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AN ANALYSIS OF CONTRIBUTION OF  
THE USA TO THE ECONOMIC COLLAPSE  
OF THE SOVIET UNION

*Bachelor Thesis*

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I declare that I have written this bachelor thesis on my own, using reliable and appropriate sources I have referred to.

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15.05.2017, Prague

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## **Abstract**

In the given thesis some of the internal factors and especially external factors of the economic collapse of the Soviet Union are analysed. The external factors are represented as part of the anti-communist strategy of the United States in the 1980s. The strategy consisted of concrete economic sanctions and policies imposed by President Reagan and his administration in order to deteriorate the condition of the Soviet economy during the 1980s. Each of the steps against communist regime undertaken by the US is described and its impact on the Soviet economy is analysed. For example: the economic sanctions on the USSR after its invasion of Afghanistan in 1979; the increased military expenditures in the US in order to exhaust the Soviet economy in the arms race; the announced Strategic Defense Initiative; the secret negotiations between Reagan and the King of Saudi Arabia on reduction of oil prices in 1985; the US embargo on technology exports to the Soviet Union. The results of the research prove that President Reagan's strategy of economic destruction of communism contributed to the Soviet collapse in 1991.

**Key words:** Cold War, War in Afghanistan, Arms race, OPEC, Soviet Union, Perestroika, new thinking, SDI

**JEL classification:** E01, F10, F51

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## Introduction

It has been more than 25 years since the fall of the Soviet Union, and still there are a lot of debates over the reasons of its collapse. Some scholars state that the true reason was the internal economic weaknesses, which resulted in the inevitable crash of the Soviet system. Other public figures assert that President Reagan's (1981-1989) ambitions and tough policy of anti-communism forced the USSR to fall apart.

In addition, there are different discussions on which of the American policies against communism played the most decisive role. Some academics assume that military build-up in the United States frightened the Soviets, and since the Soviet economy did not have capacity to increase its defense spending to catch up with America, the economy became exhausted and finally crumbled. Also they suppose that the increased military expenditures in the US forced the USSR to enter into the negotiations on disarmament. Other scholars give their credit for Reagan's announcement of Strategic Defense Initiative (SDI), promulgation of which coincided with the deteriorated economic crisis in the Soviet Union.<sup>1</sup>

John Lewis Gaddis determines four principal elements of Reagan's strategy to deal with the Soviets. First was rebuilding self-confidence of the United States with the help of military and imagery build-up of America. Second was so-called "spooking the Soviets": US increased military expenditures were initiated to strain an already inefficient economy, what forced the Soviet government to make concessions on arms control. Third was negotiation from strength, what meant that any negotiations could take place only from a position of strength. Gaddis accentuates Reagan's beliefs that a military build-up led to reductions in strategic weapons, and that the US was ready to agree only on clear, simple, and sweeping objectives, such as a 50% cut in weapons on both sides. Forth and last was responding to emergence of Mikhail Gorbachev as a new Soviet leader whose chief priority was domestic reforms, which led to moderation in foreign affairs. Gaddis says that "strength this time did lead to negotiations, bargaining chips did produce bargains, and "hanging tough" did eventually pay off". He acknowledges that the Soviets contributed significantly to what happened, and the Reagan administration had assessed correctly the potential for Soviet concessions.<sup>2</sup>

Other historian, Thomas G. Paterson, states that the Cold War had been very costly for the Soviet Union because of its lending funds to Third World countries – to India for a steel

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<sup>1</sup> PETERSEN, Eric F. "The End of the Cold War: A Review of Recent Literature." *The History Teacher*, vol. 26, no. 4, 1993, pp. 471–485. Retrieved 20 April 2017. Available [www.jstor.org/stable/494470](http://www.jstor.org/stable/494470).

<sup>2</sup> PATERSON, Thomas G. - MERRILL, Dennis. *Major Problems in American Foreign Relations: Volume II since 1914*. Lexington, MA: D.C. Heath and Company, 1995, pp.738-742.

plant, to Egypt for the Aswan Dam. He adds that the Warsaw Pact, aid to China, Cuba, Syria and other Middle East countries devastated the Soviet economy as well. Paterson assures that there were no winners in the Cold War, despite common belief that America had won “the sucker and won it big”. According to him, both, the United States and the Soviet Union, paid tremendous prices for making and waging the Cold War. That is why, Paterson affirms, Gorbachev initiated his restructuring economic policy and why President Bush, echoing Carter and Reagan, made the case for American “renewal” and “renewed creditability”.<sup>3</sup>

However, which external factors could cause the Soviet collapse of 1991? How did the United States influence conditions of the Soviet economy in the 1980s? How much did President Reagan contribute to the attenuation of the Soviet Union? Which steps did he and his administration undertake? Did the external factors of the economic collapse outweigh the internal ones?

The main objective of my work is to assess the effect of anti-communist policy of the United States on the economic crash of the Soviet Union. The hypothesis of the thesis is that the strategy of the US and, in particular, policy of President Reagan and his administration contributed significantly to the economic collapse of the USSR. My research is aimed at evaluation of the internal factors of the Soviet crash as well. The study includes the identification of economic weaknesses of the USSR in the 1970s and 1980s.

The leading methodological principle of the thesis is the direct historical method. The description of international relations between the USSR and the United States in the 1970s and 1980s helps to identify American motivations for its anti-communist policy. The statistical and comparative methods are also used in order to evaluate the changes in economic indices of the USSR after each of the economic sanctions imposed by President Reagan. The method of relational and causal analyses is used in order to consolidate the individual facts into the single argument about the effects of the US foreign policy on the Soviet economy. Also the inductive reasoning is applied in order to make a general conclusion on the contribution of the external factors to the Soviet collapse.

In this paper various documents, articles and reports are analyzed; interviews and reminiscences of the public figures during period of the 1980s are adduced in order to estimate the role of external factors to the Soviet crash in 1991. The study also describes the economic development of the USSR during the 1970s, Gorbachev’s economic plan of Perestroika and his “new thinking” policy in foreign affairs. The concrete steps against communism undertaken by Reagan and his administration are presented and its effects on

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<sup>3</sup> Ibid. p.737

the Soviet economy are analyzed. The analysis of economic restrictions of the US towards the USSR is based on economic data on performance of the Soviet economy during the 1980s. I believe that my work makes a contribution to the studies about the Cold War and about the reasons of the economic crash of the USSR in 1991.

## 1 The Soviet economy during the 1970s and 1980s

This chapter represents data on the economic performance of the Soviet Union in the 1970s – the main tendencies and directions of the Soviet economy. The description of economic plan of Perestroika, proposed by Gorbachev in 1985, is also presented and its results are analyzed based on the economic data. The goal of this chapter is to present the conditions of the Soviet economy in the 1970s and 1980s, detect its potential weaknesses in order to evaluate the influence of the internal factors on the collapse of the USSR in 1991.

### 1.1 The stagnation of the Soviet economy (1970-1985)

The period of stagnation is strongly associated with the name of Leonid Brezhnev and his policy: the economic system under Brezhnev remained strictly centrally planned, and the Soviet government curtailed any ideas of market mechanism. Brezhnev's policy was aimed at social stability, and in order to achieve it, he had abandoned all the ideas of economic reforms.

Planning system was centerpiece of the economy in the USSR throughout its existence: Communist party dictated five-year plans for national economic development, and some of them were fulfilled even earlier than planned, although others failed. In total, there were 13 five-year plans. First five-year plan began in 1928 and was primarily focused on speeding up the industrialization process (especially in heavy industry) in the Soviet Union, which made the USSR a leading industrial nation of that time. Last 13<sup>th</sup> five-year plan was not completed because of the dissolution of the Soviet Union in 1991.

Back in the 1960s, the economist Evsei Liberman propagandized the idea of giving more economical independence to individual enterprises and set the main objective to earn profit. He was supported by the Premier Alexei Kosygin and became one of the authors of the economic reform in 1965 afterwards. The economic reform was the first step towards decentralization of the Soviet economy, and it showed efficient results: during the 8<sup>th</sup> five-year plan (1966-1970) after the reform was implemented, the total production was four times higher than for the previous 4 five-year plans.<sup>4</sup> By the end of the 60s there was an economic slowdown, and the reform was abandoned by influence of the conservatives in the Politburo, who were opposing the Kosygin's and Liberman's concept at the first place since it limited power and control of the Soviet government over the industrial sector.<sup>5</sup>

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<sup>4</sup> "Sovetskaya ekonomika v epokhu Leonida Brezhneva." *RIA Novosti*. News agency company RIA Novosti. Retrieved 20 April 2017. Available at [https://ria.ru/history\\_spravki/20101108/293796130.html](https://ria.ru/history_spravki/20101108/293796130.html)

<sup>5</sup> Ibid.

The main purpose of economic strategy in the 1970s was the increase in standard of living of Soviet people. But in practice planned social programs were financed partially – the largest portion of Soviet money was directed at financing heavy and military industries and only small portion of it was spent on social needs.<sup>6</sup>

The 9<sup>th</sup> five-year plan happened between 1971 and 1975. The plan contained broad and versatile program aimed at growth of wealth among Soviet population and increase in erudition of Soviet people. The plan presumed: rise in incomes of households with increasing in wages; improvement of the living conditions; rise in wealth of larger families, pensioners, and students; enhancement of working conditions for women with children; development of services sector and health care; extension of national education and soviet culture; convergence of living conditions of urban and countryside population. The acceleration of technological progress remained the main priority, thus automotive industry, chemical industry, oil and gas industries, and electric power industry received the largest benefit from the government.

The objectives of the 9<sup>th</sup> five-year plan were fulfilled mostly in industrial sector: GNP grew for 28% from 1971 to 1975, the industrial output rose for 43%, 490 mil t of oil and 141 mil t of steel were produced in 1975, the amount of investments into the Soviet economy went up to 136 billion rubles in 1975.<sup>7</sup> In addition, there was some positive shift in agriculture: Soviet farmers received 1.7 mil of tractors and more than 1.1 mil of other vehicles, gross output of agricultural sector grew for 13% comparing to the previous five-year plan.<sup>8</sup> The economy stayed highly industrialized and much less consumer-directed (Table 1).

**Table 1. The total output of production in the USSR in 1970, 1975 and 1980**

		1970	1975	1980
<b>Oil (incl. gas condensate)</b>	<b>1 000 tons</b>	353 039	490 801	603 207
<b>Gas</b>	<b>mil m<sup>3</sup></b>	197 945	289 268	435 217
<b>Steel</b>	<b>1 000 tons</b>	115 889	141 344	147 941
<b>Coal</b>	<b>1 000 tons</b>	624 114	701 287	716 317
<b>Meat</b>	<b>1 000 tons</b>	7 144	9 862	9 140
<b>Butter</b>	<b>1 000 tons</b>	963	1 231	1 278

Source: "Soviet Industrial Output." *Soviet History Archive* ([marxists.org](http://marxists.org)). Slavic Research Center Library, 2000. Available at <https://www.marxists.org/history/ussr/government/economics/statistics/ind-out.htm>

<sup>6</sup> MOROZOVA, Lyudmila - BOKHANOV, Aleksandr. - RAKHMATULLIN, Morgan. *Istoriya Rossii. S drevneyshikh vremen do nashikh dney*. Moskva: AST, 2016. p.738

<sup>7</sup> PONOMAREV, Boris N. *Istoriya Kommunisticheskoy Partii Sovetskogo Soyuz*. Moskva: Izdatel'stvo politicheskoy literatury, 1976, p.738

<sup>8</sup> Ibid.

The Soviet economy was intensively centralized and bureaucratized during the 1970s; the Soviet government was gaining more power and control over the economy and the social life.<sup>9</sup> The industrial sector was preserving its leadership in the country. Alexei Kosygin once emphasized: “The enhancement of industrial production and increase in its efficiency has a decisive significance for the solution of social-economic objectives”. In the beginning of the 1970s industrial sector occupied 49% of the national economy. The Soviet Union outran the US in production and extraction of raw materials: 577 mil of tons of coal in the USSR and 556 mil of tons in the US in 1970<sup>10</sup>; 6 times more of iron ore in the Soviet Union than in the US; 514 mil tons of extracted oil in the USSR and 470 mil tons in the US in 1975<sup>11</sup>. The majority of Soviet population was working in agricultural and heavy industrial sector, also there was high demand on labor to work in hospitals, universities, museums, scientific institutions (Figure 1).<sup>12</sup> There was a large shortage in production of consumer goods. For instance, in the western countries for production of 1kg of consumer goods 4kg of source materials were needed, meanwhile in the USSR there was a need of 40kg of the latter.<sup>13</sup> The agricultural sector in the Soviet Union was lagging behind, notwithstanding that its territory held more than a half of the world most fertile areas. The Soviet government couldn't manage to feed people, to improve industry and services sector. The USSR was purchasing bread from abroad rather than producing its own. GDP in the USSR was 10% of the world's GDP, but only 4% of international trade meanwhile the US was at 14%.<sup>14</sup> The so-called isolation of the Soviet state became the official doctrine as a consequence of “hostile environment” policy: the world economy was shown as the source of troubles, and independency of the Soviet Union was considered as one of the largest achievements of the Soviet government.

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<sup>9</sup> KEROV, Valeriy V. *Kratkiy kurs istorii Rossii s drevneyshikh vremen do nachala KhKhl veka*. Moskva: Astrel', 2007, p.422

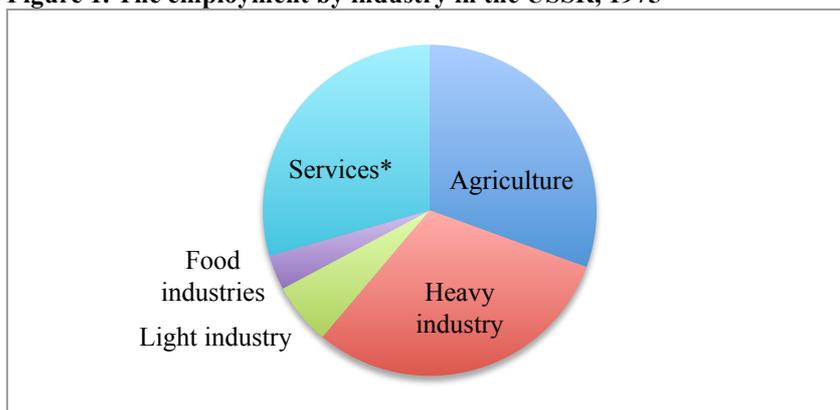
<sup>10</sup> BRATCHENKO, Boris “Ugol'naya promyshlennost'.” Booksite.ru. Retrieved 20 April 2017. Available at <http://www.booksite.ru/fulltext/1/001/008/113/541.htm>

<sup>11</sup> “World Energy Outlook”, International Energy Agency, Organization For Economic Co-operation And Development, 2001. Retrieved 20 April 2017. Available at <http://www.iea.org/media/weowebiste/2008-1994/weo2001.pdf>

<sup>12</sup> “USA/USSR” Facts and Figures”. U.S Department of Commerce, Economic Statistics Administration, Bureau of the Census and State Committee on Statistics of the U.S.S.R., Information Publication Center, 1991. Retrieved 25 April 2017. Available at <https://www.census.gov/population/international/files/USSR.pdf>

<sup>13</sup> MOROZOVA, BOKHANOV, RAKHMATULLIN. *Istoriya Rossii. S drevneyshikh vremen do nashikh dney*. Moskva: AST, 2016 p.740

<sup>14</sup> Ibid.

**Figure 1. The employment by industry in the USSR, 1975**

*\*Services included: the residential-communal economy and non-productive services; health care; national education; culture and art; science; administration of the state and economic management; administration of cooperative and societal organizations; and the distribution of natural gas.*

*Source: "USA/USSR" Facts and Figures". U.S Department of Commerce, Economic Statistics Administration, Bureau of the Census and State Committee on Statistics of the U.S.S.R., Information Publication Center, 1991. Available at <https://www.census.gov/population/international/files/USSR.pdf>*

During the 1970s the Soviet Union was falling behind the leading Western countries on its attempts to apply new technology. The Soviet economy kept developing extensively and was deprived of any internal incentives to grow: the whole economic machine was based on the heavy industry, which required huge amount of natural resources. In order to purchase new machinery and foodstuffs, the USSR was forced to increase its exports. The visibility of well-being of the Soviet economy in the 1970s was ensured by so-called "oil doping": the oil export was crucial for the USSR since world oil prices had risen significantly at that time. But still the economy was highly militarized; more advanced and modern technology worked only by military orders of the Soviet government. The oil shocks, which first happened in 1973 and then subsequently in 1979, led to higher demand on oil in the world, and the Soviet leadership had come to the decision of increasing its extraction of oil in order to raise the exports and benefit from trade with other countries.

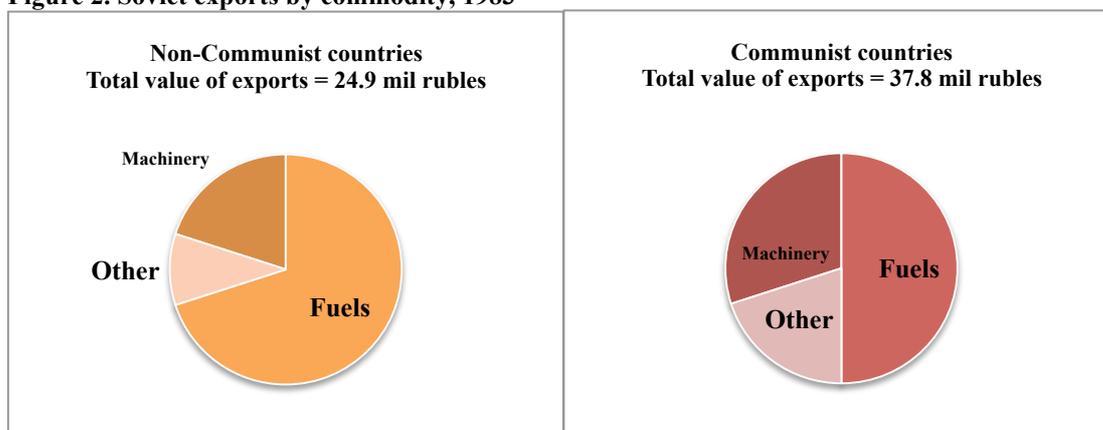
Soviet exports in the 1970s consisted of raw materials, which was 70% of the total amount of exports to non-Communist countries and 50% to Communist countries (Figure 2).<sup>15</sup> Basically, the Soviet trade with the Western countries was an exchange of fuel for advanced technology and agricultural goods. Also Soviet military exports were decisive in foreign trade with the least developed countries (further, LDCs): the share of military equipment was 70% of total amount of Soviet exports to these countries.<sup>16</sup> The trade with the LDCs also helped to expand Soviet influence among the countries, and Soviet-

<sup>15</sup> "USSR: The Role of Foreign Trade in the Economy", Central Intelligence Agency, 1983. Retrieved 25 April 2017. Available at <https://www.cia.gov/library/readingroom/docs/19850701C.pdf>

<sup>16</sup> Ibid.

manufactured goods were considered as highly competitive in price and quantity as products provided by the West.

**Figure 2. Soviet exports by commodity, 1983**



Source: "USSR: The Role of Foreign Trade in the Economy", Central Intelligence Agency, 1983. Available at <https://www.cia.gov/library/readingroom/docs/19850701C.pdf>

The role of foreign trade in the Soviet economy of the 1970s was not crucial for its development but still imports led to higher consumption and rise in productivity. About 65% of the Soviet machinery and equipment came from its Communist allies in the Eastern Europe.<sup>17</sup> Despite the fact that East European imports of machinery were lower quality than Western ones, it still was better than machines produced by Soviets. There was a high demand on furniture and clothing, so mostly these goods were purchased in the Eastern Europe. The Soviet economy was not only relying on imports from its allies in the Union but also the USSR had purchased a lot of equipment from the West: imported chemical equipment resulted in double production of ammonia, nitrogen fertilizer and plastics in the Soviet Union; the Kama automobile plant was based on Western equipment and technology which subsequently led to almost 100% increase in Soviet heavy truck production in the 1970s. US exports to the Soviet Union were less than 5% of Soviet hard currency imports, although by 1979 it reached the level of 20%.<sup>18</sup>

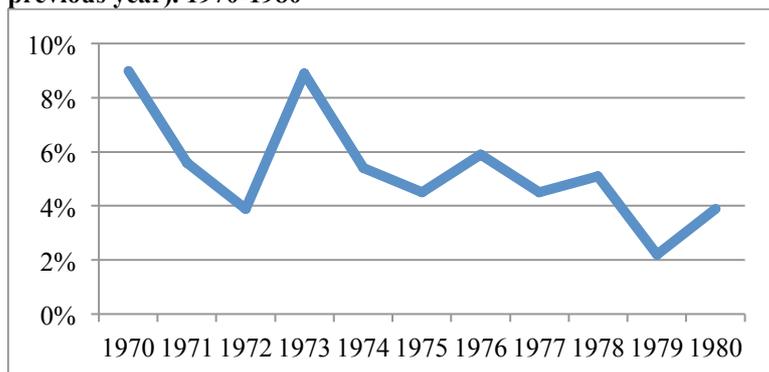
The economic stagnation under Brezhnev's leadership was caused by two main reasons: the conservative politicians, who represented the majority of the Soviet government in the 1970s, opposed any change in the economy, and high militarization of the Soviet economy, which resulted in deficit of the national budget, which, in turn, was balanced only by revenues from oil exports. The annual growth was declining since its peak in 1973 and fell to 2% for 1979 (Figure 3).<sup>19</sup>

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> "Annual Growth Rates in the Soviet Union." *Soviet History Archive (marxists.org)*. Slavic Research Center Library, 2000. Retrieved 26 April 2017. Available at <https://www.marxists.org/history/ussr/government/economics/statistics/growth-rates.htm>

**Figure 3. The annual growth of national income produced in the USSR (current prices, % change over previous year). 1970-1980**



Source: “Annual Growth Rates in the Soviet Union.” *Soviet History Archive (marxists.org)*. Slavic Research Center Library, 2000. Available at <https://www.marxists.org/history/ussr/government/economics/statistics/growth-rates.htm>

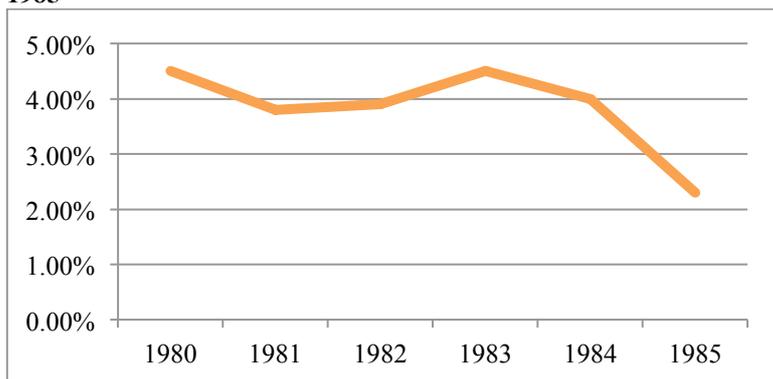
According to the Article 6 of the Soviet Constitution accepted in 1977, the Communist Party was “the leading and guiding force of the Soviet society and the nucleus of its political system, of all state organizations and public organizations, is the Communist Party of the Soviet Union. The CPSU exists for the people and serves the people”.<sup>20</sup> However, the Soviet government and its actions were engendering disapproval from the population: in the conditions of political monopolism, the Communist Party had gained the control over all the aspects of social life.

