

The Soviet Collapse: Grain and Oil¹

In a simplified way, the story of the collapse of the Soviet Union could be told as a story about grain and oil....The result of the disastrous agriculture policy implemented between the late 1920s and the early 1950s [Stalin's Five Year Plans, whereby farmland was seized by the government] was the sharpest fall of productivity experienced by a major country in the twentieth century. The key problem confronting the Soviet Union was well-expressed in the letter sent by Nikita Khrushchev to his colleagues in the leadership of the party. The letter fundamentally stated: "In the last fifteen years, we have not increased the collection of grain. Meanwhile, we are experiencing a radical increase of urban population. How can we resolve this problem?" In the 1960s, state production of grain stabilized and, regardless of attempts by the Soviet leadership, remained fixed at 65 million tons per year until the late 1980s. The cities, however, continued to grow.

In 1963, Nikita Khrushchev sent a letter to the leaders of the Socialist bloc, informing them that the Soviet Union would no longer be able to supply them with grain. That year, the Soviet state bought 12 million tons of grain-and spent one third of the country's gold reserves to do so. Khrushchev commented: "Soviet power cannot tolerate any more the shame that we had to endure."

The picture was bleak. Russia, which before World War I was the biggest grain exporter--significantly larger than the United States and Canada--started to be the biggest world importer of grain, more so than Japan and China combined.

The Soviet economy thus hinged on its ability to produce and export raw commodities--namely, oil and gas.... Excerpts from Politburo materials indicate that the head of the Committee for State Security (KGB), Yury Andropov, facilitated contacts between the KGB and the Arab terrorists, who sought assistance for terrorist attacks on oil fields in order to keep energy prices high. The general resolution was that the Soviet Union should support the Arab terrorists in this battle.

Yet one of the Soviet leadership's biggest blunders was to spend a significant amount of additional oil revenues to start the war in Afghanistan. The war radically changed the geopolitical situation in the Middle East. In 1974, Saudi Arabia decided to impose an embargo on oil supplies to the United States. But in 1979 the Saudis became interested in American protection because they understood that the Soviet invasion of Afghanistan was a first step toward--or at least an attempt to gain--control over the Middle Eastern oil fields.

The timeline of the collapse of the Soviet Union can be traced to September 13, 1985. On this date, Sheikh Ahmed Zaki Yamani, the minister of oil of Saudi Arabia, declared that the monarchy had decided to alter its oil policy radically. The Saudis stopped protecting oil prices [i.e., keeping the prices high], and Saudi Arabia quickly regained its share in the world market. During the next six months, oil

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http://www.aei.org/docLib/20070419_Gaidar.pdf

production in Saudi Arabia increased fourfold,² while oil prices collapsed by approximately the same amount in real terms.

As a result, the Soviet Union lost approximately \$20 billion per year, money without which the country simply could not survive. The Soviet leadership was confronted with a difficult decision on how to adjust.... The Soviet leadership decided to adopt a policy of effectively disregarding the problem in hopes that it would somehow wither away. Instead of implementing actual reforms, the Soviet Union started to borrow money from abroad while its international credit rating was still strong. It borrowed heavily from 1985 to 1988, but in 1989 the Soviet economy stalled completely.

The money was suddenly gone. The Soviet Union tried to create a consortium of 300 banks to provide a large loan for the Soviet Union in 1989, but was informed that only five of them would participate and, as a result, the loan would be twenty times smaller than needed. The Soviet Union then received a final warning from the Deutsche Bank and from its international partners that the funds would never come from commercial sources. Instead, if the Soviet Union urgently needed the money, it would have to start negotiations directly with Western governments about so-called politically motivated credits.

In the meantime, the Soviet Union started to have severe food shortages, and grain deliveries were not being made to large cities. One of Gorbachev's closest associates, Anatoly Cherniayev, described the situation in Moscow in March 1991: If [the grain] cannot be obtained somewhere, famine may come by June. . . . Moscow has probably never seen anything like that throughout its history-even in its hungriest years.

When the situation in the Soviet Union is examined from financial and hard currency perspectives, Gorbachev's policies at the time are much easier to comprehend. Government-to-government loans were bound to come with a number of rigid conditions. For instance, if the Soviet military crushed Solidarity Party demonstrations in Warsaw, the Soviet Union would not have received the desperately needed \$100 billion from the West. The Socialist bloc was stable when the Soviet Union had the prerogative to use as much force as necessary to reestablish control, as previously demonstrated in Germany, Hungary, and Czechoslovakia. But in 1989 the Polish elites understood that Soviet tanks would not be used to defend the communist government.

