James Blair Historical Review

Volume 9 | Issue 2 Article 6

2019

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Cover Page Footnote

I would like to thank Professor Melvyn P. Leffler of the University of Virginia for his help and guidance. His vast knowledge and expertise pushed me to my limits and challenged me to think differently about a complex era.

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Brandon von Kannewurff

In late 1981, President Ronald Reagan blindsided his Western European allies and imposed far-reaching unilateral sanctions on the USSR. Ostensibly issued in response to the declaration of martial law in Poland, these sanctions suspended existing American contracts with the USSR to construct a 3,000-mile natural gas pipeline from Siberia to Western Europe.[1] Six months later, the United States doubled down despite fierce European opposition. On June 18, 1982, Reagan again sided with his hardline advisors and ruled that subsidiaries and licensees of U.S. companies that produced equipment abroad would violate U.S. law if they supplied the Soviet Union these parts. However, the United States' determination to exert economic pressure fizzled out by the end of the year. Though the U.S. backed down on sanctions in November 1982, it still claimed victory and argued that the new agreement with Western Europe would prove even more effective at countering the influence of the Soviet Union.

Even today, these sanctions remain the centerpiece of the Reagan Victory School narrative that the U.S. systematically exploited Soviet economic weakness to triumph in the Cold War. This view, popularized by historian Francis Marlo and journalist Peter Schweizer, identifies U.S. pressure on the Soviet oil and gas industry as a critical piece of the equation. In his book *Victory*, Schweizer claims that the American ability to undermine the Siberian pipeline and its pressure on Saudi Arabia to flood the oil markets was part of "a secret offensive on economic, geostrategic, and psychological fronts designed to roll back and weaken Soviet power."[2] Marlo's account makes a similar, if more measured, point. In his book *Planning Reagan's War*, he argues that the Reagan administration knew "the Soviet economy was stagnating, with economic growth and labor productivity steeply declining while raw material costs were skyrocketing," and capitalized on this weakness to undermine the influence of the Soviet state.[3] These 'Reagan Victory School' views theorize that American pressure impelled Gorbachev to pursue reform and end the Cold War on Western terms.

Recent scholarship from revisionist historians David Painter and Tyler Esno rejects these claims. In his essay "Oil and the End of the Cold War," Painter explores the macro-level effects of Reagan's Cold War policy. He ultimately concludes that "there is little evidence" Gorbachev embarked on economic reform as a result of U.S. policies.[4] Esno, on the other hand, dives deeper into Reagan's personal conception of economic pressure through the Siberian pipeline. He argues that Reagan "stumbled into an economic war against the Soviet Union" and abandoned economic pressure once it proved ineffective.[5]

After weighing newly released *FRUS* documents against memoirs and the current historiography, this paper finds that the 'Reagan Victory School' narrative has not stood the test of time. Throughout his presidency, Reagan's goal remained the same: to elevate America's bargaining position and, once that was accomplished, negotiate with the Soviet Union on American terms. Ineffective sanctions on the Siberian Natural Gas Pipeline, however, caused Reagan to shift tactics once unilateral American pressure proved counterproductive to his negotiating goals. This idea was echoed by Soviet leaders during this period. Not only were General Secretaries Brezhnev, Andropov, and Chernenko not swayed by American pressure early in the decade, their successor, Mikhail Gorbachev, already believed in the need to reform economically when he took power in 1985. Although Reagan centered his economic pressure on the Soviet energy industry, his counterpart focused more broadly on larger inefficiencies in industrial and agricultural production, military spending, and the moral standing of the Soviet economy. Thus, while oil and gas did play a role in inducing Gorbachev to reform, its impact was relatively minor, especially when compared to the weight given by 'Victory School' advocates.

American Intelligence & Perceptions of Soviet Energy Weakness

By the end of the 1970s, the CIA famously predicted a stark future for the Soviet energy economy. In a widely circulated 1977 study, the agency claimed that Soviet petroleum output would peak by 1980 and that the energy giant would become a net oil importer just five years later.[6] The CIA understood that General Secretary Brezhnev's government prioritized investment speed over quality—a choice that led to inefficient use of resources and placed major strains on long run production viability. Under pressure to boost petroleum production, Soviet state oil companies injected water in new wells to rapidly ramp up extraction, a practice that illustrated the USSR's production woes. While most producers around the globe utilized this tactic to some degree, Soviet producers took it to the extreme. By the early 1980s, "the volume of water injected exceeded not only the volume of oil produced, but it even surpassed the amount of fluids produced."[7] These aggressive tactics dramatically shortened the life of even the richest oilfields and caused productivity to plummet. Despite Brezhnev's heavy focus on investment and employment, overall petroleum output fell by 21 percent from 1975-1985.[8] The 1977 CIA report proved that the agency was keenly aware of these industry headwinds. The paper predicted the share of new oil output required to offset inefficient production from older fields would rise to an astounding 80 percent by 1980.[9] Though this claim underestimated the sector's resilience, the report overall accurately portrayed the weaknesses facing the Soviet energy industry during this period.[10]