The first half of the 1980s was deterioration of the Soviet economy because of its weakening Government: Brezhnev passed away in November 1982, then his successor, Andropov, died in February 1984, and the following General Secretary, Konstantin U. Chernenko, died in March 1985. The unstable situation in the Government had influenced the economy – the GNP was declining during the last Brezhnev’s years and then reached its peak in 1983, and fell significantly by 1985 (Figure 4).<sup>21</sup>

<sup>20</sup> “Constitution (Fundamental Law) of The Union Of Soviet Socialist Republics”, 1977. Retrieved 26 April 2017. Available at <http://www.departments.bucknell.edu/russian/const/77cons01.html#chap01>

<sup>21</sup> “Annual Growth Rates in the Soviet Union.” *Soviet History Archive (marxists.org)*. Slavic Research Center Library, 2000. Retrieved 26 April 2017. Available at <https://www.marxists.org/history/ussr/government/economics/statistics/growth-rates.htm>

**Figure 4. The annual growth of GNP in the USSR (current prices, % change over previous year). 1980-1985**



Source: "Annual Growth Rates in the Soviet Union." *Soviet History Archive* ([marxists.org](http://marxists.org)). Slavic Research Center Library, 2000. Available at <https://www.marxists.org/history/ussr/government/economics/statistics/growth-rates.htm>

When Yuri V. Andropov came to power in 1982, he implemented so-called "large scale economic experiment": the policy for the enterprises, directed on needs and interests of consumers and employees in order to create more favorable conditions for economic and social development.<sup>22</sup> Andropov conducted an extensive program to fight against corruption, what was thriving during Brezhnev's epoch. There were some positive movements in the Soviet economy in 1983, and Andropov's successor, Chernenko, tried to preserve initiated reforms, to continue fighting with shadow economy and to speed up the reformation process in the Soviet Union. Nevertheless, the GNP kept falling till 1985, and the Soviet society started demanding more radical economic and social reforms. In March 1985, after death of Chernenko, Mikhail Gorbachev was elected as the General Secretary, what marked the beginning of different era in the USSR.<sup>23</sup>

## 1.2 The economy during Perestroika

The name of Mikhail Gorbachev is famous for his attempts to "restructure" the Soviet economy in the second half of the 1980s, or for his idea of "Perestroika". Gorbachev became the General Secretary of the CPSU in March 1985, and came to power when the economy was in its slowdown.

The idea of "restructuring", or "perestroika", arose on account of several factors: the national income growth had declined by more than a half for the past three five-year plans and by the 1980s had fallen to the level of stagnation (Figure 3); the priority of quantitative growth led to rise in expenditures on the development of heavy industry and increased the

<sup>22</sup> YASIN, Evgeny G. *Rossiyskaya ekonomika. Istoki i panorama rynochnykh reform. Kurs lektsiy*. Moskva: Gosudarstvennyy Universitet Vysshaya Shkola Ekonomika, 2002, p.41

<sup>23</sup> CHURAKOV, Dmitriy. "Dorogami poslednikh pyatiletok: ekonomika dolzhna byt' ekonomikoy." *Obrazovatel'nyy portal Slovo*. Retrieved 26 April 2017. Available at <http://www.portal-slovo.ru/history/41464.php>

use of raw materials. According to Gorbachev himself, the USSR was spending “far more on raw materials, energy and other resources per unit of output than other developed nations”. The huge amounts of natural resources, steel and fuel were used inefficiently; the Soviet Union was buying millions of tons of grain instead of adjusting the economy and producing it on its own.<sup>24</sup> The stagnation of the Soviet economy demonstrated that the main cause of such downturn was the economic mechanism itself.

The time of perestroika consisted of four periods: the first period dated from March 1985 to January 1987, the main slogan of which was “more of socialism”; the second period 1987-1988 was under the motto “more of democracy”; the third period of 1989-1990 was defined as full of contradictions in “restructuring” policy among its supporters; and the final stage of 1991, with the revolution and the fall of the Soviet Union.

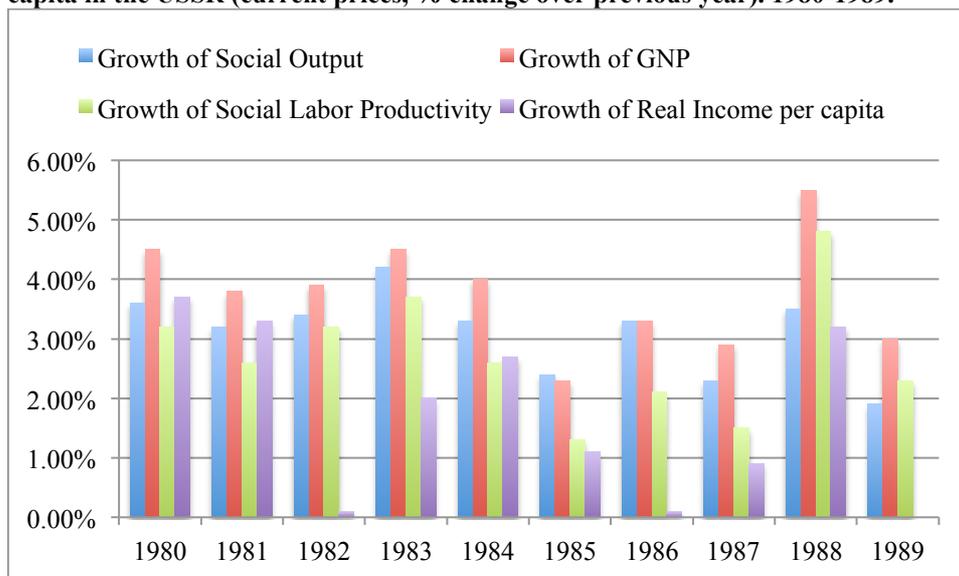
In the first stage, the primary goal of Gorbachev and his administration was to reduce the technological gap between the USSR and the Western countries: to launch the technological revolution in the Soviet Union, which was supposed to revive the “real socialism”. The plan was not fulfilled since the mechanism of command economy remained immutable: the government attempted “social-economical acceleration of development” without changing the political apparatus.

It led to the second stage of perestroika (1987-1988) when the real reformatory program was elaborated and few political changes took place. Gorbachev realized that bureaucratic command system of the Soviet government had been obstructing the new economic opportunities to occur, and he had taken a decision of more radical political reforms. According to the data, the growth of real income per capita was almost 0% in 1986, the social labor productivity rose by 1%, GNP and Social Output increased by less than 1% (Figure 5).

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<sup>24</sup> GORBACHEV, Mikhail. *Perestroika: New Thinking for Our Country and the World*. London: Collins, 1987, p. 19

**Figure 5. The Annual Growth of Social Output, Social Labor Productivity, GNP, Real Income per capita in the USSR (current prices, % change over previous year). 1980-1989.**



Source: "Annual Growth Rates in the Soviet Union." *Soviet History Archive (marxists.org)*. Slavic Research Center Library, 2000. Available at

<https://www.marxists.org/history/ussr/government/economics/statistics/growth-rates.htm>

In 1987 Gorbachev entrusted the leading Soviet economists with the task to design the program of new economic reforms which was aimed at expansion of enterprises' independence, development of private sector through establishment of cooperative economic associations, renunciation of the Soviet government of holding the unique right to access the world market, shrinking the number of officials in the state departments.<sup>25</sup> The system of "khozraschet" (commercialization), which firstly was introduced by Lenin in the 1920s and then used during the economic reform of 1965, became one of the directions of Gorbachev's economic policy. The khozraschet was a method how to run and control a business being based on commensuration of costs and profits of production, i.e. how each enterprise covered its expenses by its income, thereby ensuring its own profitability.<sup>26</sup> The economic reforms drove to some serious results in private sector: by 1990 there were 193000 of cooperatives and around 8 million employees.<sup>27</sup> Nevertheless, the economy in the second half of the 1980s remained to be based on state ownership of industries what had been preventing any long-term efficient economic outcome; the necessity of the transition to market mechanism became more perceptible.<sup>28</sup> 80% of the

<sup>25</sup> SOGRIN, Vladimir. *Perestroika: itogi i uroki*. 1992. Retrieved 27 April 2017. Available at

[http://ecsocman.hse.ru/data/260/204/1217/15\\_SOgrin.pdf](http://ecsocman.hse.ru/data/260/204/1217/15_SOgrin.pdf)

<sup>26</sup> "Khozyaystvennyy raschet". *Bol'shaya Sovetskaya Entsiklopediya*. Retrieved 27 April 2017. Available at

[http://bse.slovaronline.com/%D0%A5%D0%A5%D0%9E/50066-HOZYAYSTVENNYY\\_RASCHYOT](http://bse.slovaronline.com/%D0%A5%D0%A5%D0%9E/50066-HOZYAYSTVENNYY_RASCHYOT)

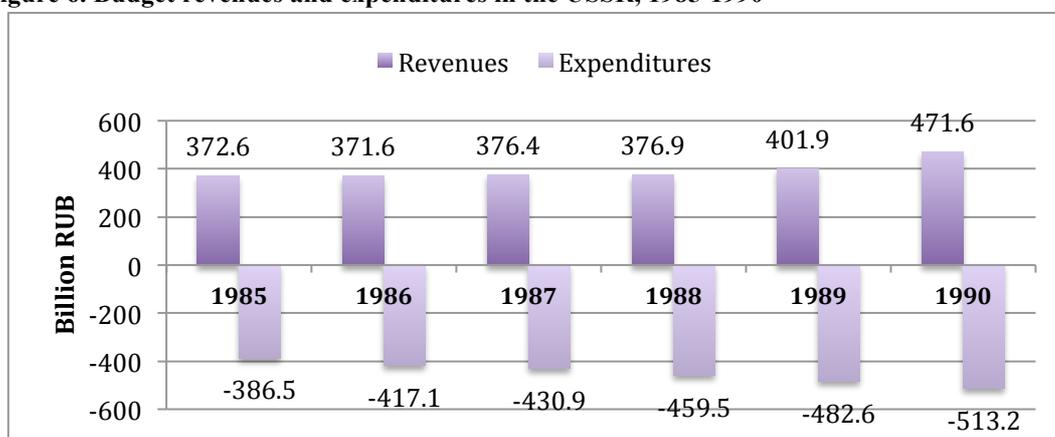
<sup>27</sup> YASIN, Evgeny G. *Rossiyskaya ekonomika. Istoki i panorama rynochnykh reform. Kurs lektsiy*. Moskva: Gosudarstvennyy Universitet Vysshaya Shkola Ekonomika, 2002, p.52

<sup>28</sup> Ibid.

cooperatives operated for state-owned industries and 70% of its total output was sold to the state.<sup>29</sup>

On the edge of the 1990s there was a sharp decline in production of meat, cheese, sugar and other foodstuffs: for instance, to buy chicken meat or dozen of eggs, people needed to stay in line for 3-4 hours. The shortage of goods was catastrophic, and in summer 1989 the number of strikes among population was rising dramatically. The Soviet government wanted to attenuate national movements by purchasing foodstuffs abroad, although it led to the increase in foreign debt of the Soviet Union.<sup>30</sup> According to the data, Soviet budget was running deficit from 1985 to 1990 - the expenditures exceeded revenues for 3.7% in 1985, 12.2% in 1986, 14.4% in 1987, 21.9% in 1988, 20% in 1989 and 8.8% in 1990 respectively (Figure 6).

**Figure 6. Budget revenues and expenditures in the USSR, 1985-1990**



Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991, Available at [http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

The 500-Day program was designed to get over the economic crisis in the country in 1990: the main objective of the program was to proceed to market economy within 500 days. The main principles of the program were expounded in 400-page document named "Transition to the Market". The report itself did not describe the complicated process of transition to the market but rather was seeking for creation of institutions, which would let the socio-economic system to develop naturally. One of the authors, S. Shatalin, affirmed that the primary goal of the 500-Day program was "to achieve economic freedom for people and build an efficient business system on this base".<sup>31</sup> Subsequently Gorbachev repudiated the program, and in October 1990 the Supreme Soviet accepted the alternative program called

<sup>29</sup> Ibid.

<sup>30</sup> "Ekonomicheskie reformy: ot planovoy ekonomiki - k rynochnoy", *Yaklass.ru*. Retrieved 27 April 2017. Available at <http://www.yaklass.ru/materiali?mode=lsntheme&themeid=166&subid=71>

<sup>31</sup> DORN, James A. *From Plan to Market. The Post-Soviet Challenge*. Cato Journal, Vol. 11, No. 2, 1991, pp.175 - 193. Retrieved 28 April 2017. Available at <https://object.cato.org/sites/cato.org/files/serials/files/cato-journal/1991/11/cj11n2-1.pdf>

“Basic Guidelines for Stabilization of the Economy and Transition to a Market Economy”, which included the key tenets of 500-Day program.

The failure of perestroika was because of the belief of its leaders that market economy could have been achieved along with the existence of socialism. According to Hayek, “compromising market principles for the sake of “social justice” can only hamper the creation of a free society and undermine the true sense of justice, namely, the protection of private rights”.

## **2 Relations between the USSR and the US**

This chapter characterizes international and economic relations between the Soviet Union and the United States in the 1970s and 1980s. The chapter comprises the early 1970s and the period of détente, describes the oil shock in 1975 and its consequences, and gives information on joint project of constructing a pipeline for exporting gas from Siberia to the US. The chapter also includes data on disarmament treaties between the USSR and the US. The goal of this chapter is to describe the most important political and economic events in relations between the United States and the Soviet Union of the period 1970-1990 in order to understand the reasons of why the US had the intentions to end communism in the USSR.

The relations between the US and the Soviet Union faced a lot of peaks and falls throughout the Cold War. During Nixon’s presidency there were three meetings with the Soviet leader L. Brezhnev: Moscow in May 1972, Washington in June 1973, and Moscow in June-July 1974. The discussions were mainly about arms race - the Strategic Arms Limitation Talks, or SALT I agreement, was signed in 1972, and it froze the US and Soviet missile launchers for the period of five years. Although SALT I negotiations were strongly criticized for a lot of concession to the Soviets from the United States, the agreement indicated the inclination of both parties to establish general control on arms production. Additionally, the US and the USSR settled an anti-ABM Treaty, according to which “...the United States and the Soviet Union agree that each may have only two ABM deployment areas, so restricted and so located that they cannot provide a nationwide ABM defense or become the basis for developing one”.<sup>32</sup>

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<sup>32</sup> “Treaty between the United States of America and the Union of Soviet Socialist Republics on the limitation of anti-ballistic missile systems”. The US Department of State. Retrieved 27 April 2017. Available at <https://www.state.gov/www/global/arms/treaties/abm/abm2.html>

Even so, Americans had elaborated the so-called Multiple Independently Targetable Re-entry Vehicles (MIRVs). According to the document from National Security Archive, “the idea of multiple warheads dates back to the mid-1960s, but the key year in the history of the MIRV concept was 1962 when several of technological developments made it possible for scientists and engineers to conceive of multiple, separately targeted warheads that could hit a growing list of Soviet nuclear threat targets”. Consequently, the Soviets perceived the innovation as “strengthening the U.S. counterforce capability” what resulted in a new arms race.<sup>33</sup>

Protracted intervention of the US in Vietnam War was ravaging American economy and did not meet the expectations of the American society. A cease-fire was signed in 1973 with the help of the National Security Advisor, Henry Kissinger, and American troops were withdrawn from Vietnam. Totally, the United States was forced to spend over \$1.5 billion and lost 58000 American lives in war in Vietnam.<sup>34</sup> The historians claim that the main mistake of the American government, which led to the defeat in Vietnam War, was underestimation of the complications occurring during the war and overestimation of its own forces and willingness to continue the military actions.<sup>35</sup>

President Richard Nixon and his Secretary of State, Henry Kissinger, had created a grand strategy to reach international stability via attempts to make US diplomacy being less tied to ideology and more adapted to balance-of-power policy. The so-called détente policy was aimed at alleviation of tensions between the US and the USSR. Kissinger gave the following definition of détente: “It is the search for a more constructive relationship with the Soviet Union. It is a continuing process, not a final condition. And it has been pursued by successive American leaders through the means have varied as have world conditions”.<sup>36</sup>

In 1972 Soviet - American economic relations had expanded: the Soviet government accepted to repay its debt on Lend – Lease in the amount of \$722 million over the next 30 years as a “token payment”. In exchange, Nixon made a promise to get Export-Import Bank credits to fund the Soviet purchases of American goods and also to reduce the tariff for Soviet imports. Nevertheless, the Soviets rejected the plan afterwards in 1975. Meanwhile, there was a high demand on the US wheat crop: Soviet people consumed 25% of the US wheat because of the unforeseen harvest shortfalls in 1972.<sup>37 38</sup> The joint project

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<sup>33</sup> National Security Archive “Multiple Independently Targetable Reentry Vehicles (MIRVs).” 1976. Retrieved 28 April 2017. Available at <http://nsarchive.gwu.edu/nsa/NC/mirv/mirv.html>

<sup>34</sup> CINCOTTA, Howard. *An Outline of American History*. Washington DC: United States Information Agency, 1994, p. 312

<sup>35</sup> PATERSON, Thomas G. - MERRILL, Dennis. *Major Problems in American Foreign Relations: Volume II since 1914*. Lexington, MA: D.C. Heath and Company, 1995, p.582

<sup>36</sup> Ibid. p.598

<sup>37</sup> Ibid. p.612

of the Soviet Union, the El Paso Gas Natural Company and the Occidental Petroleum Company (further, OPC) in negotiations of 1972 - 1973 implied that 1.5 billion cubic feet of natural gas per day would be imported from Siberia to the US and would be divided between the two companies in a share of 75% to the El Paso and 25% to the Occidental Petroleum<sup>39</sup>. But criticism of détente was growing, and the Congress confronted any concession towards the trade with the Soviet Union. Dr. Armand Hammer, the chairman of the OPC at that period, said: “Sophisticated as they (communists) are, they still cannot believe that our Government does not have a veto power over such a large international transaction as this even though it is a private deal of a private corporation. Remember, there are many trading organizations in Russia but there is only one chairman of the board, and that is Mr. Brezhnev”<sup>40</sup>.

At the same time, the Organization of the Petroleum Exporting Countries (further, OPEC) sought to boycott the US for its military supplies to Israel, thus it raised the oil prices by 70% in the beginning of the 1970s. Later on the OPEC states had taken off the oil embargo on the US but the oil prices remained high: \$2.18 per barrel in January 1971 and \$11.65 per barrel in December 1973. This situation was harming the American economy since the US government had already spent large amount of money on defense to fight in Vietnam War.<sup>41</sup> Following the oil supply shocks, the inflation rate grew to 10% in the US, which entailed an economic downturn in 1975.<sup>42</sup>

**Table 2. Production of oil (mil t) in 1970, 1975 and 1980: top five oil producers**<sup>43</sup>

	1970	1975	1980
<b>Saudi Arabia</b>	198	367	515
<b>USSR</b>	353	490	603
<b>USA</b>	534	470	480
<b>Iran</b>	199	278	94
<b>Venezuela</b>	193	122	113

Source: “World Energy Outlook”, International Energy Agency, Organization For Economic Co-operation And Development, 2001. Retrieved 29 April 2017. Available at <http://www.iea.org/media/weowebiste/2008-1994/weo2001.pdf>

<sup>38</sup> SELVAGE, Douglas E. – TAYLOR, Melissa J. Soviet Union June 1972 – August 1974. Foreign Relations of the United States, 1969–1976, Volume XV. Washington DC: US Government Printing Office, 2011. Retrieved 28 April 2017.

<sup>39</sup> “Hearings before the Subcommittee on Multinational Corporations of the Committee on Foreign Relations. United States Senate. Ninety-third Congress. Second Session on Investments by Multinational Companies in the Communist Bloc Countries. Part 10. Appendix to Part 7.” Washington: U.S. Government Printing Office, 1975, pp.86 -90. Retrieved 28 April 2017.

