of two mechanisms: first, a bitter, and in its individual elements contingent, process of expectation shifting, enabled by the polity-economy distinction that lies at the heart of capitalism. As a result of this process of expectation shifting, Western regime elites could eventually persuade a sufficient number of veto players of, and win elections on, "There is no alternative." Second, the efficient and demobilizing nature of market-led change: organizing deindustrialization through markets both reduced the aggregate economic costs of adapting to deindustrialization, and led to a diffusion of decision-making and responsibility that deprived unrest in the West of a clear focal point to mobilize against. Taken together, I claim, these features allowed elites in democratic capitalist states, but not their counterparts in centrally planned economies, to deindustrialize without fatally undermining regime legitimacy.

Disruption: Economic Globalisation and the End of the Cold War Order in the 1970s (Manuscript, 2018); Fritz Bartel, *The Privatization of the Cold War: Oil, Finance, and the Fall of Communism* (Manuscript, forthcoming with Harvard University Press, 2020).

²⁸ As is well-documented, the pressure to deindustrialise emerged from growing competition on global markets, particularly from the East Asian tigers, as well as from technological change driving up output per workers, so that far fewer workers would suffice for stable or even growing industrial output. See e.g. Sandbu, *The Economics of Belonging*, chap. 2. In the East, the mechanisms through which pressure for deindustrialisation emerged were slightly different but beside geopolitical competition with the West, a desire for improved consumption goods and higher living standards played a central role. Since this article is primarily concerned with the political and social *reactions* to these pressures, rather than the pressures themselves, it leaves the causes of the initial pressure to one side.

3. Enabling TINA: the importance of the polity-economy distinction

The first mechanism that explains this divergence is the following: the distinction between polity and economy that is constitutive of capitalism allowed beliefs of necessity (the necessity of deindustrialization and austerity) to become widespread in the West in a manner that, despite repeated attempts by elites in the East to disseminate similar beliefs, was not possible the East. These beliefs of necessity in turn allowed a style of politics to succeed that is best summarized in Margaret Thatcher's slogan: "There is no alternative."

A central feature of capitalism is that economy and polity are seen as separate entities.²⁹ This separation, while artificial,³⁰ has an important consequence: When economic reforms were initiated in the West—whether the direct control of refining and fuel distribution, the decision to let the dollar float, a bout of Keynesian stimulus or austerity—subsequent movements in inflation, unemployment, strike rates, growth, and other variables could be read as signals of whether the reforms in question were succeeding or failing, particularly in comparison to other G7 economies. The signals generated were noisy and imperfect, to be sure. But precisely because "[t]he economic is nonpolitical"³¹ under capitalism, the credibility of these signals was largely independent of the credibility of the government of the day.

This allowed for a 'trial and error' feedback loop—if not in intention, then in effect—where economic policies were implemented, changes in various variables were publicly

²⁹ Ellen Meiksins Wood, "The Separation of the Economic and the Political in Capitalism," *New Left Review* 127, no. 1 (1981), pp. 66–95; Fred Block and Margaret R. Somers, *The Power of Market Fundamentalism: Karl Polanyi's Critique* (Cambridge, MA: Harvard University Press, 2014).

³⁰ Artificial in the sense of artifice, i.e. made or produced by humans rather than nature, not in the sense of (necessarily) false or spurious.

³¹ Nancy Fraser, "Legitimation Crisis? On the Political Contradictions of Financialized Capitalism," *Critical Historical Studies*, no. Fall (2015), p. 163.

perceived, and the reform in question then either deemed a success, in which case the government's legitimacy benefited, or a failure, in which case the particular policy was discredited, but rhetorical ammunition was produced for persuading veto players to accept a different policy in the next iteration.

In this manner each attempt to *maintain* the network of agreements that had built up during the Golden Age—assuring steady wage growth and low unemployment, at least for male breadwinners in industrial employment—provided future support for its *dismantling*. More specifically, where attempts at Keynesian stimulus, direct wage controls, sector-level command-and-control measures, or financial repression resulted in inflation and queues; where attempts to double down on these policies appeared to worsen these problems; and where broadly similar patterns were observed not just at home but in other G7 economies, political space was opened up to attempt new policies, even where these were known to involve the breaking of (explicit or implicit) agreements and promises, and the decline of prized firms, industries and regions.

4. A comparative case study in creating beliefs of necessity (1): The United Kingdom

This description was given at a high level of abstraction. Both to detail the workings of the mechanism just described and, through process-tracing, to offer evidence of its operation, I show how beliefs of necessity were and were not created in Poland and the UK during the 1970s.

The 1970s were a difficult period for the UK. Caught between the end of Fordism, powerful trade unions, and the oil shocks of 1973 and 1979, successive governments failed to control inflation or to achieve growth rates similar to those of France, Germany or Italy.³²

³² Judt, *Postwar: A History of Europe since 1945*, pp. 538–39; see also Colin Hay, “Chronicles of a Death Foretold: The Winter of Discontent and Construction of the Crisis of British Keynesianism,” *Parliamentary Affairs* 63, no.

Britain was widely considered to be the “sick man of Europe.”³³ “Ruminations on the nation’s failure were so widespread that it engendered a phenomenon of ‘declinism’.”³⁴

Yet, when John Hoskyns, advisor to Margaret Thatcher, first presented the *Stepping Stones* report, an ambitious policy- and communications programme that would become the blueprint for Thatcherism, it received a lukewarm welcome among the Tory leadership in late 1977 and 1978.³⁵ Indeed, ever since winning the leadership in 1975, Margaret Thatcher had attempted to push the Conservative Party to adopt a monetarist, neoliberal economic policy, intended to end the support that previous Conservative and Labour governments had given to ailing firms in declining sectors—i.e. a policy of deindustrialization.³⁶ Until 1978, the results of her attempts at persuasion were decidedly mixed. “In truth,” Margaret Thatcher observed in 1978, “I was disagreeably reminded of what little real progress in analysis or policy we had made in Opposition over the last three years.”³⁷

The reasons for this were straightforward: campaigning on the kinds of policies proposed by Thatcher, Hoskyns, and the *Stepping Stones* report—weakening trade unions, privatizing industry, forcing unemployment up and inflation down through tight monetary

3 (2010), pp. 448–51.

³³ Sidney Pollard, *The Wasting of the British Economy: British Economic Policy 1945 to the Present* (London: Croom Helm, 1982).

³⁴ Gino Raymond, “The 1970s and the Thatcherite Revolution: Crisis of Ideology or Control?,” *Revue Française de Civilisation Britannique. French Journal of British Studies* XXI, no. 2 (2016), p. 5; Jim Tomlinson, “The Politics of Declinism,” in *Reassessing 1970s Britain*, ed. Lawrence Black, Hugh Pemberton, and Pat Thane (Manchester: Manchester University Press, 2013), pp. 41–60.

³⁵ Bartel, *The Triumph of Broken Promises: Oil, Finance, and the End of the Cold War*, chap. 4.

³⁶ Margaret Thatcher, *The Path to Power* (New York: HarperCollins, 1995), chap. 9 and 11, particularly p. 397.