Three interrelated macroeconomic developments within the oil industry during the 1970s also made the Soviet economy heavily vulnerable to developments in global energy trade. Firstly, price spikes during the decade incentivized the Kremlin to further open up what had once been a contained economy. In eight years between 1972 and 1980, Soviet oil exports rose by 50 percent, while soaring prices boosted Soviet revenue by a staggering factor of 18.[11] This boom fundamentally changed the composition of the Soviet economy. The previously closed market "in fact bec[a]me deeply integrated into the system of international trade and dependent on world markets."[12] The CIA particularly understood that this increased openness could provide an opportunity for the West to dial up the pressure on its adversary. In a 1981 report, the CIA observed that "[i]f the USSR were denied access to Western equipment and technology, the Soviets would be forced to go it alone, entailing major losses in product quality and labor productivity."[13] Thus, while rising oil prices offered the USSR the opportunity to earn hard currency revenues, the CIA believed this exposure also rendered the economy vulnerable to the threat of trade pressure from Western allies.

Perhaps more important than the gross oil revenues themselves was how the Kremlin used these oil revenues. In the early 1970s, a series of poor harvests and inefficiencies in industrial production led Brezhnev's government to import a large quantity of foodstuffs, machinery, ore, and metals.[14] At the same time, the government began to use oil as a "'swing fuel' in adjusting the hard currency trade balance" in order to avoid trade deficits.[15] In this case also, the CIA knew the USSR was using oil revenues as a crutch to balance trade deficits. In the same 1981 report, the agency observed that rising energy and gold prices allowed the Soviets to fund its $12.5 billion in food imports in 1981.[16] While using oil as a swing fuel made sense in theory, U.S. intelligence officials understood that changes in global energy trade would not just affect the Kremlin. Instead, the use of oil revenues as a swing fuel rendered the basic needs of the bloc's population vulnerable to macroeconomic developments.

Finally, the Kremlin could still have justified this strategy if it had proactively insulated the economy to energy price volatility. As historian Philip Hanson shows, relying on oil revenues was "eminently sustainable so long as oil prices did not collapse."[17] To protect themselves from macroeconomic shifts, resource-driven economies such as the USSR typically "create hard currency reserves or invest the income in liquid financial instruments," such as the massive Sovereign Wealth Funds common in oil-driven economies like the UAE and Norway.[18] Brezhnev took none of these precautions. Instead, his administration viewed energy exports as an apparently permanent revenue source, an assumption that endangered the greater economy. .[19] The CIA, however, recognized the danger of a do-nothing policy. Since the USSR did not take the proper precautionary measures, the agency claimed "the hard currency prospects [were not] bright in the immediate years ahead" in a market facing stagnant or declining oil prices.[20] Despite historic revenues during the 1970s, failure to reform created a highly risky situation in the USSR.

Finally, although the CIA understood the acute problems facing the Soviet oil industry, the agency did not believe unilateral U.S. sanctions would drastically affect Soviet behavior. The CIA considered the Brezhnev leadership resistant to change. Soviet leadership believed that "their economic problems, while serious, are not cause for panic, and should begin to ease during the 1990s."[21] Additionally, despite the hardline beliefs of its director, the agency itself did not believe economic pressure would induce change without sustained help from U.S. allies. Instead, its report on potential sanctions for the Soviet Natural Gas Pipeline found that "[i]n none of these cases would unilateral US actions have much effect. Any decision to impose additional restrictions would have to consider their impact on the West as well as on the USSR."[22] These qualifications, however, mattered less to hardliners in the Reagan administration than the report's tone, which stressed that the USSR was clearly vulnerable to Western influence.