What were Gorbachev's options at the time? He could not easily dissolve the Soviet empire; the conservative elements inside the Soviet leadership were strongly against this notion. Yet he could not prevent the dissolution of the empire without a massive use of force. But if force was employed, the Soviet state would not get the necessary funds from the West, without which Gorbachev had no chance of staying in power.

On August 22, 1991, the story of the Soviet Union came to an end. A state that does not control its borders or military forces and has no revenue simply cannot exist. The document which effectively concluded the history of the Soviet Union was a letter from the Vneshekonombank in November 1991 to the Soviet leadership, informing them that the Soviet state had not a cent in its coffers.

² The way OPEC functions, is to assign each member-state a quota of oil that it can sell. Saudi Arabia has often sold at below-quota levels. As it turns out, Saudi production jumped from an average daily production of 2.4 million barrels per day in June 1985, to 6.2 million bpd in August 1986. For the rest of the 1980s, it never fell below 4 million, and went to as much as 6 million, bpd. The price of Dubai Crude fell from \$27/ba in 1985 to \$13/ba in 1986.

Broken engagement: the strategy that won the Cold War could help bring democracy to the Middle East--if only the Bush hawks understood it³

The first thing to remember about American policy towards the Soviet Union is that we never directly invaded any nation under Soviet control. In the early 1950s, some in America saw the expansion of communism as an inevitability which must not only be resisted by force but also rolled back. And for a time during the Eisenhower administration, there was brave rhetoric about such an effort. Struggling resistance movements survived from year to year in the Baltics, Romania, and the Ukraine. And immigrant dissident groups in the United States kept up the political pressure on Washington to consider a more confrontational strategy. But any real prospect of rollback died as Soviet tanks crushed the Hungarian Revolution in 1956.

Instead, the foreign policy consensus coalesced around containment, an idea which had been in the air since the early, post-war period, when George Kennan, then a veteran American diplomat, published his seminal Foreign Affairs article "The Sources of Soviet Conduct." Kennan argued that the Soviet system contained within it "the seeds of its own decay." During the 1950s and 1960s, containment translated that observation into policy, holding the line against Soviet expansion with U.S. military buildups while quietly advancing a simultaneous program of cultural engagement with citizens and dissidents in countries under the Soviet thumb.

These subtler efforts mattered a great deal. The 1975 Helsinki Accords proved to be the crucial step in opening the way for the subsequent peaceful democratization of the Soviet bloc. The accords, signed by the Communist governments of the East, guaranteed individual human and political rights to all peoples and limited the authority of governments to act against their own citizens. However flimsy the human rights provisions seemed at the time, they provided a crucial platform for dissidents such as Russian physicist Andrei Sakharov. These dissidents, though often jailed and exiled, built organizations that publicized their governments' many violations of the accords, garnering Western attention and support and inspiring their countrymen with the knowledge that it was possible to stand up to the political powers that be.

With the rise of the Solidarity movement in Poland in the 1980s, it became clear once more that it would be the demands of native peoples, not military intervention from the West, that would extend democracy's reach eastward. Step by step, the totalitarian governments and structures of the East lost legitimacy in the eyes of their own citizens and elites. The United States and Western Europe were engaged, of course, in assisting these indigenous political movements, both directly, and indirectly. Western labor unions, encouraged by their governments, aided the emergence of a democratic trade union movement, especially in Poland. Western organizations provided training for a generation of human-rights workers. Western broadcast media pumped in culture and political thought, raising popular expectations and undercutting Communist state propaganda. And Western businesses and

³ This selection is excerpted from Clark, Wesley K. (2004, May 1). "Broken engagement: the strategy that won the Cold War could help bring democracy to the Middle East--if only the Bush hawks understood it." *The Free Library*. (2004). Retrieved from <http://www.thefreelibrary.com/Broken+engagement:+the+strategy+that+won+the+Cold+War+could+help...-a0117524968>. Gen. Wesley Clark, U.S.A. (Ret.), was Supreme Allied Commander, Europe, from 1997-2000, and a candidate for the Democratic nomination for president in 2004.

financial institutions entered the scene, too, ensnaring command economies in Western market pricing and credit practices. The Polish-born Pope John Paul II directed Catholic churches in Eastern Europe mad around the world to encourage their congregants to lobby for democracy and liberal freedoms.

