
Vladislav Malkevich

RUSSIA
AND THE UNITED
STATES:

Fated to be Together?

Moscow
AIRO-XXI
2019

UDC 338(470+571:73)(091)
LBC 65.03(2)64+65.03(7Coe)614
M21

Front cover: portrait of the author Vladislav Malkevich
by artist D. S. Vorontsov.

Frontispiece: Anatoly Dobrynin, Ambassador Extraordinary
and Plenipotentiary of the USSR to the USA (1962–1986).
Photo by Valentine Cheredintsev / TASS

Malkevich, Vladislav Leonidovich

M21 Russia and the United States: Fated to be Together? / V. L. Malkevich. –
Moscow: AIRO-XXI, 2019. – 408 pp, illustrated.

ISBN 978-5-902484-85-1

CIP Program of the RSL

This book analyzes the causes, effects and recovery from two major shocks to the economy in the 20th century: the Great Depression of the 1930s in the USA, and the Russian post-Soviet depression of the 1990s in post-Soviet Russia. It explores the contours of these two events and the role of oligarchs and the state in their unfolding.

The author studies and compares the Russian and US economies starting from the first contacts between American colonists and Russians, all the way up to contemporary multilateral interstate relations between the two countries.

The book is intended for a wide readership interested in Russia–United States relations as well as for specialists with expertise in international affairs.

The publication includes illustrations and photographs reflecting the long, multifaceted history of economic relations between Russia and the United States.

© V.L. Malkevich, 2019

© Design by the Literary Heritage Preservation Society (in russian), 2018

TABLE OF CONTENTS

A word to the reader	6
Chapter 1	
A historical outline.....	11
Chapter 2	
The Unites States and Russia in the late 19th and early 20th century.....	87
Chapter 3	
The Great depression in the USA	128
Chapter 4	
World War II.....	158
Chapter 5	
The quarter century following World War II	188
Chapter 6	
Two decades before the dissolution of the Soviet Union	215
Chapter 7	
Information warfare against Russia	280
Chapter 8	
Russia's post-soviet depression	293
Chapter 9	
Oligarchy in post-soviet Russia	346
Instead of a conclusion	376
Appendix.....	396
About the author	407

The author expresses his gratitude for all the meaningful observations, comments and suggestions made when preparing this work for publication by the late Head of the History Department of Lomonosov Moscow State University, Doctor of Arts, Professor I.I. Tuchkov; Doctor of Philosophical Sciences A.I. Lipkin; First Deputy Minister of Trade of the Russian Federation (1998–2000), Candidate of Economic Sciences I.L. Mitrofanov; Ambassador Extraordinary and Plenipotentiary of Russia, Doctor of Historical Sciences, Professor of the Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation E.G. Kutovoy; Candidate of Economic Sciences, Associate Professor of MGIMO (University) of the Ministry of Foreign Affairs of the Russian Federation A.S. Ivanov; Head of the International Council of AIRO-XXI, Candidate of Historical Sciences G.A. Bordyugov; my colleagues in public service and the Chamber of Commerce and Industry of the Russian Federation G.G. Petrov, A.N. Sergeyev, A.A. Osipov, as well as the Director of the Literary Heritage Preservation Society L.G. Rudin and editor T.E. Shirma.

The author would also like to extend his heartfelt gratitude to his colleagues V.V. Zorin, S.N. Nikiforov, D.V. Shchekalev and N.N. Derbin for their help in designing and preparing this book for publication.

A WORD TO THE READER

Many in-depth and fascinating studies, memoirs and literary works have been written on Russia–United States relations. They are supported by archives full of documents peppered with secrets and hidden details of negotiations.

That said, Vladislav Malkevich's contribution to the field throws into the ring a distinctive narrative, topical twists and turns, and unique, fresh conclusions. The author dives courageously into the historical logic behind the development of bilateral Russia–United States relations, while providing a detailed analysis of the American experience of overcoming difficult periods in the course of the country's political development. In particular, his opinions on the Great Depression lasting through the 1930s are at once original and instructive.

Despite current difficulties in contemporary Russia–United States relations, the author is positive in his forecast that “Americans and Russians are simply fated to be allies, to a large extent because of our differences.” This idea encompasses a wide range of historical examples of Russian–American ties and is underpinned (here the author takes an intellectual liberty) by an intuitive sympathy oftentimes escaping concise explanation.