<sup>40</sup> HOLLES, Everett R. "U.S. Companies and Soviet Discuss a Vast Gas Line." *The New York Times*. The New York Times, 21 May 1973. Retrieved 28 April 2017. Available at [http://www.nytimes.com/1973/05/21/archives/us-companies-and-soviet-discuss-a-vast-gas-line-two-us-companies.html?\\_r=0](http://www.nytimes.com/1973/05/21/archives/us-companies-and-soviet-discuss-a-vast-gas-line-two-us-companies.html?_r=0)

<sup>41</sup> HOPKINS, Michael F. The Cold War. London: Thames & Hudson, 2011, p.90

<sup>42</sup> MANKIW, Gregory N. Macroeconomics. New York: Worth Publishers, 2012, p.298-299

<sup>43</sup> “World Energy Outlook”, International Energy Agency, Organization For Economic Co-operation And Development, 2001. Retrieved 29 April 2017. Available at <http://www.iea.org/media/weowebiste/2008-1994/weo2001.pdf>

**Table 3. Consumption of oil (mil t) in 1970, 1975 and 1980: top five consumers**

	1970	1975	1980
<b>USA</b>	695	766	794
<b>Japan</b>	199	244	238
<b>West Germany</b>	139	143	147
<b>UK</b>	104	92	81
<b>France</b>	94	110	147

Source: "World Energy Outlook", International Energy Agency, Organization For Economic Co-operation And Development, 2001. Retrieved 29 April 2017. Available at <http://www.iea.org/media/weowebiste/2008-1994/weo2001.pdf>

SALT II negotiations took place in November 1974, when Brezhnev and President Ford discussed on a set of general principles for the agreement on arms control in the future. Multi-nation conference in Helsinki in 1975 resulted in 30000 – word Final Act advocating the constancy of the changes in European borders after the WWII.<sup>44</sup>

Initially, President Carter supported the SALT II terms signed by President Ford, but then Carter's Administration proposed lower ceilings for the amount of nuclear weapons, what later resulted in the Final Treaty signed by Carter and Brezhnev in June 1979. The terms of SALT II under Carter had reduced the number of missiles, although the ratification was impeded because of the crisis in Iran and Afghanistan.

In February 1979 the Iranian monarchy was overthrown by revolutionaries, who subsequently created the Islamic republic. The revolution led to another oil crisis: the production of oil in Iran fell by 90% (Table 2), and the oil prices increased from \$18 to \$36 a barrel.

The invasion of Afghanistan by the Soviet troops in December 1979 worsened the Soviet-American relations: Carter called the invasion a "quantum leap in the nature of Soviet behavior". The President had withdrawn the SALT II agreements from the Senate, had shut down the grain supplies and the sale of high technology equipment to the USSR and had boycotted the Olympic Games 1980 in Moscow. President Carter also responded with the well-known Carter Doctrine, which stated that an "attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force."<sup>45</sup> The President also ensured an increase in US military spending by 5% in real terms each year for the period of next five years.<sup>46</sup>

<sup>44</sup> CINCOTTA, Howard. *An Outline of American History*. Washington DC: United States Information Agency, 1994, p. 317

<sup>45</sup> KROGH, Peter F. (Peter Frederic). "Persian Gulf." *DigitalGeorgetown Home*. WHYY-TV (Television Station : Philadelphia, PA), 01 Jan. 1989. Retrieved 29 April 2017. Available at <https://repository.library.georgetown.edu/handle/10822/552642>

<sup>46</sup> HOPKINS, Michael F. *The Cold War*. London: Thames & Hudson, 2011, p.101

When Ronald Reagan came to power, he faced the American economy in its decline - the inflation was caused by recent increase in oil prices, which also was one of the reasons for big external deficits. Real GNP had fallen for 2.5% in 1982, the unemployment rate reached more than 10%, and 1/3 of the industrial factories had halted its production.<sup>47</sup> With the rise of Germany and Japan, the American economy was contributing much less in world trade. Due to the large crop supplies to the USSR, China and India, American farmers needed to borrow more money in order to purchase land and increase its production. After oil shocks and worldwide economic recession, the demand for farmers' goods declined in the 1980s, which resulted in the crisis of agricultural sector.<sup>48</sup>

Reagan's foreign policy towards the Soviet Union was tough and severe in comparison with the policies of previous American presidents: President Reagan would not allow the communism to spread, as well as he would never let the US "be outspent in terms of defense". He affirmed that the US would "never accept the second place", and that "we (Americans) would outspend them (Communists) forever, and could too, because a free economy will always allow us the wealth to do it".<sup>49</sup> Based on such inducements, Reagan increased a five-year defense budget by \$400 million comparing to Carter's increase, which in total was \$1.6 trillion – the largest US military spending during peacetime.<sup>50</sup> The President also took a decision to contribute more money to the work of CIA against expansion of communism in Afghanistan, Angola and Cambodia. President Reagan held the intention to build up American military capacity before beginning the negotiations with the Soviets.<sup>51</sup>

President Reagan is famous for his criticism of the Soviet Union and its government, and every step undertaken by the Soviets towards expansion of communism inflamed Reagan's wish to finish this regime once and for all. In 1981 he denounced the USSR, saying: "So far détente's been a one-way street until that the Soviet Union has used to pursue its own aims. I know of no leader of the Soviet Union since the revolution, including the present leadership, that has not more than once repeated in the various Communist congresses they hold their determination that their goal must be the promotion of world revolution and a one-world Socialist or Communist state, whichever word you want to use".<sup>52</sup> Since there was a huge increase of expenses in 1981, Reagan had to reduce the defense spending by half, but later on he presented a new scientific project, which would give the US an

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<sup>47</sup> CINCOTTA, Howard. *An Outline of American History*. Washington DC: United States Information Agency, 1994, p.370

<sup>48</sup> Ibid.

<sup>49</sup> NOONAN, Peggy. *When Character Was King: a Story of Ronald Reagan*. New York, NY: Penguin, 2002, p.218

<sup>50</sup> HOPKINS, Michael F. *The Cold War*. London: Thames & Hudson, 2011, p.102

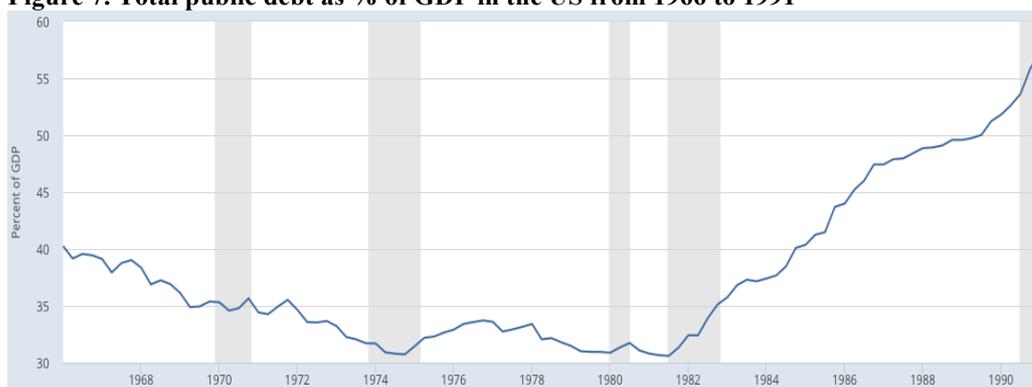
<sup>51</sup> Ibid. p.103

<sup>52</sup> PATERSON, Thomas G. - MERRILL, Dennis. *Major Problems in American Foreign Relations: Volume II since 1914*. Lexington, MA: D.C. Heath and Company, 1995, p.711

opportunity to deter the missiles launched by the Soviets from space before they reached American soil.<sup>53</sup> In March 1983 Ronald Reagan introduced Strategic Defensive Initiative (SDI), well-known as “Star Wars”. According to Norman R. Augustine, the former chairman of Lockheed Martin Corporation (nowadays, Lockheed Martin after a merger in 1995), the SDI did not require a large defense budget, since the main contributions were supposed to be made in R&D. According to Augustine, the Soviet government was more assured that the US would bring to life an intricate project of SDI rather than the US itself - the USSR realized that it could not compete with such advanced technology. Furthermore, “military officials in both, the United States and the Soviet Union, were bluffing about one another's capabilities to help fuel a push for more and more weapons” - Pierre Sprey said, one of the Pentagon consultants in the 1970s and 1980s.<sup>54</sup>

After recession of the American economy during first years of Reagan’s presidency, by 1984 the period of economic growth finally had arrived: the consumption increased due to the federal tax cut, what led to positive forecast in the stock market; GNP grew at annual rate of 4.2%, the inflation rate was stable from 3% to 5% in 1983-1987; in the period of 1982-1987 thirteen million of new jobs were given to the citizens. Nevertheless, the economic growth in the 1980s was based on deficit spending – during Reagan’s presidency the national debt almost tripled (Figure 7). The raised military budget, tax cuts and increases in health care expenses led to increase in the budget deficit.<sup>55</sup>

**Figure 7. Total public debt as % of GDP in the US from 1966 to 1991**



Source: “Federal Debt: Total Public Debt as Percent of Gross Domestic Product.” FRED. OMB, St. Louis Fed, 31 Mar. 2017. Available at <https://fred.stlouisfed.org/series/GFDEGDQ188S>

After Ronald Reagan was reelected in 1984, he had mitigated his policy on military buildup, and Moscow was amenable to negotiations since the Soviet Union could not catch up with the US in defense expenditures because of the deficit of its own budget. In

<sup>53</sup> Ibid p.712

<sup>54</sup> SCHNEIDER, Greg – MERLE, Reno. “Reagan's Defense Buildup Bridged Military Eras Huge Budgets Brought Life Back to Industry.” *The Washington Post*. WP Company, 9 June 2004. Retrieved 29 April 2017. Available at <http://www.washingtonpost.com/wp-dyn/articles/A26273-2004Jun8.html>

<sup>55</sup> CINCOTTA, Howard. *An Outline of American History*. Washington DC: United States Information Agency, 1994, p.371

November 1985, the President met with the new Soviet Premier, Mikhail Gorbachev, in Geneva where they discussed the deceleration of arms race between the two countries. The two leaders agreed on 50% reduction in strategic offensive nuclear arms, and afterwards, in December 1987, they signed the Intermediate Range Nuclear Forces (INF) Treaty, which guaranteed the whole destruction of nuclear weapons.<sup>56</sup>

Meanwhile, the Soviet economy was dwindling because of its expenditures on Afghanistan and discontentment of the Soviet society about shortages of goods. The warmer relations between the US and Saudi Arabia and its negotiations on oil prices also played its role in the eventual economic destruction of the Soviet Union. Because of decreased prices of Saudi oil, the Soviet Union was forced to reduce its oil prices as well in order to preserve its role of the biggest oil producer in the market.<sup>57</sup> Arisen technological revolution with the invention of computers and communications made the Soviet Union and its allies stay far behind the economically modernized West. The Soviet leader Gorbachev introduced his new policy for the Soviet economy, called perestroika, or restructuring, and also he proposed the “new thinking” policy in the international relations. He considered that “...the arms race has become an absurdity because its very logic leads to the destabilization of international relations and eventually to a nuclear conflict”, which, as he thought, would be “senseless and irrational”. Gorbachev’s new thinking in world politics envisaged the idea of global security, that the recognition of the interests of all people and countries was the main principle of the new political outlook.<sup>58</sup>

The INF Treaty 1987 was one of the most significant treaties of the last century. Prior to the agreements, Gorbachev had requested the abandonment of SDI, and the Congress cut the “Star Wars” budget by 1/3.<sup>59</sup> In May 1988 the USSR began the process of withdrawal its troops in Afghanistan.

Gorbachev, in his speech to the UN in 1988, admitted that ideological differences were disappearing; later on there were large withdrawals of the Soviet troops from Eastern Europe and the Soviet forces were cut by 500,000 troops in general. 1988 was considered as the end of all ideological disagreements, and in 1989 Communist governments collapsed all across the Eastern Europe. In 1990 the German question was settled and unification of Germany was ratified. The USSR started its process of disintegration. In December 1991 the Russian, Ukrainian and Belorussian presidents agreed on dissolution of the Soviet

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<sup>56</sup> Ibid. p.375

<sup>57</sup> CRITCHLOW, Andrew. "Cheap Oil Will Win New Cold War with Putin - Just Ask Reagan." *The Telegraph*. Telegraph Media Group, 10 Nov. 2014. Retrieved 30 April 2017. Available at <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/11220027/Cheap-oil-will-win-new-Cold-War-with-Putin-just-ask-Reagan.html>

<sup>58</sup> GORBACHEV, Mikhail. *Perestroika: New Thinking for Our Country and the World*. London: Collins, 1987, p.142

<sup>59</sup> HOPKINS, Michael F. *The Cold War*. London: Thames & Hudson, 2011, pp.114-115

Union, and created a Commonwealth of Independent States (CIS), which exists nowadays.<sup>60</sup> The demise of the USSR reaffirmed the end of the Cold War.

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<sup>60</sup> Ibid. p.122

### 3 External factors of the Soviet economic collapse

Once President Reagan called the Soviet Union “the evil empire”<sup>61</sup>, he never concealed his ardent desire to break down the communist regime. With the invasion of Afghanistan by the Soviets and with the increasing military expenses, Reagan sought to destroy the communism in the USSR by exhausting its economy. Reagan declared the economic war against the Soviet Union: in addition with economic sanctions, imposed by President Carter in 1980, Reagan’s administration had undertaken severe steps to disrupt the Soviet economy. Reagan’s tough policy towards the USSR was composed of: attempts to sabotage the massive project of building the trans-Siberian pipeline; ban on the high-tech exports to the Soviets; cutting the inflow of hard currency for oil exports; and exhausting the Soviet budget in arms race.

The chapter analyzes the economic sanctions applied by President Carter on the Soviet Union after its invasion of Afghanistan in 1979, President Reagan’s policy “to prevail” in American relations with the USSR and its successes and failures, the big space project “Star Wars”, and the negotiations between Reagan and King of Saudi Arabia on reduction of oil prices.

#### 3.1 Economic consequences of Soviet invasion of Afghanistan

In April 1978 the Communist party overthrew the government of Afghanistan in a coup and placed a new president Nur Muhammed Taraki. Later, in December 1978, the treaty of friendship between the USSR and Afghanistan was signed; it guaranteed the military and economic support from the Soviet Union. The socialist party in Afghanistan, which was called the People’s Democratic Party of Afghanistan (PDPA), was highly supported by bureaucrats, teachers, students and military officers, meanwhile working class and peasantry resisted. Agrarian reforms and Sovietization of the country was furiously opposed by rustic Afghans, and in the fall 1979 big number of regions in Afghanistan rose up in rebellion against the PDPA government. Obviously the Soviet Union stood in awe of losing the communist neighbor in Central Asia. In December 1979 the Soviet troops invaded Afghanistan by the order of the Soviet leader Brezhnev.<sup>62</sup> Before the introduction

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<sup>61</sup> PETERS, Gerhard – WOOLEY, John T. “Ronald Reagan: Remarks at the Annual Convention of the National Association of Evangelicals in Orlando, Florida - March 8, 1983.” *The American Presidency Project*. Retrieved 30 April 2017. Available at <http://www.presidency.ucsb.edu/ws/index.php?pid=41023&st=evil%2Bempire&st1=>

<sup>62</sup> KOHLMANN, Evan. *Bitter Harvest: The Soviet Intervention in Afghanistan and its Effects on Afghan Political Movements*. December 20, 1999. Retrieved 2 May 2017. Available at <http://www.documentshare.org/society-and-social-sciences/a-bitter-harvest-the-soviet-intervention-in-afghanistan-and-its-effects-on-afghan-political-movements/>

of the Red Army, the government of Afghanistan addressed the Soviet Union eleven times asking for help assistance.<sup>63</sup>

At the same time, the Soviet Union was competing with the United States in providing aid to the less developed countries (LDCs). The Soviet Union found Afghanistan strategically valuable for its foreign policy in order to offset the development of US foreign policy in the Middle East,<sup>64</sup> therefore the Soviets contributed significantly to build stronger relations with Afghanistan. By 1978 total Soviet assistance to Afghanistan was three times greater than US assistance: \$471 million (1977) from the US against \$1.265 billion from the USSR.<sup>65</sup> After the invasion in 1979, the Soviet Union provided military aid to Afghanistan, supplying the government with machinery for natural gas industry, air transport equipment, oil, meat and grain in exchange for afghan natural gas and some types of agricultural goods, such as raisins, wool, and cotton.<sup>66</sup> At first, the trade balance of the Soviets with Afghanistan was negative, although with the war continuing, the exports exceeded the imports and the difference was growing throughout the Soviet-Afghan war (Table 4). It can be explained by the further US involvement in the conflict as well.

**Table 4. Soviet trade (Million RUB, current prices) with Afghanistan in 1980, 1981, 1985, 1988 and 1990**

	Exports	Imports	Trade balance (own calculations)
<b>1980</b>	248	257	-9
<b>1981</b>	339	317	22
<b>1985</b>	550	323	227
<b>1988</b>	478	185	293
<b>1990</b>	371	90	281

Source: "Narodnoe khozyaystvo SSSR v 1982, 1985, 1988, 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at [http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/\\_%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/_%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

The Soviet foreign policy toward the LDCs was targeted at countering and substituting for Western and, particularly, US influence in this area. The Soviets attempted to preclude any alliances between the USA and LDCs, to reduce the possibilities of military concessions and connections with the US and its allies. The USSR sought the way to make the LDCs more dependent on the Soviet arms supply and to achieve the complementarity with the Soviet economy through trade and its aid programs.

<sup>63</sup>GORBACHEV, Mikhail. *Perestroika: New Thinking for Our Country and the World*. London: Collins, 1987, p.177

<sup>64</sup>NOORZOY, M. S. "Long-Term Economic Relations between Afghanistan and the Soviet Union: An Interpretive Study." *International Journal of Middle East Studies* 17, No. 2 (1985): 151-73. Retrieved 1 May 2017. Available at <http://www.jstor.org/stable/163602>

<sup>65</sup> Ibid.

<sup>66</sup> "The Economic impact of Soviet involvement in Afghanistan." The Defense Intelligence Agency, The National Security Archive, 1983, p.6. Retrieved 1 May 2017. Available at <http://nsarchive.gwu.edu/NSAEBB/NSAEBB57/us4.pdf>

In January 1980, President Carter gave a speech to the State of the Union, what became famous Carter Doctrine. He stated that "...the United States has imposed stiff economic penalties on the Soviet Union", and American leader wouldn't let the "Soviet ships to fish in the coastal waters of the United States", and also he had limited the access of the USSR to high-technology equipment and embargoed exports to the Soviets. With invasion of Afghanistan by the Soviets, Americans predicted that the Soviet government would want to take total control over the Straits of Hormuz, what had been a waterway for ships carrying exporting oil from the Middle East. Carter proposed a Five Year Defense Program, which encompassed the annual 5% increase in military spending during the period of next five years.<sup>67</sup> One year later, in January 1981, President Carter issued the executive order, where he spoke about protection of the US interests in the Persian Gulf countries. According to this order, the USA pursued the following goals: to guarantee the security for countries in the region using US military forces; to provide the internal stability in the countries and to counter the Soviet influence; to "ensure the availability of oil at reasonable prices and to reduce Western dependence on Gulf oil".<sup>68</sup> President Carter warned the Soviets: "an attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America".<sup>69</sup>

The US itself was not ready for a war with the Soviet Union in Afghanistan or the Persian Gulf, because of the oil crisis in February 1979.<sup>70</sup> Realizing the inability of the American economy to wage the war with the USSR, President Carter found alternative ways to retard the Soviet intervention and make the Soviets to pay for the invasion of Afghanistan. The President invoked to economic sanctions against the Soviet Union, boycotted Olympic Games in Moscow, and sought for allies in South and Southwest Asian countries.<sup>71</sup>

One of the economic sanctions imposed by President Carter on the USSR was grain embargo. The main exporting product from the US to the Soviets was, particularly, corn and wheat. In the first half of the 1980s, these two grain products amounted in two-thirds of all US exports to the Soviets. The process of exporting grain from the US to the Soviet Union began in the 1970s, when the collectivization system of agricultural sector in the

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<sup>67</sup> PETERS, Gerhard - WOOLEY, John T. "Jimmy Carter: The State of the Union Address Delivered Before a Joint Session of the Congress. - January 23, 1980." *The American Presidency Project*. Retrieved 1 May 2017. Available at <http://www.presidency.ucsb.edu/ws/?pid=33079>

<sup>68</sup> "Presidential Directive/NSC-63." Signed by President Jimmy Carter on January 15, 1981. Retrieved 1 May 2017. Available at <https://www.jimmycarterlibrary.gov/documents/pddirectives/pd63.pdf>

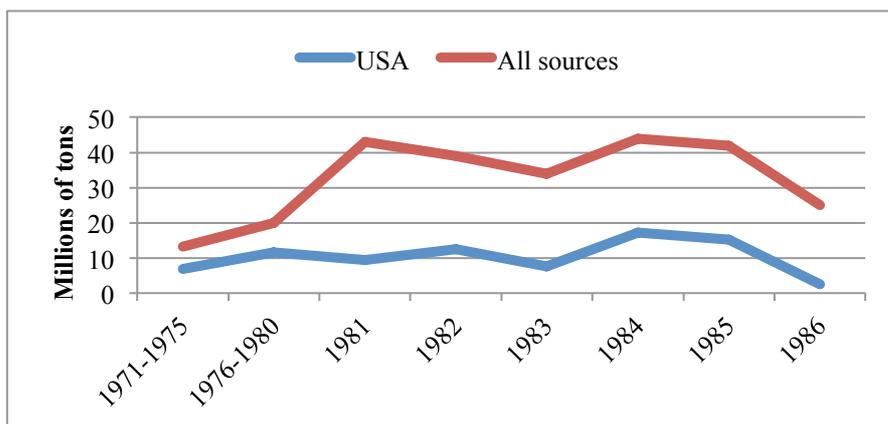
<sup>69</sup> PETERS, Gerhard - WOOLEY, John T. "Jimmy Carter: The State of the Union Address Delivered Before a Joint Session of the Congress. - January 23, 1980." *The American Presidency Project*. Retrieved 1 May 2017. Available at <http://www.presidency.ucsb.edu/ws/?pid=33079>

<sup>70</sup> HOPKINS, Michael F. *The Cold War*. London: Thames & Hudson, 2011, p.98

