

## INTRODUCTION

The corpse of the Soviet Union was still warm when Francis Fukuyama heralded the “end of history” in 1992, using a phrase reminiscent of Karl Marx’s utopian prediction that history would stop once the world had become fully communist.<sup>1</sup> For a decade, it seemed that the “idea of the West”<sup>2</sup> – liberal, democratic, humanitarian free enterprise – had vanquished its “Muscovite” authoritarian rival<sup>3</sup> and would reign supreme. As in Marx’s adolescent idyll,<sup>4</sup> peace, harmony, prosperity, and happiness would flourish forever under a new world order once the post-Soviet transition was complete. Whatever the Soviet economic and military realities may have been, they couldn’t deflect Russia from its progressive course or form the basis for transmuted conflict.

Of course, few expected smooth sailing and no one expected perfection. The “end of history” was only a metaphor conjuring a glimpse of the paradise that might be attained if the West had the pluck and wit to press forward. Western leaders did not flinch. They embarked on ambitious programs of liberalization, democratization, market building, globalization, and arms reduction, but with mixed results. The transformational depression in the former Soviet Union (far deeper than the drop in consumption during World War II), the financial crises of 1998, flagging growth, widening global economic inequality, nuclear proliferation, the Balkan wars, the Arab–Israeli crisis, Indian–Pakistani brinkmanship, 9/11, and the Iraq war in 2003 have all been discouraging, but it can still be argued that, though history continues to unfold, liberal democratic free enterprise has taken root throughout Eurasia and a revival of superpower rivalry is unthinkable.

Russia is more open than at any time since the Bolshevik revolution. Economic liberty, including the right to own productive assets and engage

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Excerpt

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in private business, has been greatly expanded. People are making headway transforming paper civil rights into realities, and democratic institutions are being built despite the persistence of political authoritarianism.<sup>5</sup> But the dead hand of the past hasn't completely withered. Russia has "modernized" itself by adopting most of the trappings of the West, but it has not become westernized. Its consumers still aren't economically sovereign, its government isn't democratically responsive to the electorate, and Russian society is blatantly unjust.

Kremlin leaders have been chastened by the dissolution of the Soviet Union and the hyperdepression that ensued, but old reflexes remain, together with the paradoxes. Russia's economy is depressed, but the leadership expects to recover lost ground. The country has no capacity to compete in the global consumer goods market, but it is a leading arms exporter. Its military-industrial complex and armed forces are in disarray, but it plans to repair the problem by 2010. And while Russia's geopolitical reach is narrowly circumscribed, the Putin administration confidently anticipates reclaiming the federation's status as a great power. The word "superpower" is still taboo,<sup>6</sup> but if greatness is attained, dormant capabilities will be rediscovered.<sup>7</sup>

The unthinkable is thinkable, and given Russia's vast mineral and intellectual wealth, it is doable as well. The main obstacles, as during the Communist era, are the corruptness, inefficiency, and inequity of its system. Should the leadership try to reconstitute its full military capacities using the economic mechanism it has today, Russia will become a colossus with feet of clay.<sup>8</sup> It will have enormous military power and considerable global influence, but the level of consumption for everyone except a small coterie will remain Spartan. Having rid itself of the "no-frills" system it possessed during the Communist era, it will end up as a structurally militarized managed market successor to the Soviet Union.

Sacrificing consumer welfare and social justice for heightened power and privilege seems prodigal, even to postmodern skeptics.<sup>9</sup> The priorities appear antiquated, yet its systems, along with the psychology and culture of the Russian people, are pressing Russia in this direction. "Rational expectationalists" aren't fazed. They recognize that many other countries reject the West but are confident that constructive dialogue and engagement can bring them around.<sup>10</sup> They may be right. Perhaps tirelessly repeating the mantra of liberal, democratic, humanitarian free enterprise will suffice to make the Kremlin a reliable ally and partner in peace.<sup>11</sup>

This book, however, explains why it is more likely that Russia will reemerge as a “prodigal superpower” with a colossal military burden, docile oligarchs, and no-frills living standards for a subservient majority – a superpower frustrated by deterrence, economic backwardness, and popular discontent because it cannot say one thing yet do another and prosper.<sup>12</sup> The gap between the western ideals Vladimir Putin espouses and the actions of Russia’s oligarchs, bureaucracy, security services, military-industrial complex, and mafia, not to mention the behavior of the new Russians, seems too great to prevent the nation from sliding back to the future.