Such outreach had profound effects, but only over time. In his new book, *Soft Power*, the defense strategist Joseph Nye tells the story of the first batch of 50 elite exchange students the Soviet Union allowed to the United States in the 1950s. One was Aleksandr Yakovlev, who became a key advocate of glasnost under Gorbachev. Another, Oleg Kalugin, wound up as a top KGB official. Kalugin later said: "Exchanges were a Trojan horse for the Soviet Union. They played a tremendous role in the erosion of the Soviet system ... they kept infecting more and more people over the years.'

Of course, military pressure played a vital role in making containment work. But we applied that pressure in concert with allies in Europe. In the 1980s, for instance, President Reagan began the deployment of intermediate range missiles in Europe as part of NATO. It was a political struggle in the West, but we engaged NATO and made it work.

Rising Soviet defense spending aimed at competing with the United States may have hastened the economic decline in the Soviet Union, helped convince the Russian generals that they couldn't compete with U.S. military technology, and strengthened Gorbachev's hand as he pushed for glasnost. But this end-game challenge of Reagan's would have been ineffective had 40 years of patient Western containment and engagement not helped undermine the legitimacy of the Communist regime in the eyes of its subjects. It was popular discontent with economic, social, and political progress, and people's recognition of an appealing alternative system, that finished off the repressive regimes of Eastern Europe, and eventually the whole Soviet Union. No Western threat of force or military occupation forced their collapse. Indeed, subsequent examination by Germany's Bundeswehr has shown that the East German military remained a disciplined conscript organization that could have effectively responded to Western intervention. But these governments were unable to resist focused, strongly-articulated popular will.

What the West supplied to the people of the East was, as former Solidarity leader and Polish Foreign Minister Bronislaw Geremek told me, very simple: hope. They knew there was a countervailing force to the occupying Soviet power which had repressed them and subjugated their political systems. Democracy could reemerge in Central and Eastern Europe because of a several decades-long dance between popular resistance and cautious Western leaders who moved ever so carefully to provide support and encouragement without provoking the use of repressive force by the Communist governments in reaction or generating actual armed conflict between East and West.

So, when Ronald Reagan called the Soviet Union an "Evil Empire," or stood before crowds in Berlin and proclaimed "Mr. Gorbachev, tear down this wall," he was reaching a receptive audience on the other side of the wall. The neoconservatives persist in seeing a vast difference between Reagan's policy of confronting the Soviets and previous American administrations' tack of containing it. In fact, it was precisely those decades of containment and cultural engagement that made Reagan's challenge effective.

Reagan Won the Cold War⁴

The Soviet Union didn't fall. It was pushed. Gorbachev didn't end the Cold War any more than Mussolini ended the Second World War. He was a casualty and one fatally wounded in retreat.

The Soviet bear was in a blustery and ravenous mood when Reagan entered the White House. Between 1974 and 1980, it had, through outright invasion or the triumph of its surrogates, brought ten countries into the Communist orbit: South Vietnam, Cambodia, Laos, South Yemen, Angola, Ethiopia, Mozambique, Grenada, Nicaragua, and Afghanistan. Moreover, it had built the most formidable nuclear arsenal in the world, with thousands of multiple-warhead missiles aimed at the United States. The Warsaw Pact had overwhelming superiority over NATO in its conventional forces. Finally, Moscow had recently deployed a new generation of intermediate-range missiles, the giant SS20s, targeted on European cities. And to top it all off, America had increasing unemployment and, despite all the best theories, an inflation rate above ten percent.⁵

Ten years ago [in 1987] Ronald Reagan stood at the Brandenburg Gate and said, "General Secretary Gorbachev, if you seek peace, if you seek prosperity for the Soviet Union and Eastern Europe, if you seek liberalization: Come here to this gate! Mr. Gorbachev, open this gate! Mr. Gorbachev, tear down this wall!" Not long afterward, the wall came tumbling down and the most formidable empire in world history collapsed so fast that, in Vaclav Havel's words, "we had no time even to be astonished."⁶

Yet while the Soviet Union had a faltering economy, it had a highly advanced military. No one doubted that Soviet missiles, if fired at American targets, would cause enormous destruction. But Reagan also knew that the evil empire was spending at least 20 per cent of its gross national product on defense. (The actual proportion turned out to be even higher.) Thus Reagan formulated the notion that the West could use the superior economic resources of a free society to outspend Moscow in the arms race, placing intolerable strains on the Soviet regime.