³⁷ *ibid.*, p. 410.

policy, and thereby organizing a decentralized, market-led, unsparing form of deindustrialization—were thought to be politically suicidal.³⁸ Hence “most of the party leadership relied on the tried and true method for dealing with uncomfortable topics: simply not talking about it.”³⁹ The suspicion that a direct confrontation with trade unions would result in electoral defeat, well-founded in light of Edward Heath’s election loss of 1974, meant that party elites, both in the Conservative and in the Labour Party, had little appetite for staging such a confrontation in the first place. In case of the Conservative Party, this was despite the fact that Margaret Thatcher, the party leader herself, had been advocating such policies energetically for more than three years.

In Thatcher’s own words, “It took the strikes of the winter of 1978/9 to change all that.”⁴⁰ Towards the end of 1978, James Callaghan’s IMF-sponsored incomes policy, intended to bring down inflation by imposing a ceiling on wage increases, broke down under the pressure of unmet expectations. With inflation running at around 9%, the Callaghan government asked unions to bargain for no more than 5% wage increases, i.e. to accept a significant real wage cut. Given that real wages had already declined by 13% between 1975 and 1978—the largest reduction in purchasing power since 1931-32—rank-and-file members were unwilling to accept this guideline, even as their leadership showed a willingness to bargain on this basis.⁴¹

³⁸ *ibid.*, p. 421.

³⁹ Bartel, *The Triumph of Broken Promises: Oil, Finance, and the End of the Cold War*, chap. 4.

⁴⁰ Thatcher, *The Path to Power*, pp. 394–95; see also Eric J. Evans, *Thatcher and Thatcherism* (London: Routledge, 1997), pp. 14–15.

⁴¹ Hay, “Chronicles of a Death Foretold: The Winter of Discontent and Construction of the Crisis of British Keynesianism,” p. 450.

Between November 1978 and February 1979, four waves of labour disputes rocked British society, with lorry drivers (including oil tankers), railroad workers, nurses, waste collectors, and grave diggers on strike at various points throughout the winter. The peak was reached in a combined Day of Action on 22nd January 1979 when, during the coldest January in fifteen years,⁴² 1.5 million workers went on strike—a figure only exceeded once before, by the 1926 General Strike, and never since.⁴³ As Bartel puts it, “British society virtually ceased to function in the months surrounding the turn from 1978 to 1979.”⁴⁴

The political consequences were pivotal: whereas in November 1978, the Labour government was polling just one percentage point behind the opposition, by February 1979 the polling gap had widened to 19 percent.⁴⁵ Labelled “the Winter of Discontent,” it was widely perceived as a sign that the post-War settlement had broken down beyond repair.⁴⁶ Independently of whether this perception was an accurate assessment of the events—and there are reasons to doubt that it was⁴⁷—this was the dominant interpretation at the time.⁴⁸

⁴² UK Meteorological Office, “Mostly Very Cold and Snowy, with Freezing Fog at Times,” *Monthly Weather Report* 96, no. 1 (1979), pp. 41–44.

⁴³ Hay, “Chronicles of a Death Foretold: The Winter of Discontent and Construction of the Crisis of British Keynesianism,” p. 455.

⁴⁴ Bartel, *The Triumph of Broken Promises: Oil, Finance, and the End of the Cold War*, chap. 4.

⁴⁵ William Rodgers, “Government Under Stress. Britain’s Winter of Discontent 1979,” *The Political Quarterly* 55, no. 2 (2005), p. 171.

⁴⁶ Hay, “Chronicles of a Death Foretold: The Winter of Discontent and Construction of the Crisis of British Keynesianism,” p. 448.

⁴⁷ *ibid.*, pp. 456–64.

⁴⁸ *ibid.*, pp. 464–66.

As a result, the same party elites who had earlier resisted persuasion were now open to being swayed, because they in turn had come to believe that a majority of the electorate—in virtue of having perceived the same signal—could be convinced of a Thatcherite platform. “Between the summer of 1978 and the dissolution of Parliament in March 1979 outside events, above all that winter’s strikes, allowed me [Margaret Thatcher] to shift our policies in the direction I wanted. The balance of opinion in the Shadow Cabinet, *following rather than leading opinion in the country*, was now that we could and should obtain a mandate to clip the wings of the trade union militants.”⁴⁹

This did not imply that the implementation of such a program would proceed smoothly. When implementation began in earnest, in particular with the budget of 1981, it provoked an immediate and strong backlash, both in the streets, with the Brixton and Liverpool riots, and from academia.⁵⁰ Nevertheless, in large part because of the shift in public opinion engendered by the Winter of Discontent (captured in the 18 point polling shift mentioned above), and because Thatcherite deindustrialization policies had been openly advanced and prevailed in an electoral campaign, the regime’s fundamental legitimacy survived, and the policy paradigm shift—the turn towards a politics of breaking promises—proved durable.^{51, 52}

⁴⁹ Thatcher, *The Path to Power*, 435, italics added.

⁵⁰ 364 economists signed a letter saying “There is no basis in economic theory or supporting evidence for the government’s belief that by deflating demand they will bring inflation permanently under control.” The 1981 budget, so they said, “will only deepen the depression.” Quoted in Bartel (2018, chap. 4).

⁵¹ Stathis Kalyvas, “Hegemony Breakdown: The Collapse of Nationalization in Britain and France,” *Politics & Society* 22, no. 3 (1994), pp. 316–48.

⁵² Note that this account meshes well with how scholars have described this period and process in the United States: “the conservative reaction to the policies of the welfare-defense state in late-twentieth century America suggests that the more trusted way to handle the gap [between aspirations and outcomes] has been not by

While the mechanism of shifting expectations was particularly clear in Thatcher's conversion of the Conservative Party, this was not an isolated case: Similar iterations of trial and error—where the shared interpretation that previous economic reforms (usually attempts to reduce inflation and unemployment and increase growth while shielding workforces in legacy industries) had failed was crucial for persuading veto players of the merits of the deindustrialization policies that were in the end adopted—can be seen, for example, in the Labour government's eventual turn to the IMF and austerity in 1976;⁵³ in the *tournant de la rigueur* of the Mitterrand government between 1981 and 1983;⁵⁴ and in Presidents' Nixon, Ford, Carter and then Reagan's handling of the energy crisis of the 1970s, covered in more detail below.⁵⁵

committing more resources, or trying even harder to effectively implement general goals, but by lowering public expectations.” Yaron Ezrahi, *The Descent of Icarus* (Cambridge, MA: Harvard University Press, 1990), p. 254.

⁵³ Kathleen Burk and Alec Cairncross, *Goodbye, Great Britain: The 1976 IMF Crisis* (New Haven: Yale University Press, 1992). The emblem of this turn was James Callaghan's pronouncement at the 1976 Labour Party conference “We used to think that you could spend your way out of a recession, and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists.” Steven Fielding, “The 1974-9 Governments and ‘New’ Labour,” in *New Labour, Old Labour: The Wilson and Callaghan Governments, 1974-79*, ed. Anthony Seldon and Kevin Hickson (London: Routledge, 2004), p. 288.