Scenarios describing the behavior of both powers in times of economic crisis form another layer of the book's core. According to the author, today's Russia has the opportunity to overcome its own economic difficulties by drawing on the

American experience, in part based on lessons gleaned from the New Deal.

Vladislav Malkevich uses his book as a bullhorn to call out to take a fresh look at the past two centuries and realize that in today's intricate and contradictory global context, Russia and the United States are destined for multifaceted cooperation. For above all else, they are the guarantors of international peace and security.

*Alexander Bessmertnykh,
President of the International Foreign Policy Association*

“Two great powers, America and Russia,
must maintain normal relations.”

Franklin D. Roosevelt.

*From his address to the United States Congress
on January 7, 1943*

Chapter 1

A HISTORICAL OUTLINE

Christopher Columbus¹ (1451–1506) was the first high-profile seafarer to cross the Atlantic ocean in the subtropical band of the Northern hemisphere, sail the Caribbean sea, and discover Central and South America.

However, it is not entirely historically accurate to consider him the “discoverer” of America. 500 years before Columbus' voyages, Icelandic Vikings made several visits to North America, but these voyages remained unknown outside Scandinavia. The expeditions of Christopher Columbus

¹Christopher Columbus (1451–1506), the Italian navigator, went down in history as the discoverer of America for Europeans. The goal of the first Spanish expedition led by the explorer was to find the shortest sea route to India.

October 12, 1492, when Columbus disembarked on the island of San Salvador (an island in The Bahamas), is today considered the official date of the discovery of America. This first expedition also docked in Cuba, Haiti and other islands. Following his return to Castile in 1493, Christopher Columbus announced he had discovered the West Indies. During the second expedition (which he now led as an Admiral), Columbus discovered, in addition to Haiti and Cuba, the islands of Jamaica and Juventud. This expedition ended in 1496 and marked the beginning of the Colonial Era. The third expedition (1498–1500) led to the discovery of several more islands in the Caribbean Sea, but in 1500, Columbus was arrested and sent back to Castile. He was soon released from prison, but was stripped of all his former privileges and most of his wealth. The Spanish Royal Treasury received almost no income from its new colony. Around the same time, Vasco da Gama, a Portuguese explorer, discovered a sea route to the real India in 1498 and returned with a ship laden with Indian spices, thus proving the land discovered by Columbus was not India, and that he was an impostor.

for the first time brought the existence of these Western lands to the attention of the whole world. The fact the discovery involved an entirely new continent was finally con-

During his fourth expedition (1502–1503), Christopher Columbus thoroughly explored the coast of Central America and two thousand kilometers of the Caribbean Islands. On June 25, 1503, off the coast of Jamaica, he suffered a shipwreck and returned to Castile a year later in poor health. Without ever finding a passage to India and with no money or privilege, the Italian explorer died in the Spanish city of Valladolid on May 21, 1506. In the span of approximately five centuries, he was reburied three times, and in 1988, his remains were returned to Seville, Spain (after Santo Domingo and Cuba).

Christopher Columbus died without ever realizing his dream of seeing India with all its fabulous riches. However, the continents seen for the first time by European eyes received the name of another man, Amerigo Vespucci, a navigator from Florence who continued to sail along the routes first traced by the great Genoese. Indeed, Columbus at once achieved everything and nothing, which makes him a tragic figure.

Amerigo Vespucci completed the route first plotted by Christopher Columbus. From 1501 to 1502, he discovered Brazil and traveled 100 kilometers down the Amazon river into the heartland of the continent he coined the New World. In fact, it was a cartographer from Lorraine who named the discovered land “America” in honor of its discoverer. In 1538, the names of North America and South America started appearing on maps. However, over the next two and a half centuries, people in Europe continued to refer to these lands as the New World.