The Reagan Administration & the Siberian Natural Gas Pipeline

Eager to test the resolve of the Soviet energy industry, Reagan believed that the U.S. could place significant pressure on the empire's economic capacity by opposing construction of the Siberian Natural Gas Pipeline. Heralded as "the deal of the century" upon its official announcement in 1980, the resource-rich Soviet Union designed the pipeline to export its bountiful natural gas to energy-hungry Western Europe.[23] For the Soviet Union, the pipeline would serve as a critical source of hard currency revenues, with the potential to draw in five billion dollars in revenues annually to the cash-strapped state. For Western Europe, the project would diversify energy imports away from the Middle East and could potentially tie Soviet interests tighter to those of Western European allies.[24] While the Carter administration raised concerns about relying on the West's ideological enemy for energy, the U.S. eventually bowed to its allies and reluctantly allowed the deal to go through.[25] The incoming Reagan administration, however, sought to challenge these notions retroactively. Afraid the trade deal would give the Soviet Union unwanted leverage over its Western allies, Reagan administration officials first raised concerns over the pipeline at an Ottawa economic summit in July 1981.[26] Though these ideas were met with a tepid response, an opportunity to dispel American malaise arose five months later when Poland declared martial law to counteract rising political opposition.

Opinions on how to respond to Soviet repression were mixed. The hardliners, consisting of CIA director Bill Casey, Secretary of Defense Caspar Weinberger, and the President's Assistant for National Security Affairs, William Clark, strongly believed that the Kremlin depended on trade with the West to improve the bloc's standard of living. Since "the key to the drive for military power has been the ability of the Soviet economy to provide small but steady improvements to the standard of living," this group believed that all trade to the USSR essentially constituted economic aid.[27] Cognizant of the CIA's reports on Soviet energy weakness, yet not mindful of its warnings, hardliners sought to ramp up pressure on the U.S.' adversary.[28] Writing in the wake of the first round of sanctions, Weinberger reflected: "the events in Poland have created our best opportunity for derailing the West Siberia to Western Europe national gas pipeline project..."[29] CIA director Casey also held more hawkish views than the agency he directed. If the U.S. imposed extraterritoriality by preventing pipeline sales of all foreign subsidiaries and licensees, it could "delay completion of the pipeline by something close to 3 years."[30] These hardliners held lofty views of American economic coercive power and eagerly argued that flexing these muscles would elevate the geopolitical power of the United States.

While both the hardliners and the moderates believed that the Siberian pipeline was antithetical to the goals of the Reagan administration, they strongly differed on whether to oppose the pipeline itself. In the initial sanctions discussion, moderate officials, such as Secretary of State Haig and Secretary of Commerce Malcolm Baldridge, brought a more nuanced position to the table. Though agreeing in principle on the need to exert economic pressure on the USSR, Baldridge noted that: "[w]e want to be as tough as we can, operating in the real world. If we go too far and can't get our

Allies to go with us, it won't work… We cannot stop all these countries from shipping to the USSR."[31] Secretary Haig offered similar advice. While he acknowledged that the pipeline "runs contrary to our security interests," he also asserted that "by pursuing our maximum objectives, we run the risk of coming away with very little, severely weakening the Alliance and isolating us from our Allies."[32] These moderate officials held similar views as the CIA reports: that unilateral U.S. economic sanctions would fracture the East-West alliance while failing to place pressure on the Soviet economy.

While aware of the potential downsides of sanctions, Reagan's ideological alignment with the hardliners swayed him to pursue a policy of coercion. In this moment, Reagan's ideological fervor to strengthen the geopolitical position of the capitalist West reigned supreme over his belief in free trade. Reagan "always believed that, as an economic system, Communism was doomed," and during his first NSC briefings, he learned that the USSR "was approaching the brink of collapse."[33] His comments during early NSC meetings highlighted this ideological fervor. Speaking in favor of more intensive sanctions on key equipment for Siberian oil construction, Reagan justified his position by claiming the moral high ground: "I for one don't think we are being harsh or rigid. The Soviets have spoken as plainly as Hitler did in 'Mein Kampf.' They have spoken world domination—at what point do we dig in our heels?"[34] This was not the only time the president likened his adversary to Nazi Germany. A year later, also in an NSC meeting discussing sanctions, the president continued to support hardline measures, claiming that: "President Roosevelt called for a quarantine on Germany in 1939. He had his brains kicked out. What would history have been like if he had been listened to?"[35] Influenced heavily by his closely held ideological views, Reagan sided with the hardliners and imposed unilateral U.S. sanctions on the Soviet Union on December 30th, 1981.