⁵⁴ Jean-Charles Asselain, “L'expérience Socialiste Face à La Contrainte Étrangère (1981-3),” in *Les Années Mitterrand: Les Années Du Changement, 1981-1984*, ed. Serge Berstein, Pierre Milza, and Jean-Louis Bianco (Paris: Perrin, 2001), pp. 419–20; Michel Margairaz, “Rapport Introductif,” in *François Mitterrand: Les Années Du Changement*, ed. Serge Berstein, Pierre Milza, and Jean-Louis Bianco (Paris: Perrin, 2001), pp. 334–35; Mathieu Fulla, *Les Socialistes Français et l'Économie (1944-81)* (Paris: Les Presses de Sciences Po, 2016), pp. 400–403.

⁵⁵ Meg Jacobs, *Panic at the Pump* (London: Macmillan, 2016).

5. A comparative case study in creating beliefs of necessity (2): Poland

To underline how this mechanism is linked to the economy-polity divide constitutive of capitalism, it is instructive to observe the corresponding process of attempted expectation shifting in a command economy. By the later 1970s, it was no secret that “the strong and persistent emphasis of all the CPEs [centrally planned economies] on heavy industry and machine building came at the expense of a number of important new sectors embodying the cutting edge of technological progress and economic growth” such as chemicals or information technology and electronics.⁵⁶

In principle, a ‘trial and error’ loop similar to that taking place in the UK could have created similar preconditions for persuasion in the planned economies: the relevant central planning offices could have, for example, re-allocated workers from heavy industry to electronics, agriculture, or services, and not only could the executive have learned what the economic effects of this were—likely an increase in politically salient consumption goods in shops—but due to its secret police apparatus, it could also have learned what the public perception of this shift were—perhaps increased diffused approval combined with concentrated discontent among former industrial workers. However, although this would have produced information for government decision makers, potentially useful for convincing rival elites of the necessity of deindustrialization, this kind of feedback loop would have failed to produce the preconditions of *public* persuasion. Unlike in capitalism, polity and economy were not thought to be separate in state socialism. Hence, even if the results of such a ‘trial and error’ loop had been made public, they would have failed to convince a public that was already deeply mistrustful of political authorities’ pronouncements on economic questions.

⁵⁶ Gur Ofer, “Productivity, Competitiveness, and the Socialist System,” in *International Productivity & Competitiveness*, ed. Bert G Hickman (Oxford: Oxford University Press, 1992), p. 111.

The Polish Politburo's attempt to convince their veto players, in this case the leadership and rank-and-file of Solidarity (the independent trade union founded by Lech Wałęsa in September 1980) that there is no alternative to painful economic reforms demonstrates the pitfalls of public persuasion in the absence of depoliticized economic signals.

In 1980, a third attempt at price reform by the Polish government led, like in 1970 and 1976, to strikes and protests. In response, in August 1980 the government effectively revoked its price increases via salary increases, agreed in the Gdansk Accords.⁵⁷

This U-turn—incidentally a state socialist variant of the price/wage spirals common in the West throughout the 1970s—bought the government no more than three months of breathing room: “the state of the economy made it impossible to meet the material commitments in the time-spans indicated.”⁵⁸ Food output for 1980 came in considerably below plan because of intense spring floods, “the worst ever reported in the postwar years.”⁵⁹ And as the Volcker Shock drove up US interest rates over the course of 1980, attracting capital flows that otherwise might have gone to the East, and as Polish political unrest changed lenders' risk assessments, new lending dried up. By December 1980, dwindling exchange reserves and the poor harvest necessitated a renewed attempt at reducing food consumption.⁶⁰ As prices were increased and the material promises of the Gdansk Agreement broken, strikes and unrest recommenced.

⁵⁷ Garton Ash, *The Polish Revolution: Solidarity*, pp. 74–78.

⁵⁸ *ibid.*, pp. 77–78.

⁵⁹ Poznanski, *Poland's Protracted Transition: Institutional Change and Economic Growth 1970-1994*, 24.

⁶⁰ During the 1970s, Poland had become a major importer of food from the West, so that the food supply became linked to the amount of hard currency Poland could acquire through borrowing and exports. See Anita Tiraspolsky, “Food Self-Sufficiency in Eastern Europe,” *Eastern European Economics* 19, no. 1 (1980): 3–27.

On the one hand, it was clear to the government that the imposition of hardship was by now unavoidable: economists estimated that food price increases of 100% to 300%, large cuts in subsidies, and “massive redundancies of the order of 1.2 million” were required.⁶¹ On the other hand, in light of three failed attempts at shifting down material expectations over the last decade, the government also realised that it could not do this without winning public support for this programme, which meant winning the support of Solidarity, the independent trade union recognised in the late summer of 1980.⁶² In light of this twin realisation, the government spent most of 1981 attempting to build sufficient public support for a politics of structural reform.

The attempt at persuasion started well enough: In March 1981, the government shared confidential information about the state of the economy,⁶³ which succeeded in convincing Solidarity’s leadership of the gravity of the situation: “Their [Solidarity’s] economists told them [...] they would have to support a stringent austerity program. [...] the workers would have to accept those drastic price increases which they had effectively vetoed in 1970, 1976, and 1980. Moreover, the ‘rationalization’ of industry would require the relocation of labour, which would mean putting up to one million people out of work.”⁶⁴ From Spring 1981 on, both the Communist party elite and Solidarity’s leadership understood that austerity and deindustrialization were necessary.

⁶¹ Domenico Mario Nuti, “The Polish Crisis: Economic Factors and Constraints,” *Socialist Register* 18, no. 18 (1981): 130–31. In February 1982, under the cover of martial law, the prices of many consumer goods were increased by even more, 300 to 400 per cent; Poznanski, *Poland’s Protracted Transition: Institutional Change and Economic Growth 1970-1994*, p. 85.

⁶² Garton Ash, *The Polish Revolution: Solidarity*, p. 202.

⁶³ Bartel, *The Triumph of Broken Promises: Oil, Finance, and the End of the Cold War*, chap. 4.

⁶⁴ Garton Ash, *The Polish Revolution: Solidarity*, pp. 114–15.

However, despite this recognition negotiations soon turned sour. The fallout over a small-scale violent confrontation in March 1981 could be contained; but the continued shortage of foreign exchange could not. As the government ran out of hard currency in the spring, a new round of austerity was required, resulting not just in price increases but in the introduction of rationing cards for meat, butter, and grain.⁶⁵ More than thirty years after the end of World War II, and after decades of panegyrics on socialist economic prowess, the population interpreted the introduction of rationing as a political decision to squeeze the people at large so that the party, security forces, the Soviet Union, as well as Western creditors could be lavishly supplied. “Having been lied to for so long, the Poles did not believe their rulers even when they were telling the truth.”⁶⁶

In virtue of the deeply conjoined nature of polity and economy, there was no credible signal—not even the two leadership changes of September 1980 and October 1981⁶⁷—that the government could send to indicate that the shortages were *not* politically driven. As a result, the hand of Solidarity’s leadership was forced from below. Time and again, Solidarity’s leadership had to use “all their combined magic to pull back yet another region [...] back from the verge of a general strike.”⁶⁸ After “each new blow to the economy, the Solidarity leadership felt compelled by popular pressure to demand more social and political power in return for its sponsorship of austerity and reform.”⁶⁹

⁶⁵ Bartel, *The Triumph of Broken Promises: Oil, Finance, and the End of the Cold War*, chap. 4.

⁶⁶ Garton Ash, *The Polish Revolution: Solidarity*, p. 193.