Russia’s fate depends largely on the insightfulness and resolve of its head of state. Putin or his successors will have to go beyond declarations of idealist intent and the kind of paper reforms that primarily advance oligarchic consolidation by repressing the forces of authoritarianism and privilege sufficiently to make “westernization” work. The leadership could have an epiphany. It could realize that feigning democracy and free enterprise while entrenching hierarchy and power is not only unjust but counterproductive. Or that incorporation into the European Union and globalization could save the day. More likely, the leadership will need better outside coaching before it is able to pursue the policies that are best for Russia. Further, it will need not only to have explained what must be done and why<sup>13</sup> but also to be confronted with the potential consequences of denial. Russians know or can easily learn what to do (*chto delat’?*), but for cultural and selfish reasons they seldom act in accordance with the national interest.<sup>14</sup> They recognize this flaw and are scathingly self-critical, but they have nonetheless become adept at using humor, rationalization, and self-deception to avoid modifying their behavior. Giving correct counsel is therefore futile unless the prescriptions are complemented by the reality principle. Whenever Russia’s leaders say one thing but do the reverse, to their own and the West’s detriment, they must be reprimanded.<sup>15</sup>

This policy approach will be rejected by those who deny Russia’s habituation to authority and privilege or interpret it as an “infantile disorder” best treated with forbearance. These analysts must be required to defend their position by presenting evidence substantiating that Russia is on the path toward westernization, not just modernization, as occurred in the Soviet Union during the twentieth century. The counterthesis – that Russia is trapped in a Muscovite authoritarian mold that gravely impairs

the competitiveness of its civilian economy and that prods its leadership toward reconstituting its dormant military power – also calls for proof. Supporters of this position need to establish that past efforts at westernization failed; that the success of Putin’s economic, political, and military reforms remains doubtful; that a military-industrial revival is technically feasible; and that the “end of history” isn’t at hand.<sup>16</sup>

Three of these tasks are simple conceptual and statistical exercises. It is now widely conceded that the liberal reforms following Stalin’s death didn’t westernize the USSR, that Russia’s contemporary economic situation is precarious,<sup>17</sup> and that history will continue to unfold in unexpected ways. But the prospects for military-industrial rejuvenation are more controversial. Those who believe that the West is best assume that other economies cannot generate enough wealth and know-how to be militarily competitive and tend to downplay conflicting evidence. On the other hand, those who recognize that nondemocratic societies can successfully modernize argue that modernization can only be accomplished by subordinating military to civilian interests.

Both attitudes are understandable but misguided. Inferior systems can compensate for low productivity by concentrating resources and talent in the military-industrial complex, trading reduced living standards for power. Similarly, post-Soviet authoritarian societies can modernize by borrowing technology without paring their defense. This book shows that the Soviet Union succeeded in both these regards and explains why Russia can do better.

Vladimir Putin is barred from rebuilding a superior war machine neither by economic necessity nor by democratic rationality. Will he tread this path? Social science cannot provide a definitive answer, but various forces are jointly prodding the Kremlin back toward full rearmament.

Should Putin embrace the pursuit of heightened military power, western solicitude won’t stay his hand. He will have to be persuaded that the short-run security and economic gains to be derived from fifth-generation military reindustrialization will not offset the long-term harm to Russia’s ruling elites – that in the final analysis Muscovite market authoritarianism will subject Kremlin leaders to the same frustrations that destroyed Soviet power. This book tries to make the case that current trends toward authoritarianism and greater military power will both lead to a dead end and should be rejected now lest they soon become irreversible.

Table I.1. *Soviet defense burden 1928–90: Defense spending as a percentage of GNP*

	Bergson	CIA
1928	1.0	
1937	6.2	
1940	13.8	
1944	38.8	
1950	10.3	
1951		24.2
1955	10.2	19.5
1960		14.5
1965		16.0
1970		15.4
1975		15.5
1980		15.3
1985		14.9
1990		13.8
2000		13.2

*Note:* Bergson's estimates are derived from the official Soviet defense budget and are valued in established 1937 ruble prices. The CIA's numbers are valued in established 1982 ruble prices. The estimate for 2000 was computed by Rosefielde in 2000 dollars using CIA methods.

*Source:* Abram Bergson, *The Real National Income of the Soviet Union since 1928*, Harvard University Press, Cambridge, MA, 1961, p. 46, table 3, p. 48, table 4, pp. 61, 364. Noel Firth and James Noren, *Soviet Defense Spending: A History of CIA Estimates, 1950–1990*, Texas A&M University, College Station, 1998, pp. 129–30, table 5.10 (table 6.4, this volume).

The main points to grasp are these:

1. The Soviet Union was, and Russia remains, structurally militarized. The Soviet economy was, and the Russian economy has the dormant potential to be, dominated by (a) the security concerns of the leadership, the genshtab (general staff), and the VPK (military-industrial complex) on the demand side, supported by an immense military-industrial asset base with superior embodied technology constantly improved by large RDT&E outlays, and (b) a priority factor allocation support system on the supply side. This assertion is substantiated by the defense burden statistics in Table I.1, which show that the military's share of GNP has been continuously in the double digits since the late 1930s.