Western European Opposition & Reagan's Reversal

Western European reaction was swift and uniformly harsh. West German Chancellor Helmut Schmidt resolutely proclaimed "the pipeline will be built," while the French foreign minister reacted with outrage and bombastically declared the beginning of a "'progressive divorce' within the alliance because 'we no longer speak the same language.'"[36] Across the entire political spectrum in Western Europe, officials denounced U.S. actions. They vowed to continue the pipeline project without U.S. support, signaling a stark decline of American geopolitical influence.

While Reagan did attempt to mitigate the impact of his decision on the U.S.' allies, he initially did not allow the concerns of Western Europe to overrule his own convictions. Writing to the president's assistant for national security affairs, William Clark, NSC Staff member Richard Pipes said he believed backing down "will destroy once and for all any credibility of the policy of economic sanctions," which "would be particularly regrettable now that the Soviet Union faces an unprecedented economic crisis and is more than ever vulnerable to various economic pressures."[37] Reagan and the hardliners believed backing down would abdicate all control over its economic lever, forcing the U.S. to rely on military threats to improve its negotiating position over its ideological archenemy.[38] With these concerns in mind, Reagan issued NSDD-41 on June 22, 1982. Rather than scaling back sanctions and risk losing credibility, he invoked extraterritoriality to prevent not only U.S. companies from selling Western technology to the Soviets, but also their subsidiaries and licensees.[39] Despite staunch European resistance, Reagan clung to his ideological view of American exceptionalism and ramped up economic pressure on the USSR.

This hardline ideological position began to soften when George Shultz replaced Haig as secretary of state and tactfully showed the president his tactical error. On one hand, like Haig, Shultz realized that European opposition hindered the effectiveness of U.S. sanctions. In an NSC meeting two months after his appointment, he judiciously noted "almost any trade measure in East-West trade is more effective if implemented by all the Western countries."[40] Instead of inhibiting a common enemy, these sanctions created a "new and formidable barrier" to other objectives of the U.S.-European alliance.[41] In the months to follow, Shultz reasoned that ineffective sanctions damaged other aspects of Reagan's "Peace Through Strength" agenda, particularly plans to deploy intermediate-range ballistic missiles in Europe. To Shultz, the Western Alliance must erase all fractures "before the critical year

1983, with its controversial missile deployments, arrived."[42] The new secretary of state showed the president that sanctions failed to assert U.S. strength adequately and that new tactics were needed in order to improve America's geopolitical position.

On November 13, 1982, President Reagan decided to lift oil and gas sanctions against the Soviet Union, representing a critical tactical shift in his foreign policy. In return for backing down on sanctions, European allies agreed to a series of vague measures, including non-binding studies of Western European energy dependency, harmonization of credit policies, and an agreement not to "contribute to the military or strategic advantage of the USSR."[43] Though Shultz claimed internally that the policies "represented a victory for the Alliance, not for any individual country," these resolutions were largely a face-saving measure designed to mend the alliance.[44] The sanctions had only served to delay the pipeline's implementation by a few months and had scarcely influenced the situation in Poland, which was ostensibly the official goal of the sanctions.[45] Rather, Reagan aspired to mitigate the perception of a fractured Western alliance, claiming that "the understanding we've reached demonstrates that the Western alliance is fundamentally united…" and that the alliance would coordinate trade measures moving forward.[46] Thus, the Siberian pipeline episode demonstrated the ineffectiveness of unilateral economic pressure and forced Reagan to reconsider hardliner tactics.

'Reagan Victory School' advocates point to National Security Directives 66 & 75 to argue that the administration continued economic pressure even after Reagan repealed sanctions. Marlo claims that NSDD-66 specifically limited controls on Soviet energy, as the Reagan administration sought to derail the industry which accounted for between 60 and 80 percent of the bloc's hard currency earnings.[47] Schweizer goes further, arguing that the administration crafted NSDD-75 "to exacerbate the Soviet economic problems in the hope of plunging the system into a crisis."[48] These claims are not validated by the text of the documents or the administration's actions. Although NSDD-75 did seek to "ensure that East-West economic relations do not facilitate the Soviet military buildup," one of three central goals of the document was to "engage the Soviet Union in negotiations to attempt to reach agreements which protect and enhance U.S. interests…"[49] Even hardline advisor Richard Pipes noted that "Reagan specifically emphasized the importance of compromise with Soviet Leadership" while signing the order.[50] Thus, while these documents contain elements of hardline policy, they also reflected the Reagan administration's central goal to engage its ideological adversary in negotiation to de-escalate superpower tensions.