Reagan did not merely react to these alarming events; he developed a broad counteroffensive strategy. Driven by Ronald Reagan, the United States military doubled its procurement by 1985. Anti-tank weapons neutralized the Soviet Armor advantage in Europe.

Then there was the Reagan Doctrine, which involved military and material support for indigenous movements struggling to overthrow Soviet-sponsored tyrannies. The Administration supported such guerrillas in Afghanistan, Cambodia, Angola, and Nicaragua. The Afghan resistance was given Stinger missiles and brought down several hundred soviet planes, helicopter and pilots. Stinger missiles also went to the Angolan resistance, UNITA. In addition, it worked with the Vatican and the international

⁴ Excerpted and slightly edited from two articles: *Grover Norquist Reviews James Mann's New Book, The Rebellion Of Ronald Reagan* http://books.foreignpolicy.com/posts/2009/04/13/gorby_didnt_fall_he_was_pushed; and June 06, 2004, and *Russian Revolution: How Reagan won the cold war*, by Dinesh D'Souza, which can be found at <http://www.nationalreview.com/flashback/dsouza200406061619.asp>.

⁵ This unusual pattern of high unemployment and high inflation (typically an economy has one or the other) was termed "stagflation."

⁶ Havel was the president of Czechoslovakia from 1989-1992, and (after it split into two), of the Czech Republic from 1993 to 2003.

wing of the AFL-CIO to keep the Polish trade union Solidarity going, despite a ruthless crackdown by General Jaruzelski's regime. In 1983, U.S. troops invaded and liberated Grenada, ousting the Marxist government and sponsoring free elections. Finally, in March 1983, Reagan announced the Strategic Defense Initiative (SDI), a new program to research and eventually deploy missile defenses which offered the promise, in Reagan's words, of "making nuclear weapons obsolete."

He initiated a \$1.5 trillion military buildup, the largest in American peacetime history, which was aimed at drawing the Soviets into an arms race he was convinced they could not win. He was also determined to lead the Western alliance in deploying 108 Pershing II and 464 Tomahawk cruise missiles in Europe to counter the SS-20s. At the same time, he did not eschew arms-control negotiations. Indeed he suggested that for the first time ever the two superpowers should drastically reduce their nuclear stockpiles. If the Soviets would withdraw their SS-20s, he said, the U.S. would not proceed with the Pershing and cruise deployments. This was called the "zero option."

Reagan also threatened Gorbachev. "We won't stand by and let you maintain weapon superiority over us," he told him. "We can agree to reduce arms, or we can continue the arms race, which I think you know you can't win." The extent to which Gorbachev took Reagan's remarks to heart became obvious at the October 1986 summit in Reykjavik. There Gorbachev astounded the arms-control establishment in the West by accepting Reagan's zero option. Gorbachev embraced the very terms that Strobe Talbott and other doves had earlier dismissed as absurdly unrealistic.

Yet Gorbachev had one condition: the U.S. must agree not to deploy missile defenses. Reagan refused. The press immediately went on the attack. "Reagan-Gorbachev Summit Talks Collapse as Deadlock on SDI Wipes Out Other Gains," read the banner headline in the Washington Post. "Sunk by Star Wars," Time's cover declared.

Reykjavik, Margaret Thatcher says, was the turning point in the Cold War. Finally Gorbachev realized that he had a choice: continue a no-win arms race, which would utterly cripple the Soviet economy, or give up the struggle for global hegemony, establish peaceful relations with the West, and work to enable the Soviet economy to become prosperous like the Western economies. After Reykjavik, Gorbachev seems to have resolved on this latter course.

In December 1987, he abandoned his "non-negotiable" demand that Reagan give up SDI and visited Washington, D.C., to sign the Intermediate-Range Nuclear Forces (INF) treaty. For the first time ever the two superpowers agreed to eliminate an entire class of nuclear weapons. Moscow even agreed to on-site verification, a condition that it had resisted in the past.

First Gorbachev agreed to deep unilateral cuts in Soviet armed forces in Europe. Starting in May 1988, Soviet troops pulled out of Afghanistan, the first time the Soviets had voluntarily withdrawn from a puppet regime. Before long, Soviet and satellite troops were pulling out of Angola, Ethiopia, and Cambodia. The race toward freedom began in Eastern Europe, and the Berlin Wall was indeed torn down.