2. The CIA's published estimates understate the defense burden because its weapons cost-estimating procedures took inadequate account of improving Soviet military technology and purported "constant" weapons prices were improperly lowered yearly as "productivity" gains reduced real input costs. A MIG25 produced in 1990 under this "input cost" convention was counted in the agency's real weapons growth series as being worth only 90 percent of the same fighter built in 1989, even though the ruble price was stated to be the same. The resulting downward bias is obvious. No country computes statistics this way for comparison with other nations' real defense output, and the method was never publically vetted. The agency covered up the downward bias by falsely claiming Soviet weapons weren't being rapidly technically improved and attributing the discrepancy between its misconstructured prices and those directly collected in the Soviet Union to "hidden inflation." Donald Burton (CIA), however, completed a study in the early 1990s demonstrating that Soviet weapons indeed were being continuously improved, which, together with unclassified DIA weapons production data, clearly shows, that the Soviet defense burden was not only higher than the agency reported but was rising rapidly (chap. 3). The agency was alerted to the problem of rising real weapons growth by the information obtained directly from the books of the Soviet Ministry of Defense, which revealed that the agency's weapons estimate was only a quarter of the 1970 but it chose to ignore the threat because it alleged that the Soviet military machine-building series was distorted by "hidden inflation." The agency's mishandling of this matter was governed by its conviction, partly based on public cultural values, that the Soviet Union was gradually demilitarizing and by its unwillingness to consider the alternative.

3. In the late 1980s, the Soviet defense burden (using the DOD's broad definition) was in the vicinity of 30 percent of GNP, according to Vitaly Shlykov and Academician Yuri Yaremenko, who independently audited the numbers for the Central Committee of the Communist Party.

4. Soviet weapons procurement grew rapidly, for the most part at double-digit rates, throughout the post-Stalin era, including the waning years of the Gorbachev administration.

5. The Soviet economy didn't collapse because it couldn't adjust to reductions in weapons production, as the CIA (Noren and Kurtzweg) hypothesized (reductions that never occurred, according to Shlykov and William Lee). It was undone by a wave of insider plunder precipitated

by the green light Gorbachev gave to “spontaneous privatization,” managerial misappropriation, asset stripping, and entrepreneurial fraud, all under the guise of “liberalization.”

6. The West failed to grasp the reality of Soviet structural militarization because the CIA misleadingly argued that post-Stalin weapons growth was close to zero and that while the defense burden was immense it was steadily declining, indicating the mounting importance of civilian concerns. The agency also confusingly and contradictorily claimed that the main cause of the burden being so high was weapons price inflation, encouraging some scholars like Franklyn Holzman to assert that the Soviet defense burden wasn't much larger than officially claimed and was smaller than America's. This conviction was so firmly embedded that Holzman failed to recant even after Gorbachev revealed that Soviet defense spending in 1989 was twice his estimate. Other Sovietologists reinforced these mischaracterizations by sweeping the issue of structural militarization under the rug, focusing their attention on civilian topics, implying by omission that the defense sector was peripheral.

7. The gray eminence shaping western views of Soviet economic performance and potential was Abram Bergson. During the early years of the Cold War, when people entertained the possibility that socialism might displace capitalism and intellectual attention was concentrated on the great Soviet challenge, Bergson took the position, based on his analysis of Oscar Lange's economic theory of socialism, that Soviet economic planning was viable and that the USSR could conceivably best the West. And he argued with conviction in 1953 that Soviet data were “reliable” and “usable” enough to sustain these judgments before undertaking the requisite calculations to prove them. But a decade later, he had a change of heart, concluding on the basis of a series of Rand studies and his own textbook that “efficiency,” “productivity,” and “productivity growth” were central planning's Achilles' heel. Thereafter, the majority of his work and that of the CIA was dedicated to corroborating this prophesy. Both were able to show that Soviet economic growth was decelerating and that factor productivity was falling because technological progress wasn't fast enough to offset the rate of increase of new capital formation. But this implied neither declining living standards nor economic collapse. Most Sovietologists, following Bergson's lead, argued that while the rate of per capita consumption growth would surely fall below the “golden age” rate in the West, it would converge to an asymptote high enough above zero

to keep the system viable. Socialism wouldn't bury capitalism, but neither would it fade quietly into the night.

**8.** These attitudes dovetailed with the nostrums of public culture. Soviet communism, viewed from the perspective of consensus cultural values like tolerance, diversity, and conflict avoidance, was seen as a legitimate social experiment that hadn't turned out as well as its architects had hoped but that nonetheless offered the prospect of learning and constructive reform. During the early years, it had sometimes misbehaved and threatened its neighbors, but it was liberalizing and putting militarism behind it. This left Soviet leaders with two choices. They could coexist harmoniously with the West, accepting the material shortcomings of their system, or they could transition to democratic free enterprise. Either way, there would be a happy ending, without armed conflict or internal collapse.