<sup>71</sup> GALSTER, Steve. "Volume II: Afghanistan: Lessons from the Last War. AFGHANISTAN: THE MAKING OF U.S. POLICY, 1973-1990." *Afghanistan: Lessons from the Last War*. The National Security Archive, 9 Oct. 2001. Retrieved 1 May 2017. Available at <http://nsarchive.gwu.edu/NSAEBB/NSAEBB57/essay.html#13>

USSR resulted in deficits of grain. In the late 1970s, the US was exporting from 75% to 90% of all corn purchased by the Soviets and from 25% to 56% of all Soviet wheat imports. After the Soviet invasion of Afghanistan, the share of the US in grain imports to the Soviet Union had decreased sharply to half of the total imports, and then in 1981 the US share was only 25% of the Soviet imported goods (Figure 8).<sup>72</sup>

**Figure 8. Soviet grain imports from the US and all sources, 1971 – 1986**



Source: BECKER, Abraham S. *US-Soviet Trade in the 1980s*. RAND Corporation, November 1987. Available at <https://www.rand.org/content/dam/rand/pubs/notes/2009/N2682.pdf>

### 3.2 American economic restrictions on the USSR 1981-1983

Reagan, who defeated Carter in the 1980 presidential elections, had very hardline policy towards the situation in Afghanistan. President Reagan and CIA had been closely related to each other – the Agency had become the only government agency, from which Reagan had been receiving the reports and analytical documents regularly. In December 1981, the President signed the executive order, which gave the CIA more privileges and responsibility on covert actions. The main goal was to provide aid to anti-communist movements worldwide. The CIA had sent its agents to Afghanistan and Pakistan to train mujahidin forces, which were opposing to the PDPA government and the Soviet intervention.<sup>73</sup>

Reagan began his presidency with a massive military build up: only after two months entering the office, the president called for an extra \$32 billion for defense spending beyond Carter's defense request, which, in turn, already had led to a notable increase from previous years. From 1981 to 1985, Pentagon sought to raise spending on the purchase of

<sup>72</sup> BECKER, Abraham S. *US-Soviet Trade in the 1980s*. RAND Corporation, November 1987. Retrieved 1 May 2017. Available at <https://www.rand.org/content/dam/rand/pubs/notes/2009/N2682.pdf>

<sup>73</sup> "Presidential Reflections on U.S. Intelligence: Ronald Reagan." *Central Intelligence Agency*. Central Intelligence Agency, 30 Apr. 2013. Retrieved 1 May 2017. Available at <https://www.cia.gov/news-information/featured-story-archive/2010-featured-story-archive/presidential-reflections-reagan.html>

weapons by 25% annually, doubling the total by the end of the first term.<sup>74</sup> In 1982 US spending on national defense were 25% of all outlays for fiscal year 1982, what was greater than the average of 22% for the previous years; the Department of Defense had spent total of \$354 billion on its military programs in 1982.<sup>75</sup>

Natural gas exports was the lifeblood of the Soviet economy, and since the Soviet Government also needed to supply its soldiers in Afghanistan, by 1982 the Soviets had begun the project of building the Siberia-to-Western Europe pipeline. The project was worth of \$35 billion and would allow to transfer natural gas from the Yamal Peninsula into Western European cities via the Soviet gas grid.<sup>76</sup> The increase in exports due to the construction of the pipeline was crucial, since it would have helped the Soviet economy to avoid reduction in hard currency imports during the 1980s. The primary goal for Moscow was to improve its hard currency position in the future, so the Soviet Union needed to be in cooperation with Western Europe during the building of the pipeline, since the construction required Western equipment.<sup>77</sup> The previous US Administration and Western governments did not resist to the construction of the pipeline, since it would have brought more jobs and reduced increasing unemployment in the West. Although Reagan was certain about taking any measures in order to prevent the building of the pipeline. His secretary of Defense, Caspar Weinberger, explained Reagan's decision as following: "He knew that what the Soviet Union needed very much was hard currency. And he knew that the construction of the pipeline would give them that. He felt very strongly that you didn't want to assist them in any way in getting hard currency".<sup>78</sup> Reagan's National Security Advisor, William Clark, and others from his Administration called the president's policy "roll back strategy", which aimed at "changing the Soviet system from within by further destabilizing their economy through strict export controls [on] high technology transfers, by accelerated arms competition, and by exposing the Soviet system for what it was".<sup>79</sup>

At the same time, Reagan's Administration was looking for the alternative ways to undermine Soviet economy besides prevention of constructing the pipeline. The little-known "Farewell Dossier" was a highly secret initiative, which was a successful method to defeat the Soviets economically. In 1981 the French intelligence obtained the photographed 4,000 secret documents from KGB (Komitet gosudarstvennoy bezopasnosti, or Committee for State Security in the USSR) from Vladimir I. Vetrov, whose code-name

<sup>74</sup> KENGOR, Paul. *The Crusader: Ronald Reagan and the Fall of Communism*. New York: HarperPerennial, 2007, p.82

<sup>75</sup> "1982 United States Budget" *InsideGov*. GRAPHIQ. Retrieved 1 May 2017. Available at <http://federal-budget.insidegov.com/l/85/1982>

<sup>76</sup> KENGOR, Paul. *The Crusader: Ronald Reagan and the Fall of Communism*. New York: HarperPerennial, 2007, p.122

<sup>77</sup> "The Soviet Gas Pipeline in Perspective." Director of Central Intelligence, 16 Sept. 1982. Retrieved 2 May 2017. Available at <https://www.cia.gov/library/readingroom/docs/19820921.pdf>

<sup>78</sup> KENGOR, Paul. *The Crusader: Ronald Reagan and the Fall of Communism*. New York: HarperPerennial, 2007, p.122

<sup>79</sup> *Ibid.* p.121

was “Farewell”. French President Mitterand offered to give the intelligence to the United States, and, certainly, President Reagan appreciated the gesture. After the rigorous learning of the documents, it turned out that the KGB had created a new unit called Directorate T, through which the Soviets had been acquiring American high-tech products and know-how. According to Gus Weiss, who worked on the obtained documents in the NSC, the Soviet espionage was so successful “that the Soviet military and civil sectors were in large measure running their research on that of the West, particularly the US”.<sup>80</sup> In other words, how it was later said, “the Pentagon had been in an arms race with itself”. To sabotage the program of the Soviets, Weiss proposed the following: the US could supply some technologies, which, at first, would appear genuine but would later prove defective and destructive.<sup>81</sup>

In 1981 the Soviet government already had spent more than \$400 million on military aid to Afghanistan,<sup>82</sup> meanwhile the economic growth declined from 4.5% to 3.8%.<sup>83</sup> The exports of gas and oil remained the priorities for the USSR, and the building of the trans-Siberian gas pipeline was crucial. Reagan was attempting to halt the construction by any means, despite some confrontation, in particular, from the Congress, which saw the chance to make big profits for American companies by helping to build the project. Moreover, Western Europe also was eager for the constructing the pipeline, since it did not only promised to bring more jobs, but also to purchase gas on lower price from the Soviets. President Reagan remained unswerving: he tried to convince Western Europe that building of the pipeline would make the countries more dependent on the USSR, and, eventually, the governments would be blackmailed by the Soviets, who would see vulnerability of the West. In fact, the gas exports from the Soviet Union would make Western Europe from 50% to 70% dependent on the communist country. The CIA had elaborated an estimated report on changes in gas exports if the pipeline would be constructed. It was made in order to convince Western Europe (also to show Eastern Europe) that purchasing more of Soviet gas wouldn't be to their economic benefit (Table 5).<sup>84</sup>

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<sup>80</sup> Ibid. p.124

<sup>81</sup> Ibid. p.124

<sup>82</sup> MINKOV, Anton – SMOLYNEC, Gregory. “Economic Development in Afghanistan During the Soviet Period, 1979-1989: Lessons Learned from the Soviet Experience in Afghanistan.” *Defence R&D Canada. Centre for Operational Research & Analysis*, Aug. 2007. Retrieved 2 May 2017. Available at <http://www.dtic.mil/dtic/tr/fulltext/u2/a475460.pdf>

<sup>83</sup> Annual Growth Rates in the Soviet Union. *Soviet History Archive (marxists.org)*. Slavic Research Center Library, 2000. Retrieved 2 May 2017. Available at <https://www.marxists.org/history/ussr/government/economics/statistics/growth-rates.htm>

<sup>84</sup> KENGOR, Paul. *The Crusader: Ronald Reagan and the Fall of Communism*. New York: HarperPerennial, 2007, pp.147-8

**Table 5. Estimations on USSR natural gas exports (billion cubic feet per day), CIA report, 1981**

	1975	1980*	1985*		1990*	
			Without Pipeline	With Pipeline	Without Pipeline	With Pipeline
<b>Total</b>	<b>1.9</b>	<b>5.4</b>	<b>6.6</b>	<b>11.5-12.4</b>	<b>6.6</b>	<b>11.5-12.4</b>
<b>Eastern Europe</b>	<b>1.1</b>	<b>3.2</b>	<b>4.1</b>	<b>5.1-5.3</b>	<b>4.1</b>	<b>5.1-5.3</b>
Czechoslovakia	0.4	0.9	1.0	1.0-2.2	1.0	1.0-2.2
East Germany	0.3	0.6	0.6	0.6-1.2	0.6	0.6-1.2
Poland	0.2	0.5	0.8	0.8-1.4	0.8	0.8-1.4
Bulgaria	0.1	0.6	1.0	1.0	1.0	1.0
Hungary	0.1	0.4	0.4	0.4	0.4	0.4
Romania	0	0.1	0.1	0.1	0.1	0.1
Yugoslavia	0	0.1	0.2	0.2	0.2	0.2
<b>Western Europe</b>	<b>0.8</b>	<b>2.2</b>	<b>2.5</b>	<b>6.4-7.1</b>	<b>2.5</b>	<b>6.4-7.1</b>
West Germany	0.3	0.8	1.1	2.1	1.1	2.1
Italy	0.2	0.6	0.7	1.3	0.7	1.3
Austria	0.2	0.3	0.2	0.5	0.2	0.5
Finland	0.1	0.1	0.1	0.1	0.1	0.1
France	0	0.4	0.4	1.3	0.4	1.3
Belgium	0	0	0	0.6	0	0.6
Netherlands	0	0	0	0.5	0	0.5

\* *Estimated*

Source: "USSR – Western Europe: Implications of the Siberia-to-Europe Gas Pipeline". National Foreign Assessment Center, 1999. Retrieved 2 May 2017. Available at [https://www.cia.gov/library/readingroom/docs/DOC\\_0000500594.pdf](https://www.cia.gov/library/readingroom/docs/DOC_0000500594.pdf)

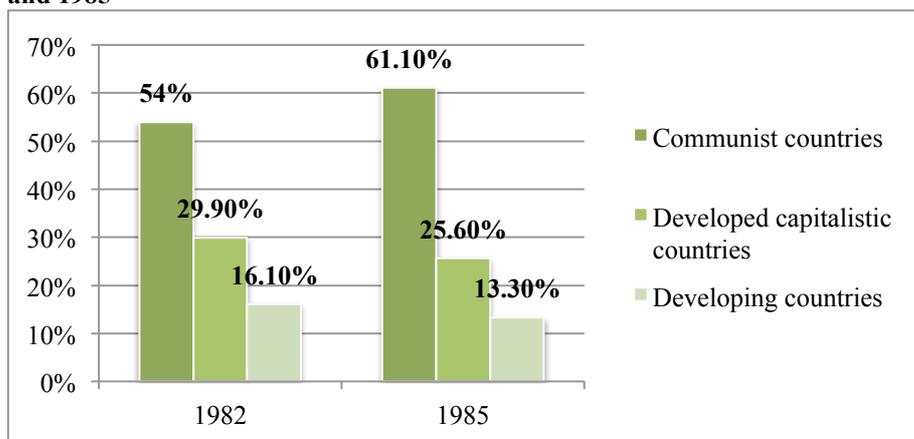
In order to manage the construction and operation of the trans-Siberian gas pipeline, the Soviet Union needed sophisticated computer control systems. The Soviets purchased some of the first invented computers on the open market, but later they received a rejection of buying the necessary software from the United States. A KGB agent was sent to Canada in order to obtain the needed codes from the Canadian software supplier, but the software was already adjusted by the US. At the beginning, the software and the already purchased computers complemented each other and worked highly efficiently, but later the program would break down causing the pumps and valves to speed up, so they would work at much

higher pressure. The stress on the gaskets and welding seams in the pipeline reached its maximum, which resulted in an explosion in 1982.<sup>85</sup>

The true reason of the explosion still remains unclear: according to one of the experts, Vladimir D. Zakhmatov, the explosion on the trans-Siberian pipeline in 1982 was because of some other factors, such as violation of safety engineering or wrong stowage of the pipes. He claims that pipelines in the 1980s were controlled and managed manually with the help of minimum automation.<sup>86</sup>

The explosion on pipeline in addition with Reagan's attempts to sabotage its construction was the beginning of the economic war against the Soviet Union. The American president believed that the Soviet system would collapse anyway, and he wanted to speed up the process. Reagan's NSDD-41 expanded the sanctions, which had been imposed a year ago after the martial law in Poland, on Soviet oil and gas exports.<sup>87</sup> According to the data, exports to developed countries, including Western Europe, fell by 4.3%, although exports to Eastern Europe and other communist countries increased by 7.1% from 1982 to 1985, (Figure 9).

**Figure 9. Exports to communist, developed and developing countries (% of total exports), USSR, 1982 and 1985**



Source: "Narodnoe khozyaystvo SSSR v 1988 g. Statisticheskiy ezhegodnik". Moskva, Izd. Finansy i Statistika, 1989 - Tsentral'noe statisticheskoe upravlenie SSSR. Available at [http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

In July 1982 Reagan issued another directive, the NSDD-48, which established the so-called SIG-IEP, or the Senior Interdepartmental Group – International Economic Policy. The SIG-IEP included the Secretary of Treasury (Chairman), the Secretary of State (Vice

<sup>85</sup> CASTRO CRUZ, Fidel. "Deliberate Lies, Strange Deaths and Aggression to the World Economy". *Global Research*. Prensa Latina, Sept. 2007. Retrieved 2 May 2017. Available at <http://www.globalresearch.ca/deliberate-lies-strange-deaths-and-aggression-to-the-world-economy/6861>

<sup>86</sup> ZAKHMATOV, V.D. - GLUSHKOVA, V.V. – KRYAZHICH, O.A. *VZRYV, kotorogo...NE BYLO! OGAS*, 25 June 2011. Retrieved 3 May 2017. Available at <http://ogas.kiev.ua/perspective/vzryv-kotorogo-ne-bylo-581>

<sup>87</sup> NSDD-41, June 22, 1982. Retrieved 3 May 2017. Available at <https://reaganlibrary.archives.gov/archives/reference/Scanned%20NSDD%20NSDD41.pdf>

Chairman), the Secretary of Defense, Commerce and Agriculture, the US Trade Representative, the Director of the Office of Management and Budget, the Assistant to the President for Policy Development, the Chairman of the Council of Economic Advisers, the Director of Central Intelligence, and the Assistant to the President for National Security Affairs<sup>88</sup>, in other words the SIG-IEP was created to integrate economic and financial affairs with national security. The first objective of the SIG-IEP was to “develop, review and prepare alternatives and recommendations on international economic policy issues as they relate to foreign policy”.<sup>89</sup>

One of the most classified Reagan’s doctrines, NSDD-54, issued in September 1982, was directed at undermining the Soviet influence among its allies in Eastern Europe. The doctrine aimed at “lessening their (Eastern European countries) economic and political dependence on the USSR and facilitating their association with the free nations of Western Europe”.<sup>90</sup> According the NSDD-54, the US government would employ different tools in order to implement its policy towards the Eastern Europe, and one of them was International Monetary Fund (IMF) membership. The US had been supporting the membership in IMF of any country, and concerning Warsaw Pact countries in Eastern Europe it would “continue to place economic and financial factors among other decision criteria when considering IMF membership in individual cases”.<sup>91</sup> Nevertheless, according to the data, imports from COMECON countries grew by 36.6% and exports to Eastern Europe increased by 28.6% from 1982 to 1985 (Table 6). Despite Reagan’s attempts to reduce the trade of the USSR with Eastern Europe in the first half of the 1980s, in 1985 the amount of Soviet exports and imports with some COMECON countries grew by more than 30%, which proves the indestructible economic interdependence between the Warsaw Pact countries at that time.

**Table 6. Exports and imports (Million RUB, current prices) of the USSR to socialist countries, 1982 and 1985**

	1982		1985		<i>Own calculations</i>	
	Exports	Imports	Exports	Imports	% change in exports	% change in imports
<b>Socialist countries including:</b>	<b>34136</b>	<b>30816</b>	<b>44284</b>	<b>42210</b>	<b>29.7%</b>	<b>36.9%</b>
<b>COMECON countries</b>	<b>31150</b>	<b>27552</b>	<b>40053</b>	<b>37640</b>	<b>28.58%</b>	<b>36.6%</b>

<sup>88</sup> NSDD-48, July 23, 1982. Retrieved 3 May 2017. Available at <https://reaganlibrary.archives.gov/archives/reference/Scanned%20NSDD48.pdf>

<sup>89</sup> Ibid.

<sup>90</sup> NSDD-54, September 2, 1982. Retrieved 3 May 2017. Available at <https://reaganlibrary.archives.gov/archives/reference/Scanned%20NSDD54.pdf>

<sup>91</sup> Ibid.

Bulgaria	4885	4288	6435	6040	31.72%	40.8%
Hungary	3707	3746	4560	4850	23%	29.4%
Vietnam	804	207	1165	281	44.9%	35.7%
East Germany	6420	5776	7652	7553	19.19%	30.7%
Cuba	3131	2709	3849	4140	22.93%	52.8%
Mongolian People's Republic	919	314	1113	387	21.1%	23.2%
Poland	4813	4097	6517	5525	35.4%	34.8%
Romania	1424	1683	1949	2276	36.8%	39.2%
Czechoslovakia	5047	4732	6813	6588	34.9%	40%
<b>Other socialist countries</b>	<b>2986</b>	<b>3264</b>	<b>4231</b>	<b>4570</b>	<b>41.6%</b>	<b>694%</b>
China	120	104	779	826	549%	11%
North Korea	318	363	648	403	103.7%	0%
Laos	64	2	86	2	34.3%	19.4%
Yugoslavia	2484	2795	2718	3339	9.4%	

Source: "Narodnoe khozyaystvo SSSR v 1988 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1989 - Tsentral'noe statisticheskoe upravlenie SSSR. Available at [http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

Two months later, in November 1982, Reagan shot the Soviet economy with a new directive, NSDD-66, where it was said that leading Western European nations would not sign new contracts with the Soviets on purchasing natural gas "during the urgent study of Western energy alternatives".<sup>92</sup> Despite the fact, that the Directive was not greeted by Western Europe, it created a basis to exploit the vulnerability of the Soviet economy: the Reagan administration employed more thorough prosecution of technology theft cases and limited the number of high-tech goods which could be legally shipped to the Soviet through other countries. On this account, Reagan pressured trade partners and neutral countries like Sweden and Switzerland in order to reduce their role as transshipment points for technology materials headed to Moscow.<sup>93</sup> It resulted in significant decline of high-tech exports to the USSR from the United States: in 1975 33% of all US goods exported to the Soviets were products of high technology, which were sold for \$219 million, and by 1983 the number fell to 5%, with its worth of \$39 million.<sup>94</sup>

On the next day after issuing the NSDD-66, Reagan signed the NSDD-70 called "Nuclear Capable Missile Technology Transfer Policy". The Directive restricted the exports of nuclear missile technology to certain nations and limited a broad category of high-tech exports to the Soviet Union. Furthermore, the objective for the US was to "maintain an

<sup>92</sup> NSDD-66, November 29, 1982. Retrieved 3 May 2017. Available at <https://reaganlibrary.archives.gov/archives/reference/Scanned%20NSDD66.pdf>

<sup>93</sup> KENGOR, Paul. *The Crusader: Ronald Reagan and the Fall of Communism*. New York: HarperPerennial, 2007, p.163

<sup>94</sup> Ibid. p.163

intelligence watch on countries suspected of having intentions of developing indigenous strategic missile programs which could pose a threat to the U.S. or its foreign policy”.<sup>95</sup>

In the beginning of 1983, Reagan issued the NSDD-75, which was one of the most significant documents in Cold War strategy by the Reagan administration. The former Senior Director of International Economic Affairs for the US NSC, Norman Bailey, would call the NSDD-75 “the strategic plan that won the Cold War”<sup>96</sup>; in 2004 his former NSC colleague, Tom Reed, would pronounce the NSDD-75 “the blueprint for the endgame” and “a confidential declaration of economic and political war”.<sup>97</sup> The author of the directive number 75, Richard Pipes, called it “...a clear break from the past. [NSDD-75] said our goal was no longer to coexist with the Soviet Union but to change the Soviet System. As its root was the belief that we had it in our power to alter the Soviet system through the use of external pressure.”<sup>98</sup> The NSDD-75 defined US relations with the USSR setting the threefold strategy: to resist the Soviet imperialism on external level; to weaken the Soviet imperialism via internal pressure on the USSR; and to eliminate outstanding disagreements on the basis of strict reciprocity.<sup>99</sup> In reference to the economic relations between the United States and the Soviet Union, the policy had to be in accordance with strategic and foreign policy goals as well as economic interests. The directive set objectives for the US as following: the abolishment of the transfer of technology and equipment, which would contribute to Soviet military buildup; the avoidance of subsidizing the Soviet economy; and the minimization of economic cooperation between the USSR and Western Europe. Nevertheless, the directive allowed the trade of grains between the Soviets and the West.<sup>100</sup> Generally, the NSDD-75 described intention of the United States of “promoting positive evolutionary change within the Soviet system”, “containing and reversing Soviet expansion and promoting evolutionary change within the Soviet Union itself”, and “containing the expansion of Soviet power”.<sup>101</sup> Besides the US policy towards the Soviet Union, the directive also emphasized propensity of the United States for “steady, long-term growth in [US] defense spending and capabilities.”<sup>102</sup>

Efforts of the American President to restrict trade policy towards the Soviet Union affected some, but not all the Western European countries. Imports from the developed capitalistic countries to the Soviets varied from 1980 to 1985. The top 8 import countries were West

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<sup>95</sup> NSDD-70, November 30, 1982. Retrieved 3 May 2017. Available at

<https://reaganlibrary.archives.gov/archives/reference/Scanned%20NSDD70.pdf>

<sup>96</sup> KENGOR, Paul. *The Crusader: Ronald Reagan and the Fall of Communism*. New York: HarperPerennial, 2007, p.166

<sup>97</sup> Ibid. p.166

<sup>98</sup> Ibid. p.166

<sup>99</sup> NSDD-75, January 17, 1983. Retrieved 3 May 2017. Available at

<https://reaganlibrary.archives.gov/archives/reference/Scanned%20NSDD75.pdf>

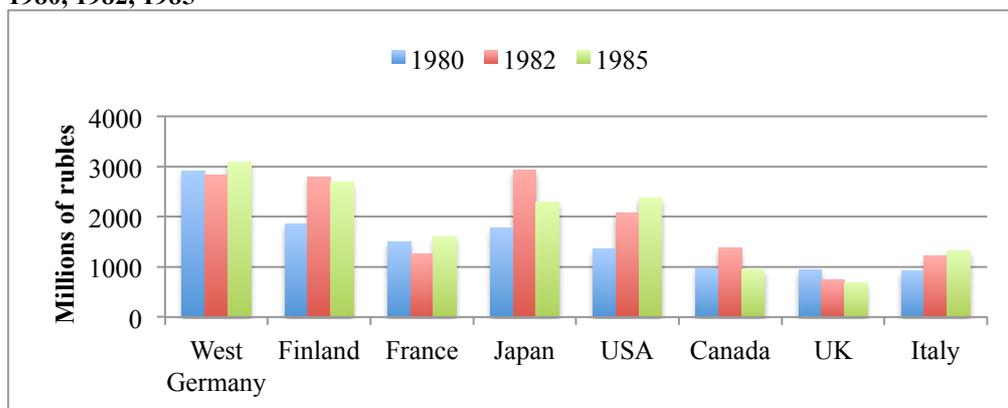
<sup>100</sup> Ibid.