⁶⁷ Edward Gierek was replaced by Stanisław Kania in September 1980, who in turn was replaced by Wojciech Jaruzelski in October 1981.

⁶⁸ Garton Ash, *The Polish Revolution: Solidarity*, p. 158.

⁶⁹ Bartel, *The Triumph of Broken Promises: Oil, Finance, and the End of the Cold War*, chap. 4.

Driven by this dynamic, relations deteriorated further. Although Solidarity's leadership acknowledged the severity of the situation behind closed doors, by October 1981 Deputy Prime Minister Rakowski angrily reported that "our partners, or rather our opponents [Solidarity] [...] publicly take the position that if the government agrees to give them control over the economy and government policy, then the economic misery and severe shortages...will disappear like morning fog."⁷⁰

Negotiations between the government and Solidarity continued through the fall of 1981, but by winter a peaceful solution was out of reach. The population believed that austerity was a political attempt to extract more resource from it. The government had no signal that could unilaterally alter this belief, short of regime abdication. Solidarity's leadership in turn could not support the government's line that austerity and structural reform were needed without looking like the government's stooge, thus losing the support and allegiance of its rank-and-file membership, and likely its own position in the movement. This presented Solidarity's leadership with a dilemma: unconditionally (or with weak conditionality) support a program of austerity and structural change that they knew was necessary, risking self-destruction at the hands of its more militant rank-and-file members; or tie support for this programme to demands amounting to regime change, preserving legitimacy in the eye of its rank-and-file but risking destruction at the hands of the regime. Solidarity's leadership, even had it wanted to support structural reform of the Polish economy without at the same time demanding political reform, thus faced a situation similar to Margaret Thatcher in the pre-Winter of Discontent Conservative Party: internal to the status quo, the preconditions for persuading its own veto players of the necessity of austerity and structural change were not given.

⁷⁰ *ibid.*, chap. 4.

The government concluded that a negotiated solution was ever more unlikely and prepared a crackdown.⁷¹ Solidarity, amid rumours of troop movements and after the government violently broke up small-scale strikes in early December, convened an emergency meeting of its National Committee on the 11th of December.

At the meeting, Solidarity's leadership decided that the time had come to force the matter: they would demand free elections and a free press, as well as the institution of a parallel, Solidarity-run, economic government with veto power over government economic policy.⁷² These demands, however, never reached the public: having wiretapped the meeting, the Polish Politburo decided to move ahead with the planned crackdown. Solidarity's leadership was arrested, martial law imposed, and two weeks of strikes, repression, and fighting around factories, mines, and shipyards followed.⁷³

The crackdown bought the government another decade in power; but the attempt to convince the public of the necessity of deindustrialization via winning the support of Solidarity had failed. During the 1980s “[d]espite nearly overwhelming evidence that one of the key sources of Poland's economic problems was overexpansion in traditional industries, they were still given highest priority. ... This investment strategy [...] was doomed to fail and it did.” As late as the 1986-1990 plan, 36% of *all* investment was allocated to coal mining and the energy sector, and the largest increase in investment was dedicated to metallurgy.⁷⁴

⁷¹ Garton Ash, *The Polish Revolution: Solidarity*, pp. 244–49.

⁷² Bartel, *The Privatization of the Cold War: Oil, Finance, and the Fall of Communism*, chap. 4; Mieczysław Rakowski, *Dzienniki Polityczne, 1981-1983* (Warsaw: Iskry, 2004), pp. 112–19; David Ost, *Solidarity and the Politics of Anti-Politics* (Philadelphia: Temple University Press, 1990), p. 144.

⁷³ Garton Ash, *The Polish Revolution: Solidarity*, pp. 273–80.

⁷⁴ Poznanski, *Poland's Protracted Transition: Institutional Change and Economic Growth 1970-1994*, 99.

Although there was a genuine economic crisis; although there was publicly seen to be such a crisis; and although—behind closed doors—both reigning elites *and* challenger elites agreed that austerity and deindustrialization were inevitably required, the reigning regime could not take the necessary restructuring measures without sparking massive unrest, as had happened in 1970, 1976, and 1980. On the opposition side, even after Solidarity's leadership knew austerity and deindustrialization to be necessary, i.e. from March 1981 on, it could not publicly support it without either demanding regime change or fatally undermining its own credibility with rank-and-file members. As a result, instead of winning Solidarity's support, the government resorted to a crackdown that, while staving off Solidarity's challenge in the short run, marked the beginning of the end for state socialism in Poland.⁷⁵

Summarizing the first mechanism, in the West the separation of polity and economy allowed for changes in economic performance to be read as credible and independent (if noisy) signals about the efficacy of public policy, by both policy makers and publics. The groping for solutions to unemployment, high energy prices, and low growth led to a series of economic signals (e.g. persistent stagflation in much of the G7 economies; US fuel rationing in 1973/4; the UK's IMF crisis of 1976 and the Winter of Discontent of 1979; Italy's turn to the IMF in 1974 and 1977;⁷⁶ France's departure from the Snake in 1976 and its series of balance of payment crises in October 1981, June 1982, and March 1983) that, in discrediting the approaches that had been tried, created political space for policies that were known in advance to be painful. In contrast, in the East substantially similar symptoms (disappointed economic expectations, shortages, queues and, on the black market, inflation) were interpreted by the

⁷⁵ Stephen Kotkin, *Uncivil Society. 1989 and the Implosion of the Communist Establishment*. (New York: Modern Library, 2009), pp. 99–131.

⁷⁶ Harold James, *International Monetary Cooperation Since Bretton Woods* (Oxford: Oxford University Press, 1996), pp. 283–85.

population at large as a *political* attempt to exercise pressure on the populace and to skim off ever more surplus for political elites, Soviet overlords, and Western creditors.⁷⁷ In the West, a sufficient number of people were gradually convinced that there was no alternative to painful austerity and deindustrialization. In Poland, a parallel process of persuasion, actively pursued by the government, was blocked by the belief that large surpluses existed and were skimmed off, so that austerity and deindustrialization were not seen as necessary. As the 1990s would show, this belief was largely mistaken: boosting productivity and thus prosperity did require large-scale deindustrialization. But there was no way to convince veto players of this under state socialism.

6. The efficient and demobilizing nature of market-driven change

A second mechanism that enabled Western governments to permit and encourage deindustrialization without breaking their regimes was the turn towards market-driven deindustrialization, via the ‘unleashing’ of capitalism that began in the late 1970s.⁷⁸

This market turn was not foreordained. More centralized, state-directed approaches to deindustrialization were live options at the time, and were put into practice in particular industries and countries. Much of the consolidation and rationalization of the British car

⁷⁷ Although this mechanism was here described for the case of Poland, similar dynamics were at work across the Eastern Bloc. E.g. in Hungary: “in the state-socialist context flaws stemming from ill-conceived design or inadequate materials were experienced in *explicitly political terms*. Consumers interpreted them as evidence of malicious intent, cheapness, negligence, or simple incompetence on the part of the Hungarian state, as unitary designer/producer. If imported from a COMECON nation, these flaws were evidence of the failure of the Soviet system.” Krisztina Fehérváry, “Goods and States: The Political Logic of State-Socialist Material Culture,” *Comparative Studies in Society and History* 51, no. 2 (2009), p. 446, italic added.