There is also another competing legitimate version explaining the appearance of the name “America” popular among researchers in the UK. They argue America got its name in honor of a wealthy Englishman from Bristol, Richard Amerike, who funded the second transatlantic expedition of navigator John Cabot. John Cabot reached the shores of Labrador (present-day Canada) in 1497, i.e., earlier than Amerigo Vespucci. When he returned to Bristol, John Cabot proclaimed the discovered territory as belonging to king Henry VII of England, and named the land in honor of R. Amerike, the benefactor who ensured the success of the expedition. In 1498, John Cabot organized another expedition to the newly discovered country. However, he died at the beginning of the voyage after handing over command of the expedition to his son Sebastian (1472–1557). The expedition reached the shores of Newfoundland and travelled down along the American coast to Florida. In 1517, Sebastian Cabot discovered what is known today as the Hudson Bay and strait, and traveled along the coast of South America from La Plata to the Strait of Magellan. A city in Arkansas was later named after Sebastian Cabot.

firmed by the first global circumnavigation led by Ferdinand Magellan (1519–1522). The discoveries of Christopher Columbus marked the beginning of the European colonization of American lands, the establishment of Spanish settlements, and the enslavement and genocide of indigenous peoples.

In the mid-16th century, the colonized territory stretching from Cape Horn to New Mexico belonged to Spain and generated tremendous revenues for the royal treasury. However, despite the flow of gold and silver from the colonies, by the early 17th century Spain had lost its status as a superpower and ruler of the seas due to poor economic management and corruption in the royal administration. As a final blow, the defeat of the Invincible Armada at the Battle of Gravelines in 1588 led to the ultimate decline of Spain during the Anglo-Spanish War (1585–1604).²

Upon the order of Queen Elizabeth I of England, the expedition of the first colonists reached the shores of America in 1584. In honor of the “virgin Queen” (Elizabeth I was never married), the territory was named “Virginia.” Yet the attempts of the first settlers to establish a foothold in the area failed amid constant attacks from native tribes and lack of provisions.

²The Invincible Armada was a large military fleet (130 ships) assembled by Spain from 1586 to 1588 to invade England during the Anglo-Spanish War (1585–1604). It suffered severe losses in a series of clashes with the Anglo-Dutch fleet under the command of Charles Howard, which culminated in an English victory at the Battle of Gravelines. Francis Drake, the famous privateer of Elizabeth I, distinguished himself in these battles and was awarded the rank of Vice Admiral in 1588.

After the death of Queen Elizabeth I, the economy of England was on the verge of collapse, and James I, the King of Scotland who ascended to the English throne, was forced to sign the Treaty of London in 1604. Spain recognized the legitimacy of the Protestant monarchy in England and renounced its claim to the supremacy of Catholicism in that country. As part of the Treaty, England stopped supporting the Netherlands and opened the English Channel for Spanish ships.

In 1605, the Plymouth Company and London Company (two joint-stock companies) received a license from the King of England James I for the Northern and Southern parts of Virginia, respectively. It should be noted that during this period, “Virginia” was considered the entirety of the North American continent. In May 1607, the colonists reached the American coast and built a wooden fort in Chesapeake Bay. This was the first British settlement in America and accordingly named “Jamestown,” after King James I. This British settlement is rightfully treated as the cradle of the United States.

In 1612, the farmers in Virginia managed to cultivate a hybrid tobacco English consumers took a liking to, thus ensuring the colonists their first source of permanent, reliable income. Virginia tobacco became a staple export for the area, and by 1629 its shipments had reached volumes of 500 thousand pounds. The history of Jamestown and captain John Smith, its leader and one of its founders, is the main focus of numerous studies and publications. John Smith also holds a special place in the history of Russia–United States relations.

Based on first-hand accounts, he was the first European settler on the American continent who was familiar with the way of life and customs of Russians before emigrating. In 1607, John Smith escaped from Turkish captivity and travelled by steppe roads, where he eventually reached a garrison of Muscovites on the Don river. According to modern researchers, this was the town of Tsarev-Borisov located at the confluence of the Northern Donets and Oskol rivers. Here he was given an official deed and letter of recommendation for his further journey across Southern Russian strongholds, and was treated along the way with more kindness and hospitality than he had ever experienced in his life. Yet John Smith wrote critically about the divide he witnessed in Mus-

covy society between rich and poor, masters and slaves, which concealed “the true cause of all the weaknesses and misfortunes in the country.” His knowledge of Russian fortifications constructed using spruce logs connected at the ends by wooden clips helped John Smith defend Jamestown, as only this engineering style was strong enough to withstand the devastating raids of native tribes.³