<sup>101</sup> Ibid.

<sup>102</sup> Ibid.

Germany, Finland, France, Japan, Canada, United Kingdom, Italy and the United States (Figure 10).

**Figure 10. Imports (Million RUB, current prices) from developed capitalistic countries to the USSR, 1980, 1982, 1985**



Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at [http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/\\_%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/_%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

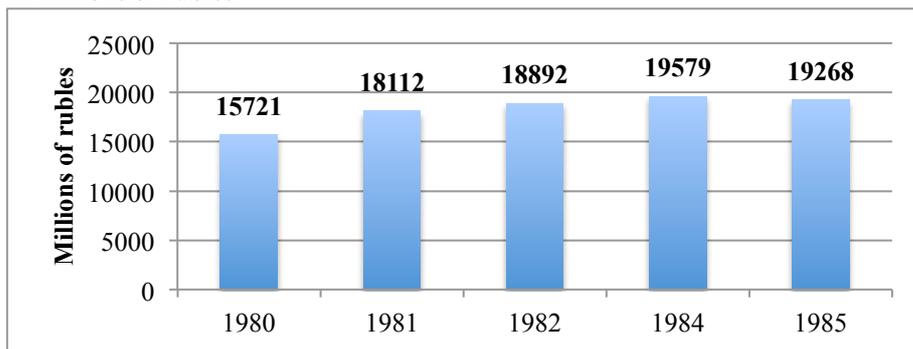
West Germany was the biggest importing country to the USSR among other capitalistic countries, and amount of imports to the Soviets met a decline by 3% and then grew back by 9% in 1985. The perceptible change was in trade with Japan: amount of imported goods from 1980 to 1982 increased by 65%, and then declined by 21% in 1985. While Canada and Japan decreased imports to the Soviet Union after issued NSDD-75 in 1983, imports from France, West Germany and Italy were slightly growing. According to the data, imports from the US increased from 1980 to 1982 by 50%, and then in 1985 it added 14% more, what made it the third biggest importing country to the USSR in 1985 (Table 7). Total amount of imports from capitalistic countries to the Soviets rose from 1982 to 1984 by 3% (Figure 11).

**Table 7. Percentage change in imports from developed capitalistic countries to the USSR, from 1980 to 1982, from 1982 to 1985**

	% change in imports from 1980 to 1982	% change in imports from 1982 to 1985
<b>West Germany</b>	-3.012%	9.21%
<b>Finland</b>	50.02%	-3.96%
<b>France</b>	-16.02%	26.41%
<b>Japan</b>	65.03%	-21.83%
<b>USA</b>	53.18%	14.72%
<b>Canada</b>	41.76%	-31.13%
<b>UK</b>	-21.09%	-9.04%
<b>Italy</b>	30.97%	8.42%

Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991 (own calculations). Available at [http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/\\_%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/_%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

**Figure 11. Imports from developed capitalistic countries to the USSR, 1980, 1981, 1982, 1984 and 1985, in millions of rubles**



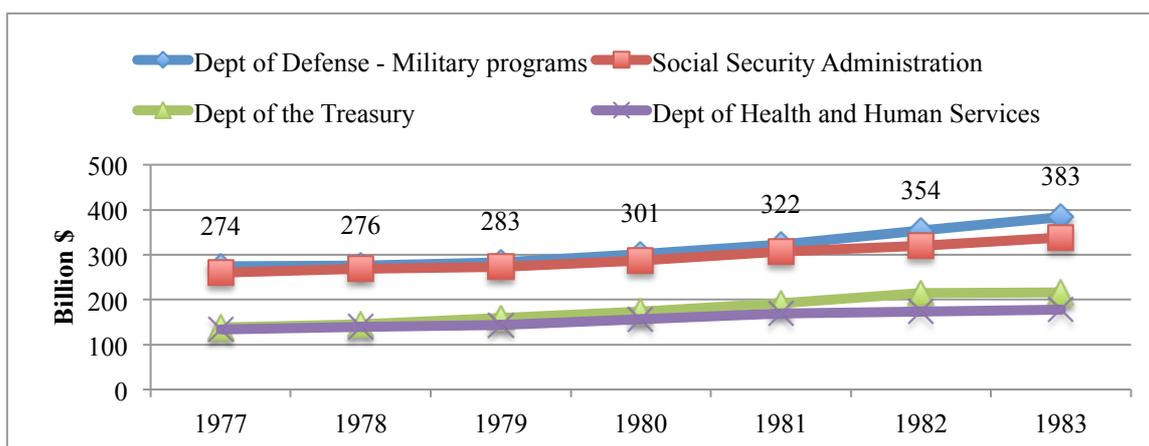
Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at

[http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

### 3.3 Strategic Defense Initiative, or "Star Wars"

In 1980 President Carter proposed to increase defense spending by 5% in real terms each year for the next five years, but by 1983 the amount of the increases had been reduced by half due to enhancement in management and procurement and other savings.<sup>103</sup> The Department of Defense (DOD) had been spending its budget on military programs, and after the 5-year-program, introduced by President Carter, there was stable increase of military spending for \$30 billion annually (Figure 12).<sup>104</sup>

**Figure 12. US Spending by departments (2017 USD): US Department of Defense - Military Programs, Social Security Administration, US Department of the Treasury, and the Department of Health and Human Services, 1977-1983**



Source: "Compare 1977-1978-1979-1980-1981-1982-1983 U.S. Budget", InsideGov. GRAPHIQ. Available at <http://federal-budget.insidegov.com/compare/80-81-82-83-84-85-86/1977-vs-1978-vs-1979-vs-1980-vs-1981-vs-1982-vs-1983>

Reagan's policy on nuclear weapons was primarily based on "deterrence", what meant "making sure any adversary who thinks about attacking the United States, or our allies, or

<sup>103</sup> PATERSON, Thomas G. - MERRILL, Dennis. *Major Problems in American Foreign Relations: Volume II since 1914*. Lexington, MA: D.C. Heath and Company, 1995, p. 712

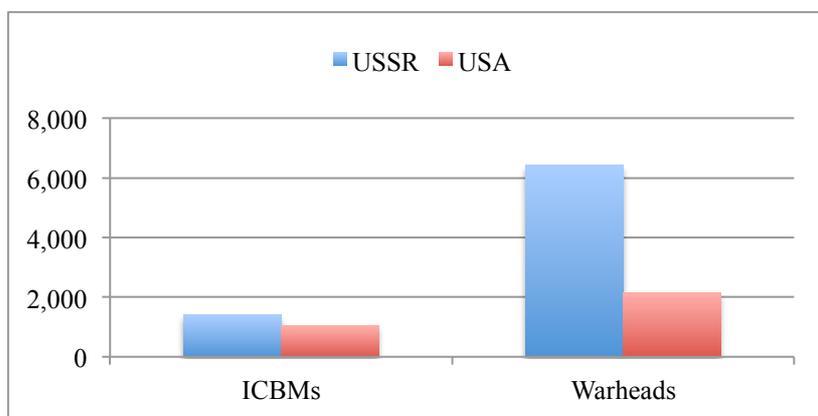
<sup>104</sup> "Compare 1977-1978-1979-1980-1981-1982-1983 U.S. Budget", InsideGov, GRAPHIQ. Retrieved 4 May 2017. Available at <http://federal-budget.insidegov.com/compare/80-81-82-83-84-85-86/1977-vs-1978-vs-1979-vs-1980-vs-1981-vs-1982-vs-1983>

our vital interests, concludes that the risks to him outweigh any potential gains”.<sup>105</sup> President Reagan was the only one of the American presidents before him, who was in favor of total abolishment of nuclear arsenals.<sup>106</sup>

Reagan’s famous speech in Orlando, Florida on March 8, 1983, when he called the USSR “the evil empire”, had fueled the tension between the US and the Soviets and shocked people all around the world.<sup>107</sup> During one of his private dinners, with wife Nancy and friend Stuart Spencer (also Reagan’s campaign adviser), Reagan reaffirmed: “It is an Evil Empire, it’s time to close it down”.<sup>108</sup>

The next action, undertaken by President Reagan, took place on March 23, 1983, after only two weeks of his speech in Florida. That day Reagan introduced the Strategic Defense Initiative (SDI), a vision for missile-defense system installed in space. During his televised address to the nation, the President spoke about aggressiveness of the Soviet Union, bringing statistical facts on missile production in the Soviet Union, and about the necessity to create the system, which would “counter the capabilities our adversaries were developing for the future”.<sup>109</sup>

**Figure 13. The production of intercontinental ballistic missiles (ICBMs) and warheads in the USSR and USA, 1983**



Source: “Statistical Abstract of the United States: 1990.” US Census Bureau, 01 Jan. 1990. Available at <https://www.census.gov/library/publications/1990/compendia/statab/110ed.html>

The Soviet Union was outrunning the US in production of ICBMs, warheads, submarines, and, as a consequence, the Soviets had been carrying higher costs: military expenditures in the USSR were at the stable 12.5%-12.8% share of GNP from 1977 till 1983, meanwhile

<sup>105</sup> PATERSON, Thomas G. - MERRILL, Dennis. *Major Problems in American Foreign Relations: Volume II since 1914*. Lexington, MA: D.C. Heath and Company, 1995, p. 712

<sup>106</sup> GADDIS, John L. *The Cold War*. London: Penguin, 2005, p.136

<sup>107</sup> PETERS, Gerhard – WOOLEY, John T. “Ronald Reagan: Remarks at the Annual Convention of the National Association of Evangelicals in Orlando, Florida - March 8, 1983.” *The American Presidency Project*. Retrieved 30 April 2017. Available at <http://www.presidency.ucsb.edu/ws/index.php?pid=41023&st=evil%2Bempire&st1=>

<sup>108</sup> KENGOR, Paul. *The Crusader: Ronald Reagan and the Fall of Communism*. New York: HarperPerennial, 2007, p.175

<sup>109</sup> PATERSON, Thomas G. - MERRILL, Dennis. *Major Problems in American Foreign Relations: Volume II since 1914*. Lexington, MA: D.C. Heath and Company, 1995, p. 712

the United States had been spending from 4.9% to 6.4% of GNP on its military for the same period.<sup>110</sup>

The idea of SDI was to employ defensive nuclear weapons systems in space to defend against both nuclear and conventional attacks with minimal loss of human life, but with very great military effectiveness. Effects of operation in space against distant targets were expected to be largely destructive and drove number of casualties among population to its minimum, since the target would be a launched missile itself, not human lives. According to Edward Teller, the technique would be “used against possibly very large areas of enemy territory from a region of space overhead”, and the effects would “devastate both civilian and military equipment with no discernable direct effects on the people in the territory”.<sup>111</sup>

Reagan’s Secretary of Defense, Caspar Weinberger, decided to establish a new unit within the Department of Defense in order to ensure the development of the President’s initiative as quickly as possible. Weinberger wanted to assign the full responsibility to the DOD for the research and creation of the project, and also to reallocate to SDI all of the resource funding that was available for defensive work.<sup>112</sup> According to Weinberger himself, “I placed that new unit directly under me, with its head reporting to me, so that I would know of everything happening in the project, and would be able to block attempts that I knew would be made to divert resources and support from strategic defense, or to slow or dilute the Department’s commitment for the Strategic Defense Initiative...”<sup>113</sup>

After the commissions’ reports, which concluded that the SDI was technically feasible and that one obstacle for its realization was not funding but technological progress, the staff for the project was assembled. The necessity to convince the nation and receive public support was crucial for such massive project. To resolve this problem, President Reagan had been giving speeches to the public about absence of defensive mechanisms in the country against Soviet missiles, and that it was vital to create such a system that would ensure the security of Americans.<sup>114</sup>

The Congress confronted the SDI, since it contradicted Mutual Assured Destruction (MAD) – the military doctrine, which emerged at the end of the Kennedy administration, and which was based on the idea of “whoever shoots first, dies second”, or if either side decided to attack another side, it would result in mutual annihilation of both sides of the

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<sup>110</sup> “Statistical Abstract of the United States: 1990.” US Census Bureau, 01 Jan. 1990. Retrieved 3 May 2017. Available at <https://www.census.gov/library/publications/1990/compendia/statab/110ed.html>

<sup>111</sup> TELLER, Edward. Letter to President Reagan, July 23, 1982. Retrieved 4 May 2017. Available at <http://www.thereaganfiles.com/82723-teller-to-reagan.pdf>

<sup>112</sup> WEINBERGER, Caspar W. *Fighting for Peace: Seven Critical Years in the Pentagon*. London: Warner Books, 1990, p.311

<sup>113</sup> Ibid. p.312

<sup>114</sup> Ibid. p.312

attacker and the defender.<sup>115</sup> The Congress had supported the concept of MAD and tried not to let anything to violate the idea. In 1983 and 1984 the Congress rejected to appropriate the project, and any attempts of SDI supporters to reprogram DOD budget funds were blocked by the Congress. In FY 1985 Congress was finally convinced to allocate \$1.4 billion for the SDI, although \$1.8 billion was requested; in FY 1986, \$2.67 billion compared to requested \$3.75 billion; in FY 1987, \$3.27 billion with \$4.8 demanded; in FY 1988, \$3.6 billion with \$5.2 billion needed; and in FY 1989 \$3.74 instead of desired \$4.5 billion.<sup>116</sup>

President Reagan was looking for support of SDI not only among Americans, but also during American allies abroad: after long and difficult negotiations, SDI collaboration was signed with England (December 1985), Germany (March 1986), Israel (May 1986), Italy (September 1986), and Japan (July, 1987). The agreements were providing to ease the procedures under which the US could enter into a contract with foreign manufacturers and research specialists for work on SDI. Although not all US allies stood up for the project: for instance, Australia prohibited its companies from working on it.<sup>117</sup>

One of the reasons for SDI was the fact that Soviets had invested in its own defense system, which Reagan was aware of; later he called the Soviet missile-defense plan “Red Shield”. The SDI itself later would receive its own name among the media and press: liberal Democrats dubbed the initiative “Star Wars”, what was later popularized by Senator Ted Kennedy, who had been highly criticizing Reagan’s speech on SDI.<sup>118</sup>

Reagan had deep commitment to SDI, and his speeches about the defense mechanism in space had persuaded the Soviet leaders in its reality and effectiveness. In reality, the US was decades away from developing the space missile defense capability, so mostly the SDI was used as a bluff to make the Soviets more nervous and exhaust them in the arms race in the future.

After Reagan’s statement about the SDI, the Soviets perceived it as a real threat: Kremlin considered that the project was aimed at destabilization of international situation and at taking away the possibility to counterattack the United States in case of nuclear war. Andropov, the Soviet leader at that time, was assured that Reagan’s “new concept” would result in further development of arms race in space. The Soviet government perceived the idea of SDI as a major breakthrough in technological progress, despite skepticism of

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<sup>115</sup> GADDIS, John Lewis. "Strategies of Containment: A Critical Appraisal of Postwar American National Security." *Nuclear Files.org. Project of the Nuclear Age Peace Foundation*. Oxford University Press, 1982. Retrieved 4 May 2017. Available at <http://www.nuclearfiles.org/menu/key-issues/nuclear-weapons/history/cold-war/strategy/strategy-mutual-assured-destruction.htm>

<sup>116</sup> WEINBERGER, Caspar W. *Fighting for Peace: Seven Critical Years in the Pentagon*. London: Warner Books, 1990, p. 313

<sup>117</sup> *Ibid.*, p.315

<sup>118</sup> KENGOR, Paul. *The Crusader: Ronald Reagan and the Fall of Communism*. New York: HarperPerennial, 2007, p.181

Soviet military engineers about realness of Reagan's initiative.<sup>119</sup> KGB general, Nikolai Leonov, recalled: "SDI played a powerful psychological role. And of course it underlined the need for an immediate review of our place in world technological progress".<sup>120</sup> Another KGB general, Segei Kondrashey, said that the SDI "influenced the situation in the country to such an extent that it made the necessity of seeking an understanding with the West very acute".<sup>121</sup>

On September 1, 1983 a Soviet interceptor shot down the South Korean airliner, which was serving the flight from NYC to Seoul. This event worsened the relations between Soviet Union and United States, as well as with countries all around the world. The reputation of the Soviet Union was catastrophically damaged. Nevertheless, the Politburo of the CPSU claimed that it was a provocation by the US in order to check on the military readiness of the USSR. In response, President Reagan issued NSDD-102, which invoked for justice in the international community. The directive stated to "seek maximum condemnation of the Soviet Union in the U.N. Security Council and provide wide dissemination of statements made in these sessions".<sup>122</sup>

General Secretary Gorbachev, who was elected in March 1985, spoke on US delusions in its policy towards the USSR. In his speech, Gorbachev denied the possibility of exhausting the Soviet Union economically due to escalated arms race. He also emphasized that there were "attempts to outstrip" the Soviet Union in military, and, as he said, the Soviets needed to respond and always had been ready to "meet any challenge". Gorbachev claimed that the US was "itching for a fight" and was "being consumed by ambition for world supremacy". Speaking about the SDI, the Secretary called the project "another delusion", and that the Soviets "will meet this challenge".<sup>123</sup>

The SDI had small effect on the American budget, since it required spending on R&D, a relatively smaller part of defense budget. The Congress started to appropriate the "Star Wars" since 1985; the total growth for the period of 1985-1989 for expenditures on SDI was \$2.34 billion, or increase for 167% from the initial year of funding (Figure 14).

Military officials in both, the US and the USSR, had been bluffing about one another's capacities, which had fueled a further push for production of more weapons on both

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<sup>119</sup> DOBRYNIN, Anatoly F. *Sugubo doveritel'no. Posol v Vashingtone pri shesti prezidentakh SShA*, Moskva: Avtor, 1996, p.565

<sup>120</sup> SCHWEIZER, Peter. *Reagan's War the Epic Story of His Forty-Year Struggle and Final Triumph over Communism*. New York: Anchor Books, 2003

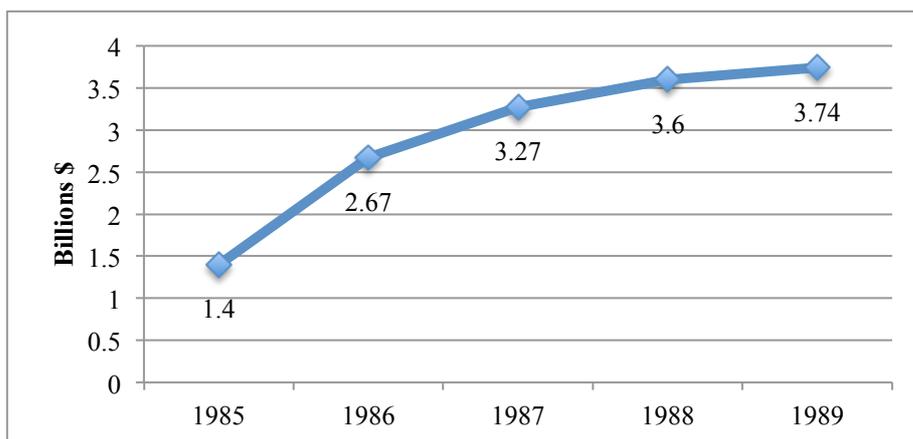
<sup>121</sup> Ibid.