⁷⁸ Andrew Glyn, *Capitalism Unleashed* (Oxford: Oxford University Press, 2006).

industry, for example, proceed under public ownership from 1975 on.⁷⁹ Two years earlier, at its 1973 conference, the UK Labour Party adopted a plan to nationalize around twenty leading manufacturing firms, for use as levers of industrial modernization.⁸⁰ This plan was never implemented in the UK, but a similar approach was enacted in France in the early 1980s: the commanding heights of French industry were nationalized, and then rationalized under state guidance with considerable job losses.⁸¹ These cases, however, remained exceptions. Overall, and particularly in the 1980s, the bulk of deindustrialization in the West was organized through privatizations, the withdrawing of state subsidies, tightening financial conditions, and letting non-profitable firms go out of business.⁸²

This market turn facilitated the politics of deindustrialization in two ways: first, it reduced the economic costs of restructuring economies in light of growing energy scarcity and new labour-saving technologies. Second, it reduced the likelihood that the associated unrest would crystallize around a single focal point, and hence contributed to demobilizing discontent.

The claim that the market turn of the late 1970s reduced the economic costs of deindustrialization—a claim specific to a particular historical moment—should not be misunderstood as the claim that free markets are the most efficient way, in general, of

⁷⁹ Roy Church, *The Rise and Decline of the British Motor Industry* (Cambridge: Cambridge University Press, 1995), chap. 3.

⁸⁰ Glyn, *Capitalism Unleashed*, p. 20.

⁸¹ Michel Margairaz, “Les Nationalisations : La Fin d’une Culture Politique ?,” in *Les Années Mitterrand : Les Années Du Changement, 1981-1984*, ed. Serge Berstein, Pierre Milza, and Jean-Louis Bianco (Paris: Perrin, 2001), pp. 344–84.

⁸² Hobsbawm, *The Age of Extremes: The Short Twentieth Century, 1914-1991*, chap. 14; Jacobs, *Panic at the Pump*, chaps. 4, 8; Eichengreen, *The European Economy since 1945*, chap. 9, esp. pp. 277-82.

coordinating production and consumption in an extended division of labour.⁸³ Nevertheless, in a context of major relative price changes, in particular increases in energy prices and declines in the costs of transport, electronics, and communication, removing legislative restrictions on prices and quantities and ending subsidies to loss-making firms allowed—indeed forced—capital and labour to move from broadly less to broadly more efficient uses. As the following case study from the US energy sector shows, the particular price and quantity regulation in place could result in unintentional interaction effects that prevented adjustment to relative price changes, while causing significant collateral damage. Turning to market coordination thus both addressed unintentional interaction effects of earlier regulation and brought into play adjustment processes that a central planner would likely have missed, and that state-owned enterprises did not initiate on their own from below.⁸⁴

In October 1973, responding to Western logistical support for Israel in the Yom Kippur war, OPEC announced an oil embargo and started to cut back production. Oil prices quickly quadrupled. In the US, price controls that had been introduced two years before to manage inflation prevented oil firms from passing on the price increase. Demand for petrol quickly

⁸³ Market coordination can be suboptimal for a number of reasons, including positive and negative externalities, information asymmetries, public goods, monopoly and oligopoly, the volatility and non-rationality of financial markets in the face of fundamental uncertainty, the existence of multiple equilibria, and the possibility of market economies to enter demand-side secular stagnation. For a general overview of market failures, see John Cassidy, *How Markets Fail* (New York: Picador, 2009); on externalities, see Arthur Pigou, *The Economics of Welfare* (London: Macmillan, 1920); on information asymmetries, see George A. Akerlof, “The Market for ‘Lemons’: Quality Uncertainty and the Market Mechanism,” *The Quarterly Journal of Economics* 84, no. 3 (1970), pp. 488–500; on volatility in financial markets, see Hyman Minsky, *Stabilizing an Unstable Economy* (New Haven: Yale University Press, 1986); on demand-side secular stagnation, see John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (London: Macmillan, 1936).

⁸⁴ Kornai, *The Socialist System: The Political Economy of Communism*.

exceeded the now-reduced supply. Petrol stations ran out of fuel, with long queues forming in response.⁸⁵ Just as with the British response to stagflation covered above, the US government did not at first turn to markets and deregulation. This approach was ruled out on political grounds: in the short run it would have led to unpopular price increases—rationing through the price mechanism—and rising oil firm profits.⁸⁶

Instead, the government's first response was to introduce central planning to the energy sector: besides implementing direct price controls, Congress and the Nixon administration in December 1973 created the Federal Energy Office (FEO) and gave it the power to control “to what industries, dealers, and regions the oil companies sent their products [...] [and] what the oil companies refined and when.”⁸⁷

The results, however, were decidedly mixed: “the shortages worsened and the public's nerves frayed.”⁸⁸ This resulted both from too little intervention—“The absence of a systematic rationing government program, with clear rules, accelerated public panic”⁸⁹—and from the unforeseen interactions of different regulatory elements.⁹⁰

Truckers in particular were caught in a vice: trucking freight rates were capped by the Interstate Commerce Commission (ICC). Higher operating costs⁹¹ could not be passed on to

⁸⁵ Jacobs, *Panic at the Pump*, p. 44.

⁸⁶ *ibid.*, p. 34.

⁸⁷ *ibid.*, p. 71.

⁸⁸ *ibid.*, p. 73.

⁸⁹ *ibid.*, p. 80.

⁹⁰ Daniel Yergin, *The Prize*, 3rd ed. (New York: Free Press, 2009), p. 660.

⁹¹ These were driven by the limited fuel price increases that the Federal Energy Office permitted and the additional time costs of queuing for diesel, resulting from the shortages.

customers. At the same time, the 55-mph speed limit, implemented to reduce fuel consumption, reduced the usage that truckers could get out of their fixed capital investments. Caught between ICC freight rate caps, FEO-permitted fuel price increases, and queues at gas stations, truckers were structurally unable to break even, let alone turn a profit. In response, independent truckers went on strike in the winter of 1973-1974.

This strike quickly turned ugly. In virtue of the atomized nature of the work itself and because it was a wildcat strike, i.e. organized outside the official Teamster's Union structures, the independent truckers were difficult to coordinate. Since any benefit from lifting speed limits or ICC rate caps would be widely shared across all independent truckers, free riding was a constant threat. To maintain strike discipline, "the strikers slashed tires, cut brake lines, and littered the highways with nails. Arsonists set aflame fuel tanks and big rigs, and gunmen opened fire on noncomplying trucks."⁹² "11 violence-scarred days ... left two drivers dead, scores injured and 100,000 workers temporarily out of work."⁹³ In this way, the truckers' strike both exacerbated local fuel shortages, as gasoline was no longer being delivered from central depots to petrol stations, and added to the general sense of panic, as violent scenes of highway clashes were televised across America's evening news programs. The result was "panic at the pump," and, in an instance of the perception-of-TINA mechanism covered above, a discrediting of the command-and-control approach.

As the decade proceeded, direct control was phased out in favour of rationing via prices.⁹⁴ While the second oil shock of 1979 led to renewed political pressure, the Carter administration's response was to lean on the price mechanism rather than re-run the command-

⁹² Jacobs, *Panic at the Pump*, 91.