In line with this aim, Reagan consistently decided not to ramp up economic pressure on the Soviet oil and gas industry after the Siberian pipeline fiasco. Instead, advice from Shultz and the moderates slowly resulted in a more measured U.S. policy geared toward negotiation. On March 16, 1983, Shultz laid out a vision for future U.S.-Soviet relations focused on exploring bilateral interests and the intent to "continue serious negotiations" of arms control with the Soviets.[51] Despite, or perhaps because of, the fact Reagan had labeled the USSR as an "Evil Empire" eight days prior, Shultz stressed the need to "emphasize that we need to continue the dialogue" with the USSR, and "negotiate in good faith in the START and INF talks."[52] These views reflected Shultz's growing belief that the U.S. had built up strength during Reagan's first term and it was now time to pursue peace. The president began to welcome this idea as well. Writing in his diary on April 6, 1983, Reagan criticized the hardliners for not being open to negotiations, saying: "I do want to try and let [the Soviets] see there is a better world if they'll show *by deed* they want to get along with the free world."[53] In this light, the president viewed that "a summit meeting could be a good thing," as Shultz testified to the Senate Foreign Relations Committee in June.[54] Yet Shultz noted that, for such a meeting to be productive, the U.S. must find a willing negotiator on the other side. At this point, Reagan hesitated to take the first step, still unsure about his adversary's intentions. However, with Shultz's plan for long-term negotiation firmly in mind, Reagan began to ease his rhetoric against the USSR and mend a fraught relationship.

This goal soon manifested itself in U.S. policy. By mid-1983, the U.S. and the USSR signed a long-term grain agreement and moved forward on a wide-range of discussions designed to create a new cultural-exchanges agreement, upgrade the U.S.-USSR hotline, and prevent nuclear proliferation.[55] The real test, however, came when moderates convinced Reagan to refrain from additional hardline action. After the USSR shot down Korean Airlines flight

007 on September 1, 1983, Reagan resisted pressure from hardliners to increase sanctions, showing that he had learned from the short-sightedness of his Polish policy two years ago. Rather, he took Shultz's view that the U.S. should "keep in mind what our long-term objective with the Soviet Union is."[56] Instead of ramping up pressure, Reagan recognized that "our arms control talks were near the threshold of an important new phase… I didn't want to smother the nuclear arms reduction process before it had a chance to get started."[57] In this light, the Reagan administration resisted enacting new sanctions and slowly repealed existing sanctions, as evidenced by its lifting of the submersible drilling pump embargo in early 1984.[58] Reagan had no desire to repeat the fiasco of the Siberian pipeline crisis. Instead, the administration realized the success of economic pressure required a cohesive Western response.[59]

As Reagan abandoned his harsh rhetoric and policies, he also began to reshuffle his advisors toward a more pragmatic group. Reagan personally despised dealing with bureaucratic squabbles, but nevertheless took on a larger mediator role as internal disputes metastasized over his first term. At the end of this period, Reagan again sided with Shultz versus the hardliners, commenting that: "Actually, George is carrying out my policy. I'm going to meet with Cap and Bill and lay it out to them. Won't be fun but has to be done."[60] This moment was part of a larger trend of declining hardliner influence since the end of the Pipeline crisis. Soon after Reagan backed down on sanctions in late 1982, hardliners Thomas Reed, Richard Pipes and Bill Clark departed the NSC in 1983, while UN Ambassador Jeane Kirkpatrick left after Reagan's first term.[61] Casey and Weinberger stayed on, but their influence diminished. Shultz noted Weinberger's unwillingness to yield in negotiations initially found success, yet "its effectiveness waned, and Cap's capacity to be part of final solutions declined."[62] The waning influence of hardliners symbolized Reagan's shift toward a more pragmatic mindset as the administration increasingly engaged the Soviets in disarmament negotiations.

A minority of 'Victory School' advocates also cite two incidents with dubious validity as evidence for continued economic warfare. Thomas Reed, an assistant for national security affairs to Reagan, claimed that the U.S. sold faulty software to the Soviets, resulting in a powerful explosion that delayed the pipeline's

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implementation. However, as has been already shown, the Siberian Natural Gas Pipeline came online with no significant delays to its timeline.[63] Additionally, historians have noted inconsistencies regarding both the timing and location of his claims and the fact that there "is no independent evidence corroborating Reed's account."[64] Peter Schweizer popularized the second narrative, claiming that CIA director Bill Casey successfully lobbied Saudi Arabian King Fahd to increase oil output dramatically. As a result, oil price declines limited Soviet hard currency revenues and forced the new General Secretary, Mikhail Gorbachev, to institute reform.[65] This evidence is limited as well. Though most of the State Department literature from the era is still classified, historian David Painter notes that the vast majority of former administration officials do not mention Saudi Arabian lobbying as an administrative goal. Furthermore, economic conditions at the time gave the Saudis "very good reasons—apart from US lobbying—to take the steps they did."[66] Thus, contrary to the views of the 'Victory School', Reagan moved consistently away from his hardline ideological views and toward pragmatic engagement once the Siberian pipeline episode highlighted the ineffectiveness of unilateral economic pressure.