<sup>122</sup> NSDD-102, September 5, 1983. Retrieved 4 May 2017. Available at <https://reaganlibrary.archives.gov/archives/reference/Scanned%20NSDD%20NSDD102.pdf>

<sup>123</sup> PATERSON, Thomas G. - MERRILL, Dennis. *Major Problems in American Foreign Relations: Volume II since 1914*. Lexington, MA: D.C. Heath and Company, 1995, p.714

sides.<sup>124</sup> One of the opponents to increasing military expenditures in Pentagon was Pierre Sprey, who described the situation as following: “What we had was two huge defense apparatuses busily propagandizing their governments to spend the absolute maximum amount of money...It wasn’t a buildup, it was just a spend-up”.<sup>125</sup> According to Sprey, “Reagan gave money to defense contractors for weapons, while funds for troops, maintenance and training languished”.<sup>126</sup>

**Figure 14. Spending of the DOD on Strategic Defense Initiative, 1985-1989**



Source: WEINBERGER, Caspar W. *Fighting for Peace: Seven Critical Years in the Pentagon*. London: Warner Books, 1990, p.313

After President Reagan announced the Strategic Defense Initiative, the production of weapons in the USSR remained quite stable, although there was an increase for 1.43% in production of ISBMs from 1985 to 1986, but then the number dropped by 4.9% by 1988. For the US, the production of bombers tended to rise for 25% by 1988, since Reagan approved the construction of highly cost B-2 bomber and renewed the production of B-1 bomber, which was rejected by Carter administration (Table 8).<sup>127</sup>

**Table 8. Intercontinental Ballistic Missiles (ICBMs), Submarines, and Bombers – U.S. and Soviet Union Balance, 1985-1988**

	1983	1984	1985	1986	1987	1988	% change from 1983 to 1988 (own calculations)
<b>ICBMs: United States</b>	1,040	1,030	1,017	999	996	1,000	<b>-3.8%</b>
<b>Soviet Union</b>	1,398	1,398	1,398	1,418	1,389	1,348	<b>-3.5%</b>

<sup>124</sup> SCHNEIDER, Greg, and Reno Merle. “Reagan’s Defense Buildup Bridged Military Eras Huge Budgets Brought Life Back to Industry.” *The Washington Post*. WP Company, 9 June 2004. Retrieved 29 April 2017. Available at <http://www.washingtonpost.com/wp-dyn/articles/A26273-2004Jun8.html>

<sup>125</sup> Ibid.

<sup>126</sup> Ibid.

<sup>127</sup> Ibid.

<b>Warheads: United States</b>	2,140	2,130	2,117	2,157	2,132	2,450	<b>14%</b>
<b>Soviet Union</b>	6,420	6,420	6,420	6,440	6,400	6,265	<b>-2.4%</b>
<b>Submarine systems: United States</b>	568	592	600	640	640	608	<b>7%</b>
<b>Soviet Union</b>	961	946	931	967	969	966	<b>0.5%</b>
<b>Warheads: United States</b>	5,152	5,344	5,376	5,632	5,632	5,312	<b>3.1%</b>
<b>Soviet Union</b>	1,957	2,122	2,307	2,695	1,941	3,082	<b>57%</b>
<b>Bombers: United States</b>	297	297	297	312	363	372	<b>25%</b>
<b>Soviet Union</b>	260	300	325	325	326	350	<b>34%</b>

Source: "Statistical Abstract of the United States: 1990." US Census Bureau, 01 Jan. 1990. Retrieved 3 May 2017. Available at <https://www.census.gov/library/publications/1990/compendia/statab/110ed.html>

The officials in the Soviets were seeking to negotiate with President Reagan about rolling-back the SDI project – they wanted to conduct negotiations in order to prevent militarization of space. Gorbachev was strictly against the SDI and tried to convince other members of the Politburo, that it was vital to cancel the program. Meanwhile Reagan and his administration didn't have any intention to revoke the SDI.<sup>128</sup> Notwithstanding the rising concern of the Soviet leadership about the SDI, looking at the data, it didn't seem that the USSR started massive arms production in its attempts to catch up with the US.

In April 1985 Gorbachev took the initiative – he said that he would halt the deployment of intermediate-range nuclear missiles in Eastern Europe and also agreed, that he would do it on permanent basis, if the US did the same in response. Later in August, the Soviet leader announced a temporary moratorium on nuclear tests and hoped, that Americans would follow him in this process. The US declined, since it would deprive them of a right to work on the SDI. Then, in November 1985, Gorbachev and Reagan met in Geneva, but hadn't come to any agreements. American President remained unshakable about the SDI. After they met again in Reykjavik in October 1986, both leaders had come closer to the problem of disarmament, but Reagan stayed highly committed to the SDI. In September 1987, the INF treaty was signed between the USSR and the United States, which removed all intermediate-range weapons from Europe. Gorbachev also demanded the idea of cancellation of the SDI.<sup>129</sup> And later the Congress started cutting the budget for the "Star

<sup>128</sup> DOBRYNIN, Anatoly F. *Sugubo doveritel'no. Posol v Vashingtone pri shesti prezidentakh SShA*, Moskva: Avtor, 1996, pp.608-609

<sup>129</sup> HOPKINS, Michael F. *The Cold War*. London: Thames & Hudson, 2011, pp.114-115

Wars” project: from 1987 to 1988 the budget for the SDI rose for 10% (the supporters of the project asked for 59% increase), and then in 1989 funds for the initiative increased only by 3.8% (Figure 14).<sup>130</sup>

Reagan’s beliefs that there was inevitability of the USSR to collapse contributed significantly while building his foreign policy. American President and his personality played one of the roles in reduction of arms race between the two superpowers. The emergence of Gorbachev, who differed from his predecessors at the post of General Secretary, also resulted in deceleration of tensions between the USSR and the United States. Firstly, after his censure about the SDI and announcement that the Soviet Union was ready to accept any challenge, Gorbachev had been confident in his actions and ideas about new era for the USSR. In addition with his proposals of restructuring the economy and new thinking in foreign policy, Gorbachev was dedicated to his concepts on invulnerability of the Soviet Union. The composition of both, Gorbachev and Reagan, and their eagerness to eliminate all the nuclear weapons might have resulted in preservation of peace. Taking into consideration the statistics on military expenditures in both states, it didn’t seem that the USSR and the US were preparing to undertake aggressive actions towards each other, and the numbers didn’t point on the intention of either country for a war.

In his book, Gorbachev spoke about the SDI: “Of course, our people are alarmed by the Strategic Defense Initiative. We have said this more than once. But maybe they [United States] are merely trying to intimidate us again? Perhaps it is better to stop fearing SDI?” Gorbachev was aware that some part of American population was opposing the SDI and nuclear tests, although, he supposed, other part was highly excited about it. The General Secretary thought that the SDI was the step towards the militarization of political thought. Gorbachev also added: “They [the US] think that if the USSR is afraid of SDI, it should be intimidated with SDI morally, economically, politically and militarily. This explains the great stress on SDI, the aim being to exhaust us.”<sup>131</sup> The Secretary made it clear, that the USSR was in favor of complete destruction of all nuclear weapons, and that the SDI worsened the situation and made the world unstable. Gorbachev emphasized that responsibility to provide higher security had greater importance than the fear of being outrun by the US militarily.<sup>132</sup>

From Gorbachev’s statement, it becomes clear that by 1985 he and other members of the Soviet government realized the low probability of creating a defense system in space. The

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<sup>130</sup> WEINBERGER, Caspar W. *Fighting for Peace: Seven Critical Years in the Pentagon*. London: Warner Books, 1990, p.313

<sup>131</sup> GORBACHEV, Mikhail. *Perestroika: New Thinking for Our Country and the World*. London: Collins, 1987, p.233

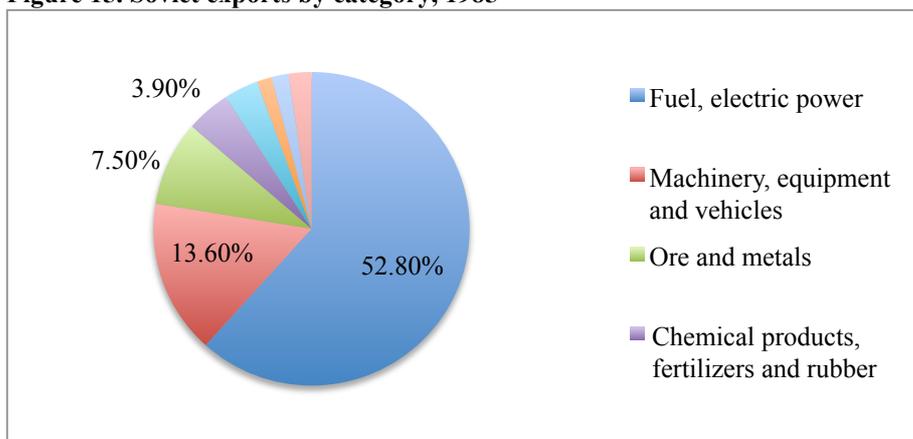
<sup>132</sup> Ibid. p.234

Soviets understood, that SDI was playing more intimidating role rather than being implemented in reality. According to the data, it couldn't come to mind whether the SDI did exhaust the Soviet economy or it just contributed to it partially. 1987 was the year of economic reforms in the USSR, which later indicated that market economy couldn't coexist with the communist government. The contradiction and rising crisis in the Soviet system was the result of emaciation of the economy during the 1970s, when the revenue was coming largely from oil and gas sales. There were series of changes in the Soviet economy as well as in minds of Soviet people in the second half of the 1980s. The USSR was on its way to capitalism, although the SDI and the obstinacy of President Reagan assisted the Soviet Union to its final stage.

### 3.4 Reagan's negotiations with Saudi Arabia

President Reagan was aware that energy exports represented the major share of Soviet hard (foreign) currency earnings (Figure 15). The USSR remained the largest producer of oil in the first half of the 1980s, followed by the United States and Saudi Arabia (Figure 16). Reagan's Administration had been searching for a way to cut the inflow of hard currency in the Soviet Union. The President and his subordinates identified that dependence on oil exports was the weakness of the Soviet economy. Reagan entrusted the director of CIA, Bill Casey, to figure out the way to put a stop to "oil doping" of the USSR. Finally the solution was found – to drive global oil prices down and thereby undercut the world supply for Soviet oil.<sup>133</sup>

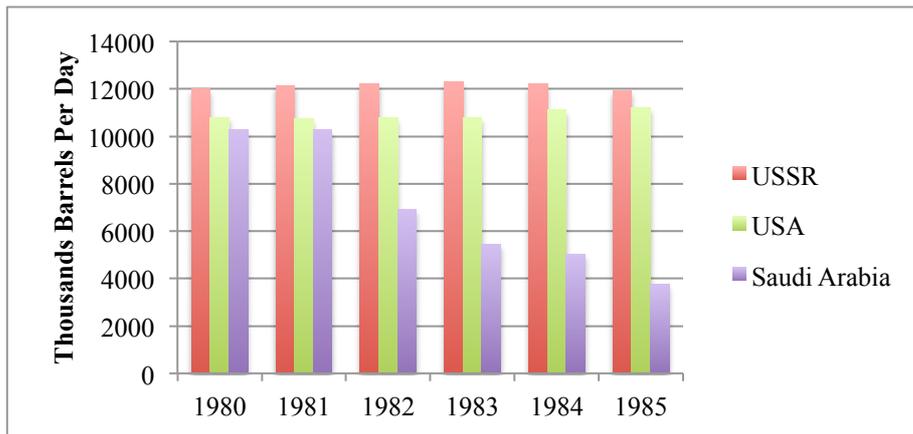
**Figure 15. Soviet exports by category, 1985**



Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at [http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

<sup>133</sup> KENGOR, Paul. *The Crusader: Ronald Reagan and the Fall of Communism*. New York: HarperPerennial, 2007, p.251

**Figure 16. Total Petroleum and Other Liquids Production, 1980-1985 (Thousand Barrels per Day)**



Source: "Total Petroleum and Other Liquids Production, 1985." *International Energy Statistics*. US Energy Information Administration. Available at [https://www.eia.gov/beta/international/rankings/#?product=53-1&cy=1985&pid=53&aid=1&tl\\_id=1-A&tl\\_type=a&v=B](https://www.eia.gov/beta/international/rankings/#?product=53-1&cy=1985&pid=53&aid=1&tl_id=1-A&tl_type=a&v=B)

Reagan's Administration wanted to do everything to "improve the defenses of Saudi Arabia".<sup>134</sup> According to the data, US military sales agreements reached its peak in 1979, when total value of US military supplies to Saudi Arabia were over \$5 billion (Figure 17); at the same time, 1,400,000 barrels per day of Saudi oil were shipped to the United States (Figure 18). Relations between the two countries had faced a lot of controversies during 1970-1980: Saudi Arabia didn't reconcile with establishment of Israel in 1948 and didn't want to develop diplomatic relations with the state, meanwhile the United States was an ally of Israel. These tensions resulted in disputes over US arms sales to Saudi Arabia: several times leaders of Congress opposed US weapons sales, based on belief that Saudis would use it against Israel. Nevertheless, Saudi Arabia tried to assure that all purchased weapons from the US would be used for country's defense. The Congress remained stern – it reduced and canceled many proposed arms sales to Saudi Arabia.<sup>135</sup> In accordance with the data, amount of US arms sales to Saudi Arabia shrank by 20% from 1979 to 1981, then it grew four times by 1982 and in 1983 declined again (Figure 17).

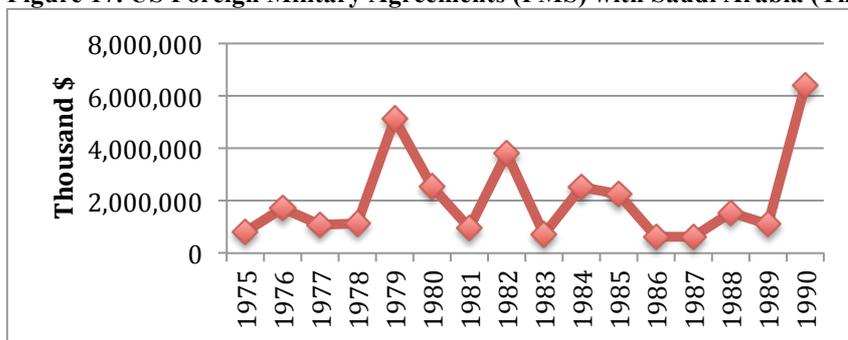
Nevertheless, Reagan secured the passage of airborne early warning and control (or AWACS) and fighter aircraft to Saudi Arabia in 1981, despite the opposition of Israel lobby. After, the President established the US Central Command (USCENTCOM), and entrusted it with responsibility for the Persian Gulf region. The US Air Force project "Peace Shield" in early 1985 implied a technologically advanced integrated air defense system around Saudi Arabia: computerized command, control, and communications

<sup>134</sup> "News Summary; WEDNESDAY, FEBRUARY 4, 1981." *The New York Times*. The New York Times, 03 Feb. 1981. Retrieved 4 May 2017. Available at <http://www.nytimes.com/1981/02/04/nyregion/news-summary-wednesday-february-4-1981.html>

<sup>135</sup> *Saudi Arabia - Relations with the United States*. U.S. Library of Congress

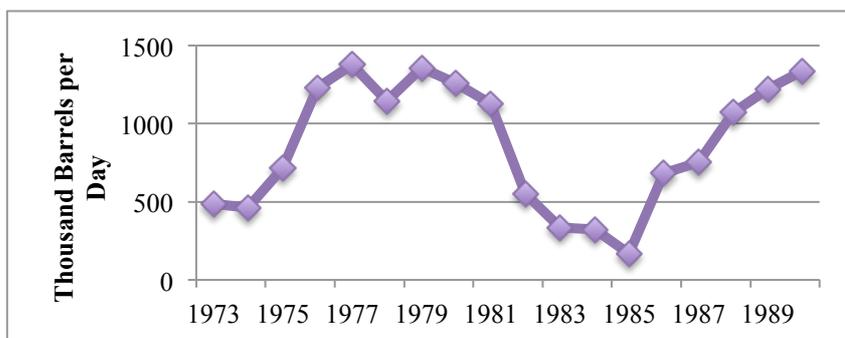
system that would link Saudi AWACS planes with five underground command centers and seventeen long-range radar stations; the staff consisted of 400 Americans.<sup>136</sup>

**Figure 17. US Foreign Military Agreements (FMS) with Saudi Arabia (Thousand \$), 1975-1990**



Source: "Foreign Military Sales, Foreign Military Construction Sales And Other Security Cooperation. Historical Facts." *Financial Policy and Analysis Business Operations*, DSCA, 2015. Available at [http://www.dscamilitary.com/sites/default/files/fiscal\\_year\\_series\\_-\\_30\\_september\\_2015.pdf](http://www.dscamilitary.com/sites/default/files/fiscal_year_series_-_30_september_2015.pdf)

**Figure 18. US imports from Saudi Arabia of Crude Oil and Petroleum Products (Thousand Barrels per Day), 1973-1990**



Source: "U.S. Imports from Saudi Arabia of Crude Oil and Petroleum Products (Thousand Barrels per Day)." *Independent Statistics&Analysis*. US Energy Information Administration. Available at <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=p&s=mttimussa2&f=a>

Driving global oil prices down was the opportunity not only to mar the Soviet economy, but also to boost the US economy. In 1983 the economists of the US Treasury Department had concluded that \$5 fall in price of a barrel of oil would increase the US GNP by about 1.4%, reduce inflation, increase disposable income and also reduce the US trade deficit.<sup>137</sup> CIA analysts had inferred that for every one-dollar drop in the price of a barrel of oil, the Soviet Union would lose between \$500 million and \$1 billion of hard currency per year.<sup>138</sup> Although the United States could not just easily ask OPEC countries to boost oil supply. The strategy required elaborate work and well-developed tactics to approach one of the oil-rich Arab countries and make it its ally to dismantle the USSR. Since Saudi Arabia was afraid of Soviet expansion in the Middle East, the Kingdom decided to join the US in the

<sup>136</sup> SCHWEIZER, Peter. *Reagan's War the Epic Story of His Forty-Year Struggle and Final Triumph over Communism*. New York: Anchor Books, 2003

<sup>137</sup> Ibid.

<sup>138</sup> Ibid.

economic warfare against the Soviet Union. Soviet invasion of Afghanistan in 1979 posed a threat for the Kingdom of Saudi Arabia as well. Saudi Arabia, as a state of monarchy and theocracy, feared that spread of Soviet influence in the Middle East would bring left revolutionary sentiment and Soviet secularism.<sup>139</sup> In addition with Soviet 10,000 troops deployed in Afghanistan, 1,500 Soviet advisers were appointed in South Yemen, 500 – in North Yemen, 2,500 – in Syria, 1,000 – in Ethiopia, 1,000 – in Iraq.<sup>140</sup>

First meeting between Reagan and Saudi King Fahd was off-the-record in the Oval office in 1985. In February 1985, the Saudi oil minister, Sheik Yamani, met privately with Secretary of State George Schulz and Energy Secretary John Harrington. The key objectives of the meeting were to discuss the world oil price situation and allegations that the US was manipulating oil markets. According to Ed Meese, the White House counselor at that time: “We wanted lower international oil prices, largely for the benefit of American economy...The fact that it meant trouble for Moscow was icing on the cake”.<sup>141</sup> Reagan’s national security advisor, Admiral John Poindexter, said: “It was to our advantage all around. It was in our interest to drive down the price of oil as low as we could. We saw it as a very important objective to keep the price of oil down”.<sup>142</sup> CIA director, Bill Casey, conducted the most important negotiations on reduction of oil prices and economic war against the Soviets. Head of the International Economics section of the NSC, Roger Robinson, recalled: “Bill Casey was keeping an eye on oil prices almost daily, and so we were...It was the centerpiece of the Soviet hard currency earnings structure and principal funding source of its military industrial complex”.<sup>143</sup> Weinberger also largely participated in negotiations with Saudi Arabia. “I raised the issue in general discussions with Saudi officials – the defense minister, Prince Bandar, and King Fahd,” he recalled, “they knew we wanted as low an oil price as possible. Among the benefits were our domestic economic and political situation, and a lot less money going to the Soviets. It was win-win situation.” According to Weinberger, the desire to drive the oil prices down was the reason of the US arms sale to Saudi Arabia.<sup>144</sup>

The oil policy of Saudi Arabia was based on three factors: to maintain moderate global oil prices in order to guarantee the use of crude oil as a major energy source in the long run; to develop excess capacity for stabilization of oil markets in the short run and ensure the permanence of the Kingdom to the West as a main source of oil in the long term; to obtain

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<sup>139</sup> BEAUCHAMP, Zack. “Beyond Oil: The US-Saudi Alliance, Explained.” *Vox. Vox*, 06 Jan. 2016. Retrieved 5 May 2017. Available at <https://www.vox.com/2016/1/6/10719728/us-saudi-arabia-allies>

<sup>140</sup> SCHWEIZER, Peter. *Reagan's War the Epic Story of His Forty-Year Struggle and Final Triumph over Communism*. New York: Anchor Books, 2003

<sup>141</sup> *Ibid.*

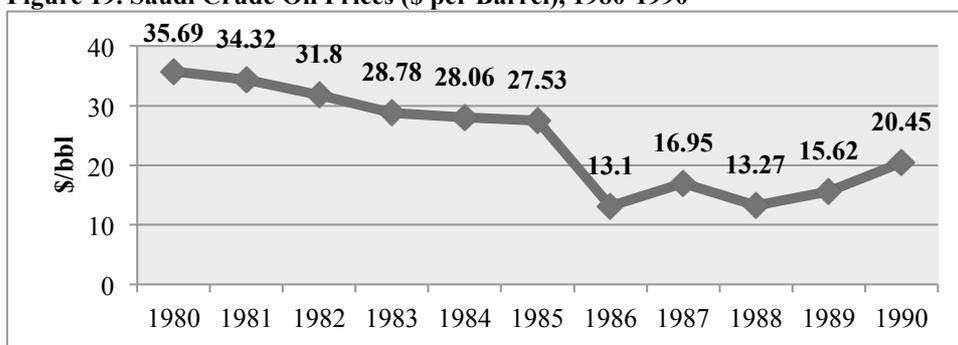
<sup>142</sup> *Ibid.*

<sup>143</sup> *Ibid.*

<sup>144</sup> *Ibid.*

the minimum level of oil revenues for further development of the economy and preclusion of radical changes in the domestic political system. In first half of the 1980s, oil prices rose rapidly because of Iranian Revolution in 1979, when Iran halted its oil exports, and Iran-Iraq War of 1980-1988. The growth in oil prices in the early 1980s stimulated the rise in non-OPEC oil supplies in the Third World, in Siberia, in the North Sea, and in Alaska.<sup>145</sup> The covert operation of negotiations on reduction of oil prices between Reagan and Saudi King Fahd took place in late 1985, when American President and the CIA director persuaded Fahd to shift Saudi oil supply by reducing the prices in order to shatter the Soviet economy. Because of the high level confidentiality of these meetings, the media was not aware of the true reason why Saudi oil prices plummeted in April 1986, when it reached the level of \$10 per barrel (Figure 19).<sup>146</sup>

**Figure 19. Saudi Crude Oil Prices (\$ per Barrel), 1980-1990**



Source: "BP Statistical Review of World Energy June 2016." BP. BP. Available at <http://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2016/bp-statistical-review-of-world-energy-2016-oil.pdf>

According to the data, Soviet oil exports remained at the level of 13% from 1970 to 1985. After Reagan's negotiations with King Fahd and decrease in Saudi oil prices in 1986, the USSR raised its exports to 14% in 1986 and then to 15% in 1987 (Table 9). Oil exports increased by 17% in its amount from 1985 to 1987 (Figure 20). Export price of Soviet oil fell for 22% from 1985 to 1986. After 1986 it kept declining, and in 1990 the price of oil exports from the USSR reached its minimum of 63% of price in 1985. Price of Soviet oil to developed countries faced reduction as well: it decreased for 57% in 1986, then grew to 53% in 1987 in terms of price in 1985, dropped again in 1988, and after started to go up again, reaching the level 60.8% in 1990 (Figure 21). Soviet exports of fuel and energy were small portion of all the budget revenues (Figure 22). In total, revenues from fuel sales were 10% of the total budget revenue in 1985 and then it tended to decline to final 5.2% in 1990. Also share of fuel exports to developed countries contributed from 1% to 2% to the

<sup>145</sup> "Saudi Arabia - Crude Oil Production and Pricing Policy." *Country Data*. Dec. 1992. Retrieved 5 May 2017. Available at <http://www.country-data.com/cgi-bin/query/r-11608.html>

<sup>146</sup> KENGOR, Paul. *The Crusader: Ronald Reagan and the Fall of Communism*. New York: HarperPerennial, 2007, p.251

Soviet budget (Table 10). In accordance with data on official exchange rates published by Russian Central Bank, the Soviet ruble started getting stronger to USD from 1985 (Figure 23).