⁹³ The Associated Press, "Most Truckers End 11-Day Strike," *The New York Times*, February 12, 1974.

⁹⁴ Yergin, *The Prize*, pp. 661-64.

and-control strategy of the later Nixon years.⁹⁵ Fuel prices were permitted to rise and the administrative allocation of diesel to farmers—which had left truckers short—was ended.⁹⁶ Though Carter faced intense criticism from both the right and the left,⁹⁷ and although fuel lines did not fully disappear and a second trucker strike followed, it prepared the ground for full price deregulation under Reagan in 1981. This in turn succeeded durably in ending fuel shortages and “panic at the pump.” In particular, when prices returned to their 1979 (inflation-adjusted) heights in 2007 and 2008, oil firm profits shot up,⁹⁸ but no fuel lines formed, nor did violence return to America’s highways.

The distributive effects of this policy shift were regressive, redistributing income from workers and energy consumers to oil firms and petro-states, but the resulting structural changes were impressive: In the decade after 1973, the amount of energy required to produce one dollar of US GDP fell by 20%, with three quarters of the decline concentrated in the years after 1976, i.e. after Carter’s market turn in the energy sector.⁹⁹ In comparison, Soviet energy intensity not only failed to decline, but continued to increase further, with energy consumption growing by

⁹⁵ Jacobs, *Panic at the Pump*, p. 200.

⁹⁶ *ibid.*, pp. 198-9, 258.

⁹⁷ The left criticised him for raising prices (Jacobs, *Panic at the Pump*, pp. 199-200), the right for not immediately removing price controls (*ibid.*, pp. 200-1).

⁹⁸ ExxonMobile’s sales, for example, increased by 18%, its cash flow by 16%, and its net income (profits) by 13% between 2007 and 2008. ExxonMobile, “2008 Summary Annual Report” (Irving, TX, 2009), p. 16.

⁹⁹ Author’s calculations, based on Robert Feenstra, Robert Inklaar, and Marcel Timmer, “The Next Generation of the Penn World Table,” *American Economic Review* 105, no. 10 (2015), pp. 3150–82; and U.S. Energy Information Administration, *Monthly Energy Review* (Washington, D.C.: Office of Energy Statistics, U.S. Department of Energy, 2018), total primary energy consumption, table 1.1.

3.3% p.a. in the decade after 1973, while GDP grew at only 2.1% p.a.¹⁰⁰ More generally, “[i]n the industrial market economies energy consumption per unit of output fell sharply in response to the rise in the relative price of energy, whereas in the Soviet Union and the Eastern European economies price adjustments occurred only with a lag of several years and even then there was virtually no response in energy consumption.”¹⁰¹ The turn from central planning to market-led change, while distributionally regressive, thus helped Western, capitalist states adapt to the oil shocks more efficiently than the state socialist countries did.

Second, market-driven deindustrialization also had a distinct *political* advantage. This, too, was visible in the evolving US response to the energy crisis of the 1970s. When, in response to popular pressure, President Nixon and Congress gave the Federal Energy Office control over oil refining and the allocation of fuels to end users, “Washington officials became the apparent gatekeepers to jobs, commuting, recreation, and many other facets of daily life.”¹⁰² This meant officials had to answer, implicitly or explicitly, questions like: “Should there be high school football games at night or only during daylight hours? Should the Indianapolis 500 car race take place or be suspended?”¹⁰³ When William Simon, head of the FEO, argued that the Indy 500 should go ahead because it is part of American culture, the question immediately

¹⁰⁰ International Monetary Fund, *World Economic Outlook*, p. 65, table 18; British Petroleum, *BP Statistical Review of World Energy June 2017* (London: BP, 2017), table “Primary Energy: Consumption.”

¹⁰¹ International Monetary Fund, *World Economic Outlook*, 68; see also William Nordhaus, “Who’s Afraid of a Big Bad Oil Shock?,” *Brookings Papers on Economic Activity* 2 (2007), p. 224; Alan Blinder and Jeremy Rudd, “The Supply-Shock Explanation of the Great Stagflation Revisited,” in *The Great Inflation: The Rebirth of Modern Central Banking*, ed. Michael D. Bordo and Athanasios Orphanides (Chicago: University of Chicago Press, 2013), pp. 119–75.

¹⁰² Jacobs, *Panic at the Pump*, p. 72.

¹⁰³ *ibid.*, p. 72.

arose: “What wasn’t a part of American culture?” Being obliged to decide on questions like these, the Federal Government became a focal point around which popular anger could coordinate—as in the case of the independent truckers’ strike, directed at ICC price controls and FEO diesel allocations.¹⁰⁴

By 1977, in contrast, the prices of half of all refined oil products were deregulated, and in 1978 a gradual phase-out of price controls on natural gas was passed.¹⁰⁵ Policy turned from a preponderance of administrative control to a preponderance of coordination via market exchange or “governing at a distance.”¹⁰⁶ This diffused both de facto and perceived responsibility: as the FEO dropped out of the picture, no single institution remained as the unique or obvious culprit for high gasoline prices, energy-cost-driven layoffs, queues at gas stations, or electricity brown-outs. When it was a general rise in energy prices that, for example, forced financially stressed schools to cancel night-time football games, the culprit was elusive: was the decision of oil producing states to cut production to blame? Were American oil firms and their decision to raise prices in pursuit of profits at fault? Or perhaps car companies, the construction industry, and suburban commuters, all of whom drove up energy demand elsewhere in the economy? While discontent did not disappear, it now lacked a clear focal point around which to coordinate effectively, reducing its peak intensity.

In addition to eliminating government as the unique focal point for unrest, market-led change further reduced the intensity of discontent by incentivizing and rendering more credible the promotion of competing narratives of blame. Oil firms, in order to protect themselves

¹⁰⁴ For the concept of focal points, see Thomas Schelling, *The Strategy of Conflict* (Cambridge, MA: Harvard University Press, 1960).

¹⁰⁵ Jacobs, *Panic at the Pump*, pp. 156–57, 185–86.

¹⁰⁶ Nikolas Rose and Peter Miller, “Political Power beyond the State: Problematics of Government,” *The British Journal of Sociology* 43, no. 2 (August 5, 1992): 173–205, <https://doi.org/10.2307/591464>.

against protests, had an interest in disseminating narratives of rising demand and adverse actions by OPEC governments. News outlets had incentives to maximize sales, which in the US in the 1970s meant blaming oil firms.¹⁰⁷ Environmental activists in turn actively cheered on higher prices, and sought to re-describe them as a positive development that should be encouraged, not counter-acted;¹⁰⁸ and so on. As a result, with different narratives being advanced by different interests and with no self-evident focal point around which to coordinate, the peak intensity of protests was durably diminished. Indeed, when oil prices returned to their real price peak of 1979 in 2008, there was little political controversy—surprisingly little, in historical perspective—nor any threat of truckers’ slashing tires, cutting brake lines, or littering highways with nails. Instead, this highly redistributive price shock was quietly absorbed, without much in the way of protest or unrest.