Gorbachev: Origins of Reform

Though American economic pressure had a minimal effect on the Soviet oil economy, the Soviets' energy sector still faced objective economic problems. Whether these factors played a role in ending the Cold War, however, depended on the extent to which oil factored into Gorbachev's belief that the Soviet economy demanded reform. Oil price declines did weigh heavily on the Soviet leader's mind, yet his closest advisors were already convinced the sector needed reform as a result of widespread production issues over the past decade. Moreover, these reformers felt these production issues illustrated broader inefficiencies facing the entire economy. Gorbachev and his key advisors believed the flagging Soviet economy had failed to deliver the promise of socialism and desperately needed internal reform.

The general secretary and reform-minded advisors had long understood the need to reform after decades of direct exposure to Soviet economic stagnation. Gorbachev's reformist ideology developed when he was a young leader and especially flourished especially when he became the First Secretary for the Stavropol region in 1970. Gorbachev gradually realized that over-centralization of authority in the state “sapped the vital energies of society” and created a system in which “all initiative is punishable.”[67] In an effort to improve these inefficiencies, the First Secretary experimented with collectivized agriculture in radical ways. Faced with unproductive crop yields, Gorbachev granted more autonomy to individual workers and family groups, allowed some regions to lay fallow, and encouraged technological innovation.[68] These dramatic changes proved successful, and Gorbachev passed on this knowledge to his superiors as he climbed the party ladder. In a speech he designed for General Secretary Andropov, Gorbachev wrote that “[i]n our opinion it is necessary to give more independence to enterprises and associations in deciding various production and financial questions.”[69] Thus, his early lessons in agriculture proved enduring, as Gorbachev later extrapolated these problems to the larger Soviet economy.

Unlike most of his fellow countrymen, Gorbachev’s position as a high-ranking party official afforded him the opportunity to leave the country and gain firsthand knowledge of other nations’ social and economic systems. After a series of trips to Italy, France, Belgium, and West Germany during the 1970s, Gorbachev reckoned with the difference between the modern Western economies and their portrayal in Soviet propaganda.[70] After returning to the USSR, Gorbachev said the most significant conclusion he drew from his time abroad was that “people there lived in better conditions and were better off than in our country. The question haunted me: why was the standard of living in our country lower than in other developed countries?”[71] This did not mean Gorbachev had become a bourgeois capitalist; rather, he came to grasp the deficiencies in certain aspects of the Soviet system. This willingness to challenge accepted norms would manifest itself in policy when he became leader.

As he ascended in the party, Gorbachev accessed new information that confirmed his belief that the nation’s economy needed reform. As a close advisor to Andropov, he and another colleague, Nikolai Ryzhkov, led a comprehensive analysis of Soviet economic stagnation in the early 1980s. According to Politburo member Vadim Medvedev, this analysis was critical to understand the USSR's later reforms. Medvedev noted that for "the economists who worked with Gorbachev on the analysis of the situation and the development of a new economic policy, it was sufficiently clear the official statistics distorted many indicators of the growth and structure of the economy," a view that undoubtedly resonated with a man who had seen this stagnation firsthand.[72] Although he did not gain direct access to the budget, Gorbachev's status as an upper-level party official afforded him a unique perspective on the nation's economic status. He knew that "our budget was full of holes… money was being drawn from the savings of the citizens and by raising the internal debt." [73] As he gained more experience, Gorbachev realized that the broader Soviet economy desperately needed reform.