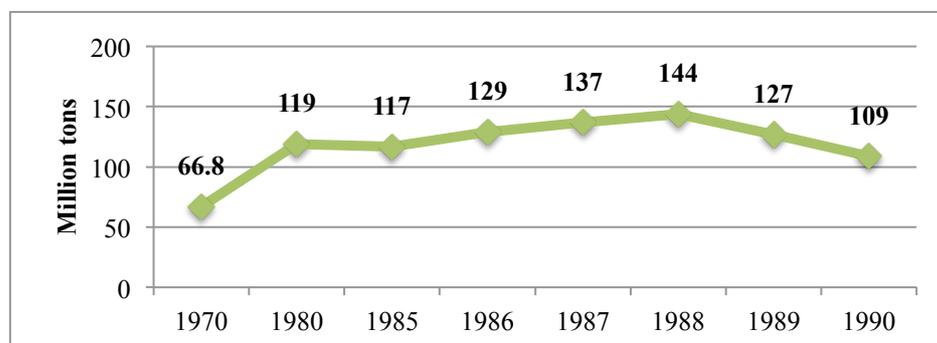
**Table 9. Total extraction of oil, oil exports (Million tons) and percentage of oil exports to total oil production in the USSR, 1970-1990**

	Extraction of oil (Million t)	Exports of oil (Million t)	% oil exports of total oil production ( <i>own calculations</i> )
<b>1970</b>	502.5	66.8	<b>13.29%</b>
<b>1980</b>	862.6	119	<b>13.79%</b>
<b>1985</b>	851.3	117	<b>13.74%</b>
<b>1986</b>	879.1	129	<b>14.67%</b>
<b>1987</b>	892.6	137	<b>15.34%</b>
<b>1988</b>	892.8	144	<b>16.12%</b>
<b>1989</b>	868.4	127	<b>14.62%</b>
<b>1990</b>	816.2	109	<b>13.35%</b>

Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at

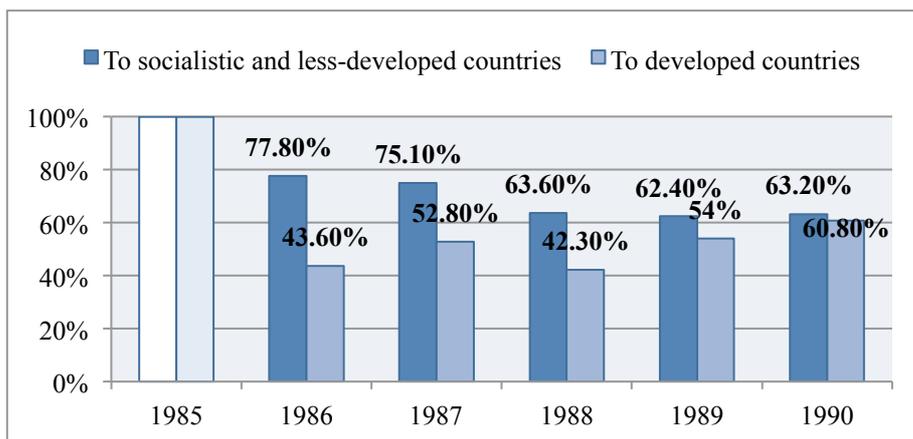
[http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/\\_%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/_%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

**Figure 20. Oil exports (Million tons) in the USSR, 1970-1990**



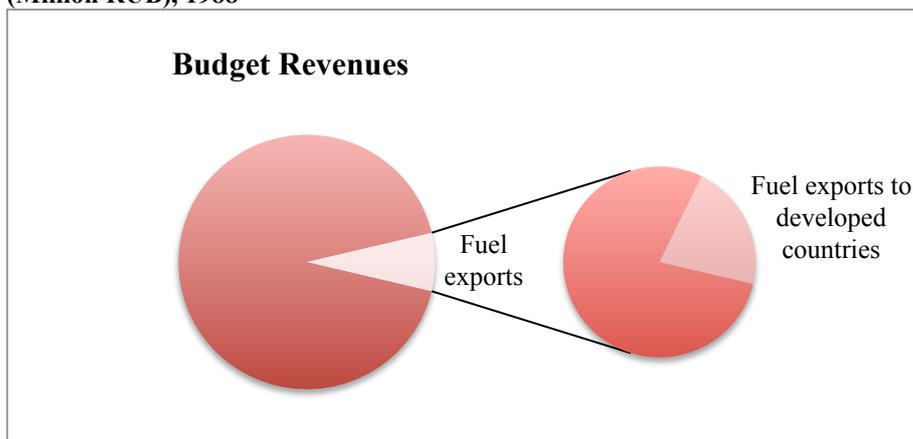
Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at

[http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/\\_%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/_%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

**Figure 21. Index of average export price of Soviet oil, 1985-1990 (1985 = 100%)**

Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at

[http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

**Figure 22. Soviet budget revenue - share of fuel exports including fuel exports to developed countries (Million RUB), 1988**

Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at

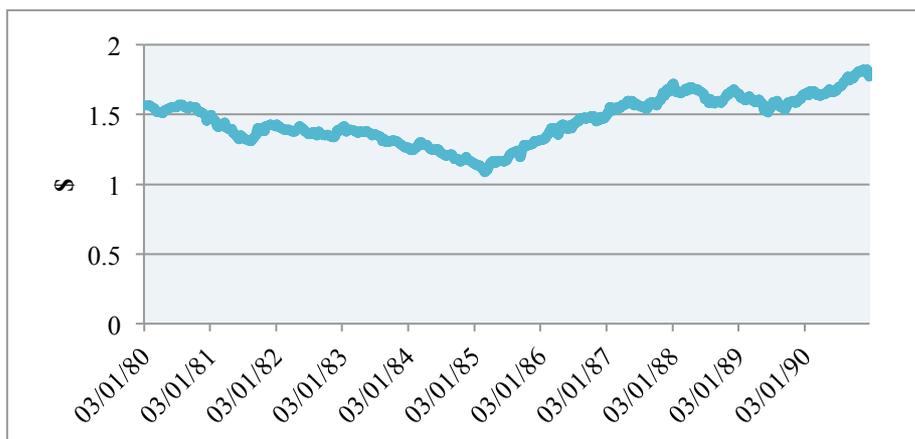
[http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

**Table 10. Soviet budget revenue - share of fuel exports including fuel exports to developed countries (in Million RUB), 1985-1990**

	Budget Revenue (m RUB)	Fuel exports (m RUB)	Fuel exports to developed countries (m RUB)	Own calculations	
				% fuel exports of budget revenue	% fuel exports to developed countries of budget revenue
1985	372,600	38,293.928	10,498.83	10.27%	2.81%
1986	371,600	32,298.805	5,925.268	8.69%	1.59%
1987	376,400	31,686.03	6,496.73	8.41%	1.72%
1988	376,900	28,255.415	6,071.31	7.49%	1.61%
1989	401,900	27,428.058	N/A	6.82%	N/A
1990	471,600	24,606.585	N/A	5.21%	N/A

Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at

[http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

**Figure 23. Official exchange rates of the Soviet ruble (monthly average) to USD, 1980-1990**

Source: "Kursy valyut za period do 01.07.1992." Tsentral'nyy bank Rossiyskoy Federatsii. Tsentral'nyy bank Rossiyskoy Federatsii. Available at [http://cbr.ru/currency\\_base/OldVal.aspx](http://cbr.ru/currency_base/OldVal.aspx)

Overall, because of the American tough anti-communist strategy to cut the inflow of hard currency from sales of Soviet oil, in 1986 there was trade deficit of over 2 billion RUB with the developed countries, the budget expenditures were greater than revenues for 12% and the price of Soviet oil to the West plummeted for 57% comparing to 1985. Yevgeny Novikov, who served on the senior staff of the Central Committee, recalled: "The drop in oil prices was devastating, just devastating. It was a catastrophic event. Tens of billions were wiped away."<sup>147</sup> He also said: "The Central Committee realized that they were facing a committed government in Washington. They saw activity on all fronts...It frightened them to death".<sup>148</sup>

In addition to expenditures on Soviet troops in Afghanistan and decline in oil revenues, the Soviet economy was devastated. Gorbachev's new policy of restructuring the economy needed funds from the budget, but the budget was running a deficit. The anti-communist steps, undertaken by Ronald Reagan in the first half of the 1980s, started giving its results: panic among members of Politburo and loosing billions of dollars annually because of reduction in global oil prices led to aggravation of the situation in the USSR in economic sector as well as in the Soviet society. In 1987 Gorbachev realized the incompatibility of command system in the economy and his new reformatory proposals. Also in 1987 the Soviet economists were told to elaborate a new economic policy, which would give more freedom to individual enterprises and develop the private sector through establishment of cooperative economic associations. The market economy was underway, but periodically it had to step back because of the contradiction with the Soviet command system. The

<sup>147</sup> Ibid.

<sup>148</sup> Ibid.

society started to realize the possibility of great economic reforms, and, as a consequence, Soviet people saw the opportunity of higher living standards.

#### **4 Evaluation of internal and external factors for the period 1979-1990**

This chapter makes some pre-conclusions on the role of the external factors in the Soviet collapse in 1991. It refers to the statistics on the Soviet economy, which contributes to the general evaluation of all the factors described and mentioned in theoretical and practical parts of the thesis.

Evaluating the internal factors, it is highly important to emphasize that the Soviet economy had been complying with the principles of planned economic system for 70 years. The Soviet dictators had used their authority to influence the economy and build socialism meanwhile gaining more control over people's life and subordinating every economic sector. One of the most significant differences when comparing command and market economies is predominant state ownership in the first versus private property in the latter. Considering all producers in economy as agents, the cornerstone of command economy is that agents have no right to disobey – they must comply with request of the government in order to fulfill its orders. The command economy in the USSR undoubtedly illustrated that goods produced in socialism were public goods and had to be redistributed by the dictator unlike capitalist goods (or goods produced in capitalism), which augmented value in market prices and improved individual welfare.<sup>149</sup>

The presence of vertical hierarchy in the Soviet Union between producers and government officials had been impairing the economy since Stalinist times till the collapse of the USSR. The dominant administrative relationship at each level of the state was that of principal and agent, with each principal in turn acting as the agent of a higher principal until reaching the top where the great dictator ruled alone as “*capo di capi*”, or boss of all bosses.<sup>150</sup> Besides, the horizontal hierarchy between ministries and industries also arose in the Soviet economy: the defense ministry was forced to buy the equipment from the producers in the heavy industry and food from the agricultural sector; the engineering ministry purchased metals from the steel industries and electricity from the energy producers.<sup>151</sup>

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<sup>149</sup> HARRISON, Mark (2013) *The Economics of Coercion and Conflict*. In: *The Economics of Coercion and Conflict*. World Scientific Publishing Co. Pte. Ltd. 2013. Retrieved 5 May 2017. Available at <http://wrap.warwick.ac.uk/85067>

<sup>150</sup> HARRISON, Mark. *The Fundamental Problem of Command : Plan and Compliance in a Partially Centralised Economy*.

Comparative Economic Studies, Vol.47 (No.2). 2004. pp. 296-314. Retrieved 5 May 2017. Available at <http://wrap.warwick.ac.uk/229/>

<sup>151</sup> Ibid.

The stagnation era during the 1970s made the Soviet economy internally weaker – elderly members of the Soviet government and their desire to build socialism prevented any new ideas of economic reforms, when the country needed it. Inside the political system itself, the Soviet government was highly corrupted, and it definitely was obstructing the path to reforms. Gorbachev once said: “The Soviet model was defeated not only on the economic and social levels; it was defeated on a cultural level”. He assumed that the most educated people in the population couldn’t deal with Soviet cultural level of not respect, which was “oppressing a man spiritually and politically”.<sup>152</sup>

When Gorbachev came to power, he faced the economy in its stagnation. In 1985 he proclaimed the idea of restructuring the Soviet economy, meanwhile the spending on Afghanistan reached the level of more than 500 million RUB and GNP was growing slowly comparing to the previous years. Earlier in 1983, Andropov, one month prior to his death, said: “For the first time since the Caribbean Crisis the United States and the Soviet Union are going at it head-on.” He was sure that the United States wanted “to change the existing strategic situation” and also desired “to have the opportunity of striking the first strategic strike”. The Soviet leader in 1983 admitted that the economy was in a “pitiful condition”, and instead of trying to improve the economic growth, their [Soviet] hands “were tied by the Afghan war”.<sup>153</sup> Gorbachev himself wished to settle the situation in Afghanistan: he admitted that “it is the sovereign right of the Afghan nation to decide which road to take, what government to have, and what development programs to implement”.<sup>154</sup> The amount of total expenditures on military aid in Afghanistan faced a darting growth after 1985. For instance, in 1981 the Soviet military needed 267 million RUB, in 1985 the number doubled and by 1989 it was over 3 billion RUB (Figure 24).

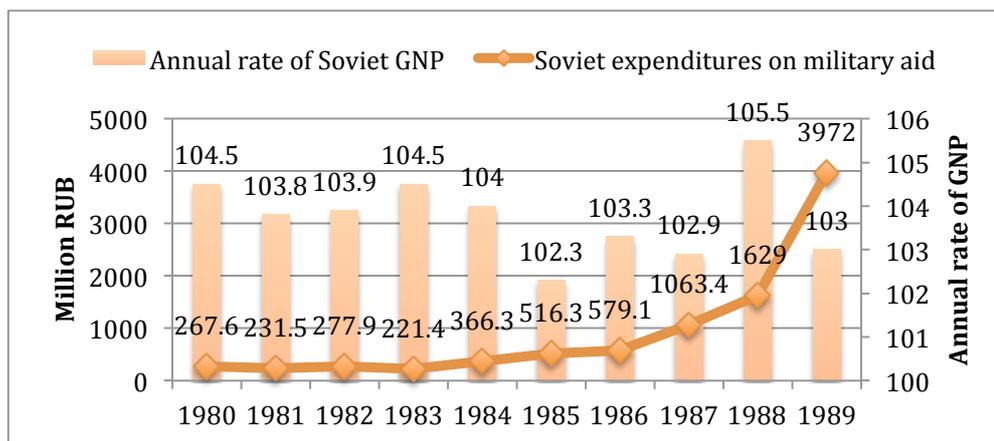
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<sup>152</sup> ARON, LEON. “Everything You Think You Know About The Collapse of the Soviet Union is Wrong.” *Foreign Policy*, no. 187, 2011, pp. 64–70. Retrieved 5 May 2017. Available at [www.jstor.org/stable/41353175](http://www.jstor.org/stable/41353175).

<sup>153</sup> SCHWEIZER, Peter. *Reagan's War the Epic Story of His Forty-Year Struggle and Final Triumph over Communism*. New York: Anchor Books, 2003

<sup>154</sup> GORBACHEV, Mikhail. *Perestroika: New Thinking for Our Country and the World*. London: Collins, 1987, p.177

**Figure 24. Soviet military aid to Afghanistan (Million RUB, current prices) and Annual Rate of GNP (% change over previous year), 1980-1989**



Source: MINKOV, Anton – SMOLYNEC, Gregory. “Economic Development in Afghanistan During the Soviet Period, 1979-1989: Lessons Learned from the Soviet Experience in Afghanistan.” Defence R&D Canada. Centre for Operational Research & Analysis, Aug. 2007. Available at <http://www.dtic.mil/dtic/tr/fulltext/u2/a475460.pdf/> “Annual Growth Rates in the Soviet Union.” Soviet History Archive (marxists.org). Slavic Research Center Library, 2000. Available at <https://www.marxists.org/history/ussr/government/economics/statistics/growth-rates.htm>

President Reagan and his administration were sure that costly war in Afghanistan was devastating the Soviet economy, and some historians consider the Soviet-Afghan war as the decisive factor of the Soviet collapse in 1991. Nevertheless, according to the data available, spending on military aid in Afghanistan were 2%-3% of total defense spending from 1984 to 1986, and in 1986 it started to go up reaching its peak of 8% in 1988, and then fell till 5% in 1989, when the USSR decided to withdraw its troop from Afghanistan (Table 11). Thereby, the costs on aid to Afghanistan didn't represent the large burden on the Soviet economy, despite of the common belief that it actually did. The possible reason of Soviet withdrawal from Afghanistan was the new thinking in foreign affairs proposed by Gorbachev. He stated that “security is indivisible”, and the main foundation for it was “the recognition of the interests of all peoples and countries and of their equality in international affairs”. The Secretary assured that the security of each country had to be connected with the security of “all members of the world community”.<sup>155</sup> The withdrawal of Soviet troops in 1989 showed a weakness of the Soviet military – the great Red Army was defeated for the first time since the Second World War.

<sup>155</sup> Ibid. p.142

**Table 11. Total defense spending, spending on military aid (Million RUB) in Afghanistan and % of total defense spending, USSR, 1985-1990**

	<b>Defense spending</b>	<b>Spending on military aid to Afghanistan</b>	<b>% of total defense spending (own calculations)</b>
<b>1984</b>	17100	366.3	<b>2.14%</b>
<b>1985</b>	19100	516.3	<b>2.7%</b>
<b>1986</b>	19100	579.1	<b>3.03%</b>
<b>1987</b>	20200	1063.4	<b>5.26%</b>
<b>1988</b>	20200	1629	<b>8.06%</b>
<b>1989</b>	75200	3972	<b>5.28%</b>

Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at

[http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/%27%27Narodnoe\\_hozyaysvo\\_SSSR%27%27.html#002//](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/%27%27Narodnoe_hozyaysvo_SSSR%27%27.html#002//) MINKOV, Anton – SMOLYNEC, Gregory. "Economic Development in Afghanistan During the Soviet Period, 1979-1989: Lessons Learned from the Soviet Experience in Afghanistan." Defence R&D Canada. Centre for Operational Research & Analysis, Aug. 2007. Retrieved 2 May 2017. Available at <http://www.dtic.mil/dtic/tr/fulltext/u2/a475460.pdf>

President Reagan intended to aggravate the already worsened economic situation in the USSR in order to defeat communist regime. During his term he had been receiving classified national-security briefings, which contained information about the Soviet Union, the Soviet economy and general situation in the country. Together with the CIA, the NSC was providing hand-delivered raw intelligence to the President on regular basis, what had never been done before. In these briefings, Reagan saw the "great opportunities" for the destruction of communism: the President was certain that the Soviet system would collapse because of its own weight, but he also wanted to "use these cracks in the Soviet system to accelerate the process of collapse".<sup>156</sup> He was assured that the economies in the Eastern bloc were also "a mess" and there were "rumblings of nationalistic fervor within the captive Soviet empire".<sup>157</sup> Reagan had issued NSDD-54 in 1982, through which he tried to undermine the Soviet influence among Warsaw Pact countries. Reagan affirmed that "communism was doomed" and any totalitarian state that deprived its people of liberty would collapse.