As a closing thought on this mechanism, note that turning from centrally-directed to market-driven deindustrialization not only deprived discontent of a clear focal point, but held the potential to dissipate it entirely when seen internal to a neoliberal *Weltanschauung*. For those who accepted the conceptual separation of economy and polity, firms could not be blamed for raising (fuel) prices. Firms’ social responsibility, where an ideal-typical version of the polity-economy distinction prevailed, was to maximise profits, not to satisfy non-market norms of desert.¹⁰⁹ Governments, in this perspective, were seen as responsible only for the general functioning of the market system, by enforcing contracts, preventing and punishing

¹⁰⁷ Yergin, *The Prize*, p. 618, pp. 656–59.

¹⁰⁸ Gladwin Hill, “Energy Shortage Both Favoring and Hampering Improvements in Nation’s Environment,” *The New York Times*, March 29, 1974.

¹⁰⁹ Milton Friedman, “The Social Responsibility of Business Is to Increase Its Profits,” *The New York Times*, September 13, 1970.

fraud, and providing a stable currency. In this distribution of responsibility, neither firms nor governments were to blame for any specific price rise and the ensuing closure of unprofitable manufacturing- or other businesses. While rising in popularity during the 1970s and 1980s, particularly in the UK and US, this perspective was never universally accepted; but to the extent that it did become more prevalent, it further reduced the unrest resulting from the disruptions of deindustrialization.

Summing up, the second mechanism that allowed elites in capitalist states, but not state socialist elites, to deindustrialise without dismantling their regimes was the efficient and demobilizing nature of market-led deindustrialization: the market turn. This mechanism, illustrated here in the changing response to energy scarcity in the United States over the course of the 1970s, but equally at work, for example, in financial sector reforms underway at the time,¹¹⁰ significantly reduced the political costs of deindustrialization, in particular by reducing the likelihood that protests could crystallize around a single focal point. Unavailable in planned economies—turning to markets would and eventually did mean the end of this social order¹¹¹—state socialist elites could not avail themselves of it. This rendered deindustrialization both economically and politically costlier, contributing to the fact that, despite a number of tentative starts in this direction, the command economies of the East did not deindustrialize during their lifetimes.

¹¹⁰ [I]nflation continually presented policymakers with the necessity of choosing which sector to favor in allocating credit [...]. Deregulation offered a way to avoid this problem: removing controls meant that the *market*, rather than state officials, could do the choosing in distributing capital between competing sectors.” Greta R Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, MA: Harvard University Press, 2011), p. 139.

¹¹¹ See Kornai, *The Socialist System: The Political Economy of Communism*, chaps. 15, 24, esp. pp. 570-4; Poznanski, *Poland’s Protracted Transition: Institutional Change and Economic Growth 1970-1994*.

7. Generic command economy inefficiency, differential leadership, Western quiescence, or greatly different growth performances all fail as explanations

To strengthen the case that these two mechanisms explain a large part of the puzzle, I consider four competing explanations for why the democratic capitalist states deindustrialized, while the state socialist ones did not. All four of them, I conclude, are incompatible with the historical record: neither generic accounts of Eastern Bloc economic inefficiency; nor uniquely visionary or courageous Western leadership; nor the immediate acquiescence by Western (but not Eastern) electorates, trade unions, or other veto players; nor a successful return to post-War growth rates only in the West fit with the historical record as explanations why democratic capitalist regimes, but not state socialist ones, oversaw deindustrialization. Generic inefficiency did not stand in the way of sectoral shifts; a minority of elites in both East and West quickly saw the necessity of deindustrialization; shied initially away from taking politically painful actions to permit or encourage it and ran into popular rejection when taking early steps in this direction; and failed to restore the growth rates of the Golden Age of Capitalism or the Age of Red Plenty,¹¹² while in both cases overseeing a cyclical expansion in the mid-1980s.

First, explanations of the general inefficiency of planned economies fail to explain asymmetric deindustrialization in particular. The “CPE [centrally planned economies]’ practice of hoarding labor on the job” contributed to their general inefficiency,¹¹³ but the question of micro-economic efficiency (“do firms hoard surplus labour?”) is separate from the question of an economy’s sectoral composition (“which fraction of the workforce is employed

¹¹² Francis Spufford, *Red Plenty* (Minneapolis: Graywolf Press, 2010).

¹¹³ Ofer, “Productivity, Competitiveness, and the Socialist System,” p. 105.

in heavy industry versus transport, retail, or other services?”).¹¹⁴ As Poznanski points out, “the communist economic structure was dynamic in the evolutionary sense”.¹¹⁵

Soft budget constraints or the tendency to micro-manage from the centre¹¹⁶ also fail to explain the East’s failure to deindustrialize: since budget constraints were never soft across the board,¹¹⁷ instead of explaining the failure to deindustrialize, soft budget constraints on heavy industry—the logical corollary of refraining from deindustrialization and widely present also in the West until the 1980s—are precisely what must be explained. The same goes for micro-management from the centre: like labour hoarding it contributed to general inefficiency, but since it could be deployed either for protecting heavy industry or for shrinking its labour force, it cannot by itself constitute an explanation of the failure to deindustrialize.

Explanations in terms of ideology or expertise appear *prima facie* more convincing, but ultimately also fail to explain asymmetric deindustrialization. While state socialist ideology was both intensely growth-focused *and* believed heavy industry to be the main driver of growth,¹¹⁸ by the 1970s these beliefs were no longer universally shared: in the case of Poland, Mieczysław Rakowski, editor of the influential weekly newspaper *Polityka*, deputy prime

¹¹⁴ For example, if firms in all sectors were overstaffed by 10%, shifting workers from heavy industry to electronics would have changed the sectoral distribution of the workforce but left the overstaffing ratio untouched at 10%. Even if labour hoarding was an intrinsic feature of planned economies, it thus did not stand in the way of sectoral shifts.

¹¹⁵ Poznanski, *Poland’s Protracted Transition: Institutional Change and Economic Growth 1970-1994*, xxvii.

¹¹⁶ Kornai, *The Socialist System: The Political Economy of Communism*.

¹¹⁷ “[T]here [was] a hard budget constraint on households,” as well as on whatever private sector firms remained. Kornai, p. 145, p. 153. In Poland specifically, hard budget constraints were introduced for large state-owned companies by the Rakowski government in 1988. Poznanski, *Poland’s Protracted Transition: Institutional Change and Economic Growth 1970-1994*, 108.

¹¹⁸ Kornai, *The Socialist System: The Political Economy of Communism*, chap. 9, esp. pp. 160-3 and 171-80.

minister under Wojciech Jaruzelski (cited, in that function, in the case study above), and later the last leader of the Polish communist party, clearly saw the depth of the economic and legitimization crisis into which Poland had fallen over the 1970s. As a result, he called for austerity and the rationalization of industry accompanied by political reform as early as 1978 and 1979.^{119, 120} Similarly, in East Germany President of the central bank Margarete ('Grete') Wittkowski, chairman of the state planning commission Gerhard Schürer, and central committee member and secretary for the economy Günter Mittag all pushed for a macroeconomic and sectoral rebalancing of the economy throughout the 1970s.¹²¹

Given that (a minority of) experts and political leaders in both East and West saw the necessity of deindustrialization, the question becomes: why could a minority of deindustrialization advocates in the West eventually convince other elites to support this painful process—especially given that Western industrial workforces had an independent and powerful trade union movement fighting for them—while corresponding deindustrialization advocates in the East failed to do so? As the British and Polish case studies showed, the key difference was the polity-economy distinction. In its absence, the population at large could not be convinced of the necessity of deindustrialization, *even in cases where both regime elites and counter-elites agreed on it*. In the West, in contrast, the polity-economy distinction allowed

¹¹⁹ Mieczysław Rakowski, *Rzeczpospolita Na Progu Lat Osiemdziesiątych* (Warsaw: Państwowy Instytut Wydawniczy, 1981).