Gorbachev, however, was by no means the only major party official who held these bold views. The fact that key decision makers within the Politburo shared these principles allowed the USSR to enact the fateful series of economic and political reforms that led to the state's downfall. Politburo member Alexander Yakovlev was particularly important in developing Gorbachev's conception of reform. In a scathing indictment of the Soviet economic system that he wrote during his tenure in the Politburo, Yakovlev decried a system in which "[p]eople's labor and genius, natural wealth and the material resources of society were spent recklessly—without any thought to purpose, volume, or efficiency."[74] Reformist Politburo member Anatoly Chernyaev shared these views. In a Politburo meeting in early 1985, Gorbachev recounted a series of striking economic inefficiencies that particularly resonated with Chernyaev's view that drastic reforms were necessary to save a country "on the verge of collapse.[75] With productivity in the food industry "two and a half to three times lower than in capitalist countries," "[losses of] 30 percent of our agricultural produce…," and "300 cities" without proper plumbing and sewage facilities, he believed the Soviet economy had failed to live up to its socialist expectations.[76] Like Gorbachev, these members seriously questioned the longevity of a Soviet system that showed signs of stagnation across most sectors, including energy.

Economic Reform of General Secretary Gorbachev

Gorbachev and his advisors understood the importance of the oil and gas industry to the success of the broader Soviet economy. Almost immediately after he took power in March 1985, the new general secretary passed two reform measures seeking to bolster the ailing sector. The first resolution recognized the wasteful energy production of the past decade, as it called for “enhancing the technical sophistication of production equipment... introducing energy saving technologies, speeding the processes of drilling wells and putting them into production.”[77] The second resolution provided capital, as it called for a marked 60 percent increase in energy investment for Western Siberia.[78] Critically, both of these initiatives focused less on the macro-landscape of world oil prices than on addressing the engineering and technological issues facing domestic energy production. Furthermore, Gorbachev enacted both of these initiatives in mid-1985, well before the November 1985 price shock placed major pressure on the Soviet economy.[79] Overall, these two resolutions serve as a key indicator that Gorbachev hoped to tackle energy production problems from the earliest days of his administration.

Gorbachev also visited Western Siberia in September 1985, marking the first visit to the region by a general secretary in nearly seven years.[80] Although the early timing of the visit underscored the industry’s preeminence, Gorbachev’s speech there and memoirs afterwards contextualized the region’s problems within the broader issues facing the Soviet economy. While travelling through a city within Western Siberia, Tiumen’, Gorbachev took note of a series of structural issues that plagued the region’s productivity. Workers complained “there was no concern for efficient use of natural resources” and bemoaned the fact that the Western Siberia’s oil-refining rate lagged 22 percentage points behind the world average.[81] The general secretary also observed that the economy failed to deliver basic goods and services to the region. Workers lamented: “[t]here is a shortage of everything… The Soviet Union and Europe need gas, but it turns out no one needs us.”[82] In an address to these workers, Gorbachev promised to help solve the region’s basic issues. The general secretary proclaimed “Tiumen’ oil and gas would be developed on a healthier, more rational basis, including better housing and amenities, infrastructure, and industrial support."[83] Even in the heart of oil country, the general secretary focused his attention less on the specific issues of the oil industry than on the broader problems burdening the entire Soviet economy.

Additionally, Gorbachev conceived of his ill-fated anti-alcohol campaign at least partially because of the economy's inefficiencies. Gorbachev saw the Soviet system mired in a crisis of character. One symptom of this crisis was a plague of alcoholism that marred both the morality and productivity of the whole socialist system. The general secretary believed the state must rectify this social ill, writing: "[t]oday our main job is to lift the individual spiritually, respecting his inner world and giving moral strength."[84] Despite the moral basis of these reforms, Gorbachev and his advisors also had strong economic incentives to address the problem. Soon after Gorbachev became general secretary, he learned the staggering costs of alcoholism: "9.3 million drunks picked off the streets in 1984, 12 million drunks arrested, and 13 thousand rapes attributable to alcohol, along with 29 thousand robberies… Economic losses attributable to alcohol totaled 50-60 billion rubles."[85] While implementation of the plan turned out to be a disaster, Gorbachev firmly believed that gains in productivity would pay for itself. Writing in retrospect, the general secretary remarked that "special economic calculations took into account the losses to industry due to drunkenness. The plan was to reduce alcohol sales gradually (I emphasize – gradually), as it was replaced by other goods in circulation and sources of budget revenue," highlighting his belief that less alcohol consumption would spur significant productivity gains.[86] Thus, Gorbachev and his close advisors regarded even an ostensibly moral issue such as the anti-alcohol campaign as an inefficient use of the nation's human capital.