In 1982 the New York Times had published an article under the headline "After Détente, the Goal is to Prevail".<sup>158</sup> Prevailing meant rearming America with higher spending on military, confronting the building of Siberian pipeline, and reducing the Soviet access to US technology. To impede the construction of the pipeline, Reagan issued NSDD-66, which restricted the control in transshipment countries, such as Sweden and Switzerland, for American exporting goods for the Soviets. As a result, there was a decline in the US

<sup>156</sup> KENGOR, Paul. *The Crusader: Ronald Reagan and the Fall of Communism*. New York: HarperPerennial, 2007, pp.118-119

<sup>157</sup> Ibid. p.119

<sup>158</sup> Ibid. p.159

technology exports to the USSR.<sup>159</sup> With NSDD-75, the American leader attempted to contain Soviet expansion with cutting all the exports, which would contribute to the Soviet military buildup.<sup>160</sup>

Reagan's negotiations with Saudi Arabia on reducing oil prices in 1986 had impact on Soviet exports to developed countries. According to the data, the trade balance in the USSR declined in 1985 in addition with slow economic growth. The trade balance with the developed countries turned negative in 1985 and then plummeted in 1986 (Table 12). There was some growth in 1987 and then the decline in 1988. At this time, internally, Gorbachev was trying to give more freedom to enterprises through his reformatory policy, but because of discrepancy between independent enterprises and state ownership, the reform was not leading to the efficient results.<sup>161</sup>

**Table 12. Total Soviet exports, imports and trade balance including exports, imports and trade balance with developed countries (Million RUB), 1980, 1984-1988.**

	Total exports	Total imports	Trade balance (own calculations)	Exports to developed countries	Imports to developed countries	Trade balance (own calculations)
1980	49,634	44,463	5,171	15,862	15,721	141
1984	74,386	65,373	9,013	21,350	19,579	1,771
1985	72,664	69,429	3,235	18,582	19,294	-712
1986	68,285	62,586	5,699	13,109	15,853	-2,744
1987	68,142	60,741	7,401	14,185	13,873	312
1988	67,115	65,040	2,075	14,665	16,321	-1,656

Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at

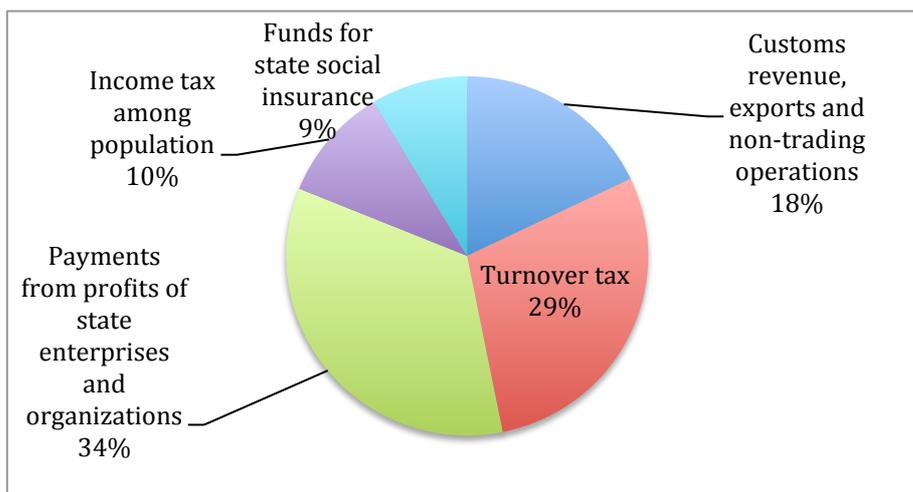
[http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

In accordance with the data, the revenue from exporting goods contributed less than 20% to the state budget of Soviet Union (Figure 25). The main source of revenue remained the turnover taxes (the tax imposed on the amount produced) and payments from profits of state-owned enterprises and organizations, the total amount of which composed more than 50% of all budget revenues in the USSR during the second half of the 1980s (Figure 26).

<sup>159</sup> NSDD-66, November 29, 1982. Retrieved 3 May 2017. Available at <https://reaganlibrary.archives.gov/archives/reference/Scanned%20NSDD66.pdf>

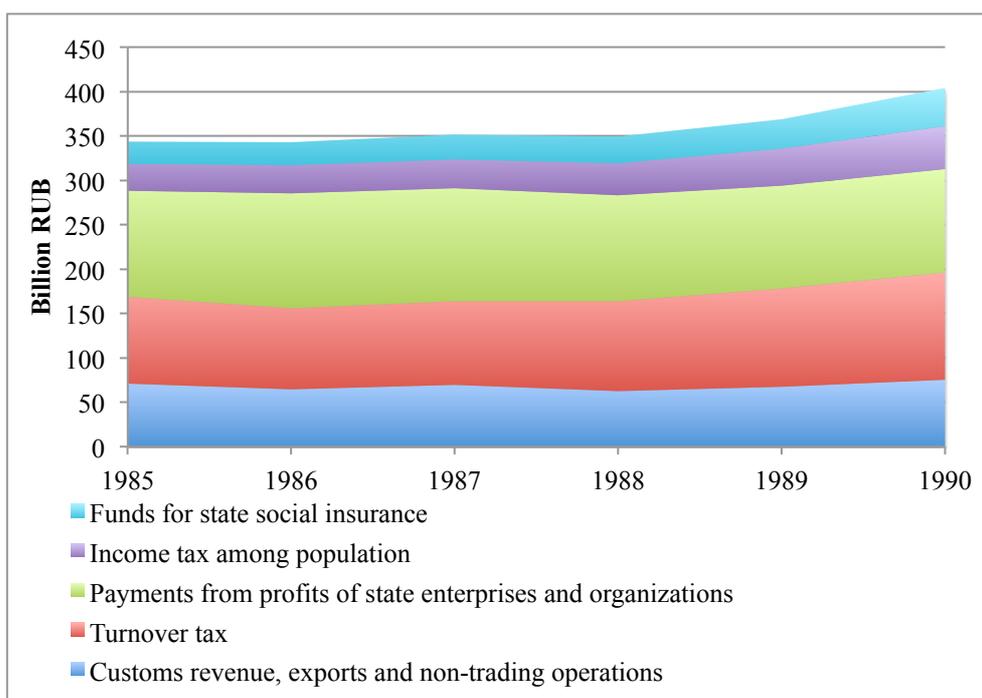
<sup>160</sup> NSDD-75, January 17, 1983. Retrieved 3 May 2017. Available at <https://reaganlibrary.archives.gov/archives/reference/Scanned%20NSDD75.pdf>

<sup>161</sup> SOGRIN, Vladimir. *Perestroika: itogi i uroki*. 1992. Retrieved 27 April 2017. Available at [http://ecsocman.hse.ru/data/260/204/1217/15\\_SOgrin.pdf](http://ecsocman.hse.ru/data/260/204/1217/15_SOgrin.pdf)

**Figure 25. The structure of budget revenues in the USSR, 1988**

Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at

[http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/\\_%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/_%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

**Figure 26. Structure of budget revenues in the USSR, 1985-1990**

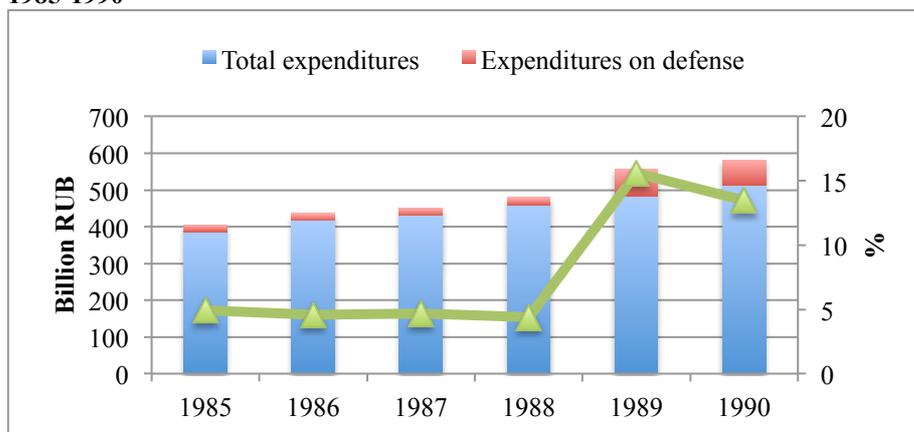
Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at

[http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/\\_%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/_%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

Revenue from exporting Soviet goods was not the key source of funding the state budget. Reagan's attempts to influence the amount of exports, especially of gas and oil, to Western and Eastern Europe could not reduce the revenues for the Soviets substantially. Nevertheless, in addition with growing internal economic crisis in the Soviet Union and rising discontent of the Soviet society, it made its contribution to the Soviet collapse.

Analyzing the external factor of increased military spending in the USSR in order to compete with American arms production, it is important to notice that the total expenditures on defense were 4% of total expenditures in the Soviet Union from 1985 to 1988. In 1989 military expenditures almost tripled and composed 15% of Soviet total budget expenditures (Figure 27). It can be explained by the fact that the Soviet leadership made a decision on Soviet withdrawal from Afghanistan in 1989, which led to higher spending comparing with the previous years. Thereby, the common belief of the Soviet military build-up as the main factor of the economic collapse can be argued.

**Figure 27. Total expenditures, military expenditures and % change over previous year in the USSR. 1985-1990**

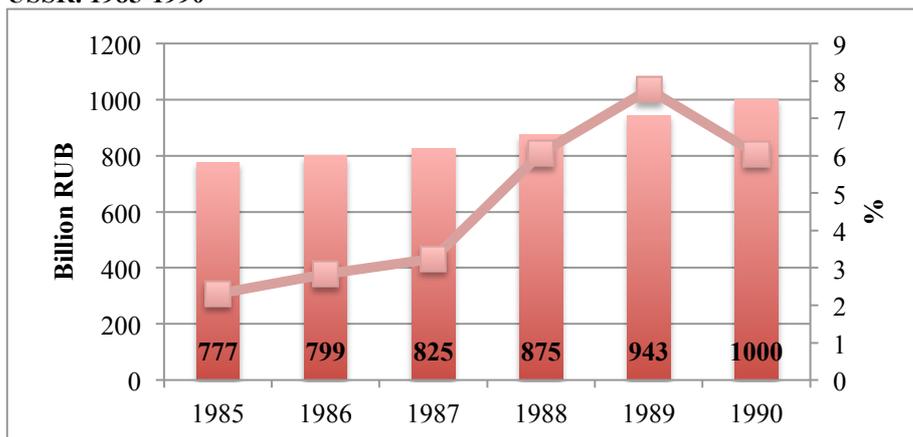


Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at [http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_khozyaystvo\\_SSSR%27%27/%27%27Narodnoe\\_khozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_khozyaystvo_SSSR%27%27/%27%27Narodnoe_khozyaystvo_SSSR%27%27.html#002)

The GNP in the Soviet Union was growing by steady 2-3% annually till 1988, and in 1989 the index reached 8% growth comparing to the previous year (Figure 28). In 1989 the national product was mostly produced in industrial sector (32%), although the total production in services sector was 40% of GNP, which certainly differed from the period of the 1970s, when the heavy industry was the leading sector of the economy (Figure 29).

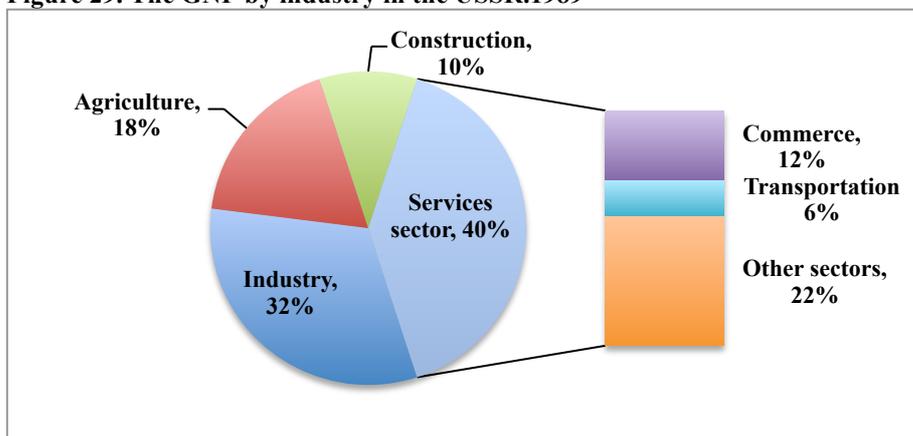
The growth of GNP was stable after 1985, with an exception for 1989, when it declined by 2% (comparing to 1988). Indeed, in 1990 there was a sharp decline in production of foodstuffs, which resulted in shortages of goods and long lines of consumers. Already in 1989 some number of strikes among the population occurred, and the necessity of radical changes had become more indispensable. Internal factors, with the help of external ones, led to the eventual economic crash of the USSR, which had been "building socialism" for 70 years.

**Figure 28. The GNP (Billion RUB, current prices) and its growth (% change over previous year) in the USSR. 1985-1990**



Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at [http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/\\_%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/_%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

**Figure 29. The GNP by industry in the USSR.1989**



Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991. Available at [http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27/\\_%27%27Narodnoe\\_hozyaystvo\\_SSSR%27%27.html#002](http://publ.lib.ru/ARCHIVES/N/%27%27Narodnoe_hozyaystvo_SSSR%27%27/_%27%27Narodnoe_hozyaystvo_SSSR%27%27.html#002)

## Conclusion

For the last 25 years historians, scholars, academics and experts have been trying to find the most precise answer for the question of what actually caused the Soviet Union to fall in 1991. The debates over the true reasons of the Soviet economic collapse will continue, but there always will be three sides: the first one supports the idea that the USSR fell apart because of its internal economic weaknesses, the wavering leadership, and the corrupted government; the second one assures that American Presidents Carter and, especially, Reagan with their anti-communist policies conducted the Soviet downfall in addition with its costly participation in Afghan war; and the third side declares that the combination of events caused by the both sides, the US and the USSR, resulted in crash of the communist system and led to emergence of the individual states. I consider my thesis as a small contribution to these discussions.

In my work, I endeavored to assess some of the internal factors and mostly the external ones, which could cause the collapse of the Soviet Union. The theoretical part of my paper helped me to imagine the more accurate condition of the Soviet economy during the 1970s and the 1980s. Going through various sources, I could identify drawbacks of the economy in the 1970s, such as prevalence of the industrial sector throughout Brezhnev's era, which had influenced the economic development in the 1980s. I also got acquainted with the plan of Perestroika and new thinking policy in foreign affairs proposed by Gorbachev in 1985. The study of international relations between the USSR and the US in the 1970s helped to determine motivations of Washington for its broad anti-communist campaign in the 1980s. The research on manifold treaties on reduction of nuclear weapons signed by the Soviet Union and the United States made me to comprehend the eagerness of both superpowers to avoid a nuclear conflict at any cost.

The practical part of my thesis contained the verification and the falsification of the facts, mentioned in the theoretical part. After analyzing the data on economic development of the Soviet Union in the 1980s, the common belief about strong dependence of the USSR on its oil exports doesn't seem that obvious: indeed, fuel exports represented some of the budget revenues, but not the most part of it. In my opinion, the so-called "oil-doping" theory of the Soviet dependency on oil and gas exports didn't play the main role in the economic collapse in 1991, but certainly contributed to it partially. In fact, despite the attempts of President Reagan and his administration to interrupt the construction of trans-Siberian pipeline and to persuade West and East Europe in the inefficiency of such project, the trade

between the USSR, the Warsaw Pact countries and the developed West remained stable and faced some increases.

The opinion that war in Afghanistan was exhausting the Soviet economy because of the high military expenditures can't be confirmed since the real data on total costs of the Soviets on Afghanistan is still unavailable. Although, according to some data found, the military aid to Afghanistan was 2%-3% of the total defense budget in the USSR, which may argue that the conflict was the true reason of the Soviet collapse. Nevertheless, President Reagan employed the situation of additional military expenditures of the Soviet Union in order to strike the communism.

The US embargo on technology exports to the USSR is considered as the other external factor of the Soviet collapse. In fact, the Soviet Union was lagging behind the US and Western Europe in technological progress in the 1980s. While the developed countries were successful in technological innovations and invention of a computer, economy of the USSR was highly relied on heavy industry and production of raw materials, what was the remnant of the 1970s.

Reagan's proposed Strategic Defense Initiative (SDI) didn't make the Soviets to start massive production of weapons but it did frighten the Soviet leadership. Indeed, some members of Politburo feared the new project of the American president, but, according to the data presented in the practical part, it didn't cause the large growth in military production of the USSR. The effect of the SDI worked as a bluff rather than the real plan, and both sides, the Soviet Union and the United States, realized it later on.

The negotiations between Reagan and the King of Saudi Arabia in 1985, which resulted in significant reduction of prices on Saudi oil in 1986, led to decreased amount of Soviet exports to the developed countries, meanwhile the exports to the Eastern Europe and LDCs actually grew. The analysis of such events in the practical part helped me to conclude that may be the oil exports didn't contribute the large portion to the Soviet revenues, but the trade between the Soviet Union and other countries was considered as something that could be negatively affected by the US anti-communist strategy.

The hypothesis of my work was to assess the internal and, especially, external factors of the economic collapse of the Soviet Union. In particular, I attempted to focus on the external factors caused by the policy of the United States in the 1980s. My study shed a light on severe steps undertaken by President Reagan and his administration under their anti-communist strategy. In fact, these policies, if taken individually, didn't have the prodigious negative effect on the Soviet economy. But if estimated generally, the economic war declared by Reagan on the USSR did contribute to its economic crash in

1991. Although it is highly important to mention, that US anti-communist policies worked in combination with certain internal events, such as emergence of Mikhail Gorbachev in 1985.

It is difficult to separate the external factors from internal ones; in fact, the economic crisis within the USSR revealed dissatisfaction of Soviet people with existing regime at that time. In the era of new technology and computer innovations, the communism could not work as economically productive as it did during the 1930s or the 1950s. The Soviet society, as well as the Soviet economy, was requesting radical changes in the 1980s, and in December of 1991 they finally received what they demanded in order to be capable of comparing the quality of their life with the one of the most developed countries in the world.

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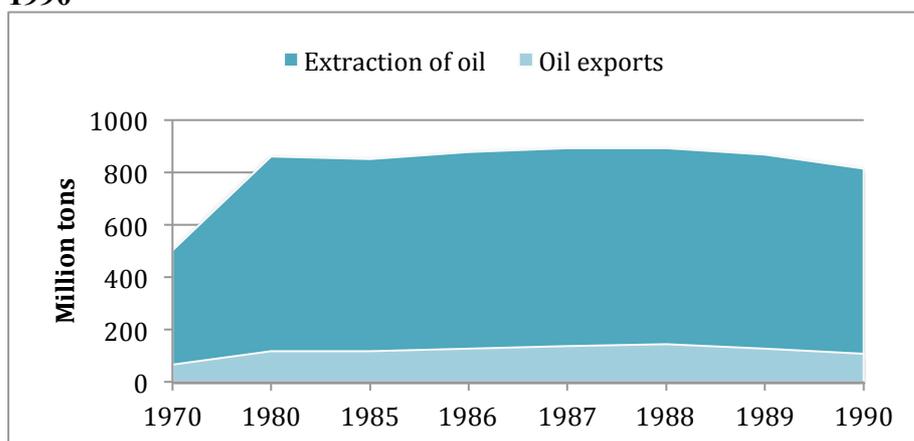
## Annexes

### Appendix 1. Growth of National Income produced by Union Republics (1985-100%)

	1986	1987	1988
<b>USSR</b>	102.30%	103.90%	108.50%
<i>Russian SFSR</i>	102.70%	103.60%	108.50%
<i>Ukrainian SSR</i>	101.30%	106.50%	108.70%
<i>Byelorussian SSR</i>	104.10%	109.60%	109.60%
<i>Uzbek SSR</i>	99%	98.80%	108.20%
<i>Kazakh SSR</i>	100.80%	100.70%	106.50%
<i>Georgian SSR</i>	98.70%	96.70%	103.50%
<i>Azerbaijan SSR</i>	101%	104.90%	104.90%
<i>Lithuanian SSR</i>	106%	110.80%	122.60%
<i>Moldavian SSR</i>	106.80%	108.60%	110.70%
<i>Latvian SSR</i>	103.50%	104.60%	111%
<i>Kirghiz SSR</i>	100%	102%	114.90%
<i>Tajik SSR</i>	102.60%	101.10%	113.40%
<i>Armenian SSR</i>	101.20%	100.40%	98.10%
<i>Turkmen SSR</i>	103.10%	106.40%	117.20%
<i>Estonian SSR</i>	102.10%	102.50%	107.90%

Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991

### Appendix 2. Total extraction of oil and oil exports (Million tons) in the USSR, 1970-1990



Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskiy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991

### Appendix 3. Ratio of economic indices in the USSR and the US (USSR as % of the US)

<i>National Income</i>	
<b>1960</b>	58%
<b>1970</b>	>65%
<b>1980</b>	67%
<b>1986</b>	66%
<i>Industrial output</i>	
<b>1960</b>	55%
<b>1970</b>	>75%
<b>1980</b>	>80%
<b>1986</b>	>80%
<i>Agricultural output (average)</i>	
<b>1956-1960</b>	>70%
<b>1971-1975</b>	85%
<b>1976-1980</b>	85%
<b>1981-1985</b>	90%

Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskyy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991

### Appendix 4. Population by Union Republics (thousands of people)

	<b>1970</b>	<b>1979</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>
<i>Russian SFSR</i>	130,079	137,551	147,400	148,041	148,543
<i>Ukrainian SSR</i>	47,126	49,755	51,707	51,839	51,944
<i>Byelorussian SSR</i>	9,002	9,560	10,200	10,259	10,260
<i>Uzbek SSR</i>	11,799	15,391	19,905	20,322	20,708
<i>Kazakh SSR</i>	13,009	14,684	16,536	16,691	16,793
<i>Georgian SSR</i>	4,686	5,015	5,443	5,456	5,464
<i>Azerbaijan SSR</i>	5,117	6,028	7,038	7,131	7,137
<i>Lithuanian SSR</i>	3,128	3,398	3,690	3,723	3,728
<i>Moldavian SSR</i>	3,569	3,947	4,338	4,362	4,367
<i>Latvian SSR</i>	2,364	2,521	2,680	2,687	2,681
<i>Kirghiz SSR</i>	2,934	3,529	4,290	4,367	4,422
<i>Tajik SSR</i>	2,900	3,801	5,109	5,248	5,358
<i>Armenian SSR</i>	2,492	3,031	3,288	3,293	3,376
<i>Turkmen SSR</i>	2,159	2,759	3,534	3,622	3,714
<i>Estonian SSR</i>	1,356	1,466	1,573	1,583	1,582

Source: "Narodnoe khozyaystvo SSSR v 1990 g. Statisticheskyy ezhegodnik." Moskva, Izd. Finansy i Statistika, 1991