¹²⁰ Written and informally circulated in 1978 and 1979, the extensive critique of the communist party and its economic policy meant that it could not be published until the crises of 1980 and 1981 had shifted norms of censorship in a liberal direction. The fact that Rakowski could serve as deputy prime minister *after* he wrote and circulated this text shows that elite opinion was neither uniformly nor violently opposed to deindustrialization and reform.

¹²¹ De Groot, "‘Nobody Has a Solution’: The 1973 Oil Crisis in the Eastern Bloc," pp. 38–39.

popular beliefs to shift sufficiently for elite persuasion eventually to succeed, as the chronology of Margaret Thatcher's attempts at persuasion showed above.

Further underlining the importance of shifts in belief, it was not the case that Western governments immediately grasped the nettle while their Eastern counterparts failed to do so: whether energy policy, trade unions and industrial relations, macroeconomic management, monetary policy or currency management—by and large Western governments in the early 1970s began by buying time for legacy industries, through subsidies, soft budget constraints, and favourable financial or currency policy. They did not, at first, force through unpopular policies in pursuit of deindustrialization. President Nixon, for example, responded to the 1973 oil shock by introducing direct government control to the energy sector, thereby shielding both private and corporate energy consumers from rationing via the prize mechanism (and his government from the political fallout of rising oil firm profits during a national energy crisis).¹²² The UK government, instead of allowing the car conglomerate British Leyland to go bankrupt, bailed out and then nationalized the firm in 1975.¹²³ In France, both conservative and socialist governments turned to Keynesian stimuli in response to the downturns of 1975-6 and 1981-3, to prevent the rise of unemployment and support businesses, only to spark balance of payments and inflation problems.¹²⁴

Nor, once governments in the West did turn towards imposing hardship and shifting risks onto the private sector, thus facilitating deindustrialization, was their success driven by an immediate acquiescence of electorates, trade unions, or other veto players. President Ford, upon acceding to office, attempted a frontal attack on inflation with his “Whip Inflation Now”

¹²² Jacobs, *Panic at the Pump*, p. 71.

¹²³ Church, *The Rise and Decline of the British Motor Industry*, chap. 3.

¹²⁴ Judt, *Postwar: A History of Europe since 1945*, pp. 551–54.

(WIN) campaign, aiming for tighter financial conditions that would drive unprofitable firms in legacy industries out of business. This was sternly rebuked at the midterm elections of November 1974.¹²⁵ Similarly, in the presidential election of 1976, faced with the decision between an austerity-leaning Ford and a stimulus-offering Carter, the American electorate chose the latter.¹²⁶ When, in 1974, the Conservative government of Edward Heath asked “Who governs Britain?”, in an effort to face down trade union resistance in legacy industries, the British electorate answered: not you.¹²⁷ Much like the Polish government in 1970 and 1976, governments across the West thus ran into popular rejection whenever they first attempted a turn towards austerity, deindustrialization and structural change. Significant shifts in belief, through ‘trial and error’ loops, were necessary before deindustrialization policies could gather sufficient support to become politically viable in the West.¹²⁸

Finally, it was “not [...] by virtue of unleashing a new era of economic growth”¹²⁹ exclusively in the West that democratic capitalist regimes succeeded, and state socialist regimes failed, to permit and survive deindustrialization. On the one hand, growth rates in the West did pick up again in the 1980s, but never again stabilized at the high levels of the 1960s: after growing by approximately 4% p.a. from 1960 to 1973, per capita GDP in Western Europe

¹²⁵ Jacobs, *Panic at the Pump*, pp. 128–32.

¹²⁶ James, *International Monetary Cooperation Since Bretton Woods*, pp. 288–89.

¹²⁷ Judt, *Postwar: A History of Europe since 1945*, p. 538.

¹²⁸ For a similarly anti-heroic narrative, focused on the conquest of inflation, see Stefan Eich and Adam Tooze, “The Great Inflation,” in *Vorgeschichte Der Gegenwart. Dimensionen Des Strukturbruchs Nach Dem Boom*, ed. Anselm Doering-Manteuffel, Lutz Raphael, and Thomas Schlemmer (Göttingen: Vandenhoeck & Ruprecht, 2016).

¹²⁹ Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance*, p. 139.

and the US grew by little more than 2% p.a. from 1979 to 1990.¹³⁰ On the other hand, the above-average growth that the democratic capitalist countries experienced in the mid-1980s was not unique to the West: from 1983 to 1988, the G7 saw a cyclical boom, with per capita growth rising to 2.5% p.a.; but similar growth rates returned to Eastern Europe, with per capita growth of 2.3% p.a. from 1983 to 1988.¹³¹ The pain of Western deindustrialization may have been somewhat cushioned by the cyclical expansion of the 1980s, but a similar cushion was available in the East.

The West's but not the East's ability to permit and at times encourage deindustrialization, then, was neither the result of the command economies' generic economic inefficiencies; nor of a lack of elite advocates of deindustrialization in the East; nor the result of particularly courageous leadership or immediate acquiescence by Western electorates, trade unions, or other veto players; nor, finally, the result of intensely asymmetric growth rates. Instead, it was driven by TINA and the market turn.

8. Conclusion

This paper started from the observation that deindustrialization was among the most disruptive social transformations of the 20th century, and that it was recognized as such early on. Why, then, did democratic capitalist regimes permit and survive this process, while state socialist regimes did not?

I argued that two different mechanisms explain the West's comparative success: TINA and the market turn. The first mechanism, by convincing electoral majorities and other veto players of the necessity of economic pain, i.e. by shifting expectations, reduced the level and intensity of unrest that was generated by failing to meet historically entrenched expectations.

¹³⁰ Glyn, *Capitalism Unleashed*, chap. 6 and p. 131.

¹³¹ International Monetary Fund, *World Economic Outlook*, p. 65, table 18.

As policies to avoid or slow down deindustrialization led to stagflation, strikes, and “panic at the pump,” a sufficient number of veto players in the West became convinced that “there is no alternative” to deindustrialization and austerity. This created the political space needed for politicians like Margaret Thatcher and Ronald Reagan but also François Mitterrand to force through predictably painful reforms. Regimes in the East, despite repeated attempts to disseminate similar beliefs, could not convince their respective veto players of similar beliefs: lacking the separation of polity and economy constitutive of capitalism, state socialist elites could not credibly signal that a further rise in productivity necessitated deindustrialization. The second mechanism, by bringing to bear the efficiency of market coordination, lowered the costs of adjustment, and, by diffusing the responsibility for painful changes across many actors, deprived the unrest created by deindustrialization of a single focal point to organize around. Taken together, these mechanisms permitted regimes in capitalist countries not just to survive the crises of the 1970s—which their Eastern counterparts did, too—but to durably deindustrialize and to last into the 21st century—which their Eastern counterparts did not.