**9.** These cultural verities, together with Bergson's conception of Soviet economic potential and his assumption that western recomputations of Kremlin statistics from subaggregates were reliable and usable, explain why the West was blindsided by the Soviet Union's dissolution. Everyone should have known better. How could a country that criminalized business, entrepreneurship, and private property; fixed prices; and shouldered a double-digit defense burden have increased per capita consumption more rapidly than the United States and Europe for most of the postwar period, as the CIA's series indicated? The answer obviously was that the data were corrupt. Gorbachev proved it when he acknowledged in 1989 that the official Soviet defense budgetary statistic excluded weapons, and Bergson's own Rand study of USSR growth during 1928–37 similarly revealed that Stalin's aggregate growth claims couldn't be reconciled with any weighting of the subaggregate data. Sovietologists and the CIA, for diverse reasons, wanted to believe that the numbers were good enough and fell victim to their wishful thinking.

**10.** The Soviet collapse testifies amply to the fact that living standards were more nearly stagnant, as Gorbachev complained, than steadily improving, as Bergson's conception of planning required. Charles Wolf, Jr., and Henry Rowen's Team B portrayal of the Soviet Union as an "impoverished superpower" came closer to the mark, but in the final analysis Shlykov's characterization is best. The communist version of Muscovy was a "pushkek i masla" regime, imposing Spartan living standards on its subjects in order to maximize military preparedness.



**11.** The postcommunist epoch has been a tale of two paradigms: “globalism” and “cultural determinism.” The first envisions the former Soviet Union embracing peaceful, democratic free enterprise as a rational, universal ideal. Gorbachev’s, Yeltsin’s, and Putin’s reforms are presumed to be virtuously motivated, and the glitches that have arisen, like Russia’s fifteen-year hyperdepression, are ascribed to policy errors. Institutional obstacles are acknowledged but deemed inconsequential. This globalist preconception isn’t new. It is a variant of the Cold War faith that rational Soviet leaders would eventually liberalize. The counterhypothesis is that Russia is unique, not universal – that the emerging postcommunist system is more strongly influenced by its Muscovite heritage than the logic of westernization. The government is liberally autocratic and has a democratic veneer, just as under Czar Nicholas II. The “commanding heights” of the economy, as the Bolsheviks used to say, are managed and controlled by insiders, oligarchs, and rent seekers beholden to the president, who at his discretion as a rent grantor can confiscate the assets they “administer” or can otherwise revise their user privileges. Authoritarian politics are in command, not markets, and the state apparatus strongly reflects the aspirations of the security services, the genshtab, and the VPK. The closed and opaque character of the system fosters moral hazard and stultifying corruption.

**12.** The evolution of the Russian economic mechanism, the state bureaucracy, and presidential power and the federation’s military modernization plan all point to the Kremlin returning back to the future.

**13.** Russia has an intact military-industrial complex, a genshtab, an approved military modernization blueprint, and the mineral wealth to reactivate its dormant structurally militarized potential. Supply-side constraints don’t preclude a return to prodigal superpowerdom.

**14.** Russia’s future is culturally “path dependent” but not inevitable. Westernization is demonstrably better than Muscovite prodigal superpowerdom, and Putin is clever enough to evaluate the alternatives dispassionately, if he can be coaxed past his wall of denial.

**15.** Muscovite culture has conditioned him and most other Kremlin leaders to suspend their disbelief, assuming that they can reconcile opposites. Gorbachev thought that he could enrich his inner circle through “spontaneous privatization,” improve productivity, democratize, expand weapons production while “disarming,” and advance the people’s welfare all within the parameters of party autocracy. Putin appears to similarly

believe that markets without the rule of law and democracy will provide his administration with the best of both worlds, free enterprise-driven prosperity and vast military and political power.

**16.** Persuading Putin that Russia is on the wrong path will require more than cogent logic. The West must modify its public culture-approved strategy of compliments and bribes – cheerleading insincere liberalization and providing lavish assistance – by confronting the Kremlin with reality and insisting that it forswear prodigal superpowerdom and medieval Muscovy.

**17.** The West is disinclined to tackle the problem head on. It prefers to chant the mantra of the Washington consensus and employ influence payments. It too is befuddled by globalist rhetoric. In this regard, Putin is no more to blame than the West.

**18.** Nonetheless, it is important to try and break with the tried and disproven eclectic engagement methods of the past because the reemergence of Russia as a Muscovite prodigal superpower threatens to destabilize world security and is certain to blight the lives of most Russians.