Finally, Soviet leaders saw the high proportion of the budget dedicated to military spending as a resource drain, especially during a moment in which the economy desperately needed investments in industrials and consumer goods. Despite his high status as a ranking Politburo member, Gorbachev was unaware of the extent of military spending until he took over the helm in March 1985. Upon assuming command, he later wrote he was shocked to find that "military expenditure was not 16 per cent of the state budget, as we had been told, but rather 40 per cent; and its production was not 6 percent but

20 per cent of the gross national product."[87] Although not initially privy to the same level of data as the general secretary, Gorbachev's principal advisors viscerally understood the need to reform military spending. Yakovlev scathingly commented in an essay written during this time that "[i]t is probably impossible to calculate how much was spent in fifty years on the militarization of the country."[88] While different advisors debated just how fatal the military burden was, there was no doubt that both Gorbachev and his advisors viewed the sector as a tremendous drain on Soviet resources that necessitated reform.[89]

Gorbachev had long understood that the military drained Soviet resources, but access to full information upon ascension to general secretary shaped his fledgling foreign policy in truly radical ways. By the 27th Party Congress in early 1986, the Soviet leader had embraced the need for 'new thinking.' Though Gorbachev undoubtedly held a strong moral aversion to the use of force, 'new thinking' had a practical element as well. This party congress, according to Chernyaev, cemented Gorbachev's idea that there was a "connection between every important domestic issue and foreign policy."[90] In May 1986, Gorbachev exhorted his diplomats to abandon the confrontational mindset that led to the arms race, proclaiming: "'Soviet foreign policy… must alleviate the burden' of military expenditures" and "do anything in its capabilities to loosen the vise of defense expenditures."[91] By ratcheting down the arms race, Gorbachev realized he could alleviate the pressure constricting the Soviet economy since the Cold War began. Gorbachev thus reimagined Soviet foreign policy, repurposing it with a new goal: "do everything… to weaken the grip of expenses on defense."[92] With 'new thinking', Gorbachev slowly began to dismantle decades of Soviet foreign policy insecurity, open up to engagement with his superpower rival, and ultimately, thaw the Cold War.

Conclusion

Speaking at the Kremlin in a dinner for the American-Soviet Trade and Economic Council at the end of 1985, Gorbachev pointedly scolded American leaders for their history of ineffective sanctions. "You all know the results: The Soviet Union has not sustained much damage, but the commercial reputation of American business and thus its competitive power have been seriously undermined on the Soviet market."[93] In 1955, 1965, or 1975, these words may have sounded like typical Soviet propaganda. Yet in the wake of the Siberian pipeline fiasco, these words likely rang true to the audience of American business executives.

Though an influential group of hawkish American leaders sought to pressure the Soviet oil industry, these efforts failed to achieve their desired effect. The Reagan administration's embargo on technology critical to energy industry broke down when Western European nations balked at joining sanctions. Instead of adding pressure on the USSR, these sanctions exposed small fractures in the democratic-capitalist alliance and temporarily weakened Western negotiating power. Reagan realized that Shultz and the moderate wing were correct. Unilateral sanctions ran counter to the American president's negotiating objectives and Reagan opted not to pursue further economic pressure against the USSR for the rest of his presidency.

By 1985, Gorbachev viscerally understood the need for reform after personally witnessing years of stagnating growth and declining productivity across the entire Soviet economy. The general secretary and his close advisers firmly believed the current socialist system impeded innovation and incentivized inefficiencies, putting the Soviets at a disadvantage to Western market-based systems. Stark problems in the energy industry did factor into this calculus. Throughout the 1980s, stagnating productivity and precipitous price declines weighed heavily on Soviet leaders' minds. Although low oil prices affected the implementation and effectiveness of economic reforms, Gorbachev and his key advisors planned to reform before prices deteriorated in late 1985. And while stagnating energy productivity pressured the USSR's hard currency profitability, Soviet leaders understood widespread inefficiencies in the context of the greater economy. Facing these fundamental issues, Gorbachev undertook a radical program of economic and political reform that unintentionally undermined the Soviet system.

By the time the Berlin Wall fell in 1989, the Soviet economy was crumbling and the once-proud state was rapidly losing its power over democratically elected officials in Eastern Europe. This result ultimately allowed 'Victory School' historians to claim that Reagan's policies had forced a weakened Soviet Union into negotiations with a revitalized United States. Yet though the outcomes matched Reagan's goals, these outcomes did not result from Reagan's policies. Gorbachev's willingness to engage the United States came not from effective economic pressure from its ideological counterpart, but rather from the fundamental understanding that domestic reform was inextricably linked to foreign policy reform. With a desperate desire to revitalize socialism, Gorbachev slowly abandoned the ideological bounds of his predecessors and engaged with an adversary open to change, thus beginning the process that ended the Cold War.

Notes

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