Russia and the United States had established contacts long before any formal state relations. Serving as the head of the Grand Embassy (1697–1698), Peter the Great (1689–1725)⁴ visited London on a diplomatic mission, where he met William Penn,⁵ the famous Quaker preacher, pacifist and

³The first mention of the New World in Old Slavonic was discovered in Moscow in 1540 in the writings of Maximus the Greek (c. 1470–1556), a monk of Greek origin. He travelled to Moscow at the invitation of Grand Prince of Moscow Vasily III (1479–1533), the father of Ivan the Terrible (1530–1584), to expand the personal library of the Prince and translate the Scripture from Greek into Old Slavonic.

⁴Hereinafter, the period of reign is always indicated at the first mention of a Tsar of Russia.

⁵William Penn (1644–1718) is a unique figure in the early history of English colonies in America, revered in the United States as one of the founding fathers of the country and its first capital, Philadelphia (the City of Brotherly Love). A preacher of religious tolerance, he founded a colony called “Pennsylvania” (“Penn’s woods” in Latin) as a “refuge for free-thinking Europeans.” William Penn was one of the first advocates of democracy and religious freedom. He is remembered for collaborating on the preparation of a peace treaty with the Lenape tribe of native Americans, who historically inhabited the territory of Pennsylvania.

In 1681, King Charles II granted a portion of his American lands to William Penn to repay the debt of the King owed to Penn’s father, an Admiral of the English fleet. The lands received by Penn spanned today’s Pennsylvania and Delaware. Penn arrived in America in 1682 and settled in New Castle, where in the same year the colonists gathered for their first general assembly and recognized the land’s new owner. Penn then sailed up the Delaware river and founded Philadelphia in 1683. However, not everything went smoothly, as Quaker rule was not welcome by the Dutch, Swedish, and English settlers who lived on the lands of what is today the state of Delaware. This led to the almost immediate

founder of Philadelphia, and signed a contract for the supply of Virginia tobacco to Russia. This deal proved quite troublesome for the supplier of such a large consignment, as before Peter the Great, the population of Russia practically did not smoke at all (tobacco consumption in the country was illegal). In anticipation of the expansion of comprehensive ties between Russia and America in the future, Peter the Great signed a decree to outfit the expedition of Vitus Bering to find the shortest route between the two countries. This turned out to be the final decree of Peter the Great.

In 1607, the Muscovy Company (founded in England in 1551) hired Henry Hudson, an English captain, to search for a northern route to Asia. Russian merchants living in London in the early 17th century who were interested in hunting sea animals funded the first grand voyage to the shores of North America. Since then, the river, strait and bay discovered over the course of four expeditions bear the name of Henry Hudson. In his final expedition, Hudson, along with his son and several other sailors, was set adrift from the ship on a rowboat without water or food by a mutinous crew, after which no one ever heard from him again.

In 1763, Nicholas Boylston,⁶ a Boston merchant, made a transatlantic trip to Russia to deliver sugar, rum, rice, mahogany and other goods to the Kronstadt port, after which he returned back with a cargo of iron, hemp, sailing cloth and

struggle for the independence of these territories, where in 1704, they achieved their goal when the “three lower counties” of Pennsylvania united as Lower Delaware, a new semi-autonomous colony with New Castle as its capital.

In London, Peter the Great met William Penn and showed interest in producing tobacco in the American colonies. The Russian Tsar abolished the ban on smoking and signed a contract to deliver the first shipment of tobacco to Russia. Today, the country is one of the largest consumers of tobacco in the world.

⁶ See: *Bolkhovitinov N.N.* (1991). *Rossiia otkryvayet Ameriku (1732–1799)*, Moscow, International Relations.

other goods. While in 1784 only five American ships cast anchor in Russian ports, in 1795, Kronstadt alone welcomed more than 40 American merchant ships, which delivered tea, coffee, rice, raw sugar, silk fabrics, citrus fruits, almonds, cork tree, olive oil, as well as books to Russia. In return, iron, canvas, hemp, bristles, fat, flax and furs were regularly exported from the country. Based on first-hand accounts, all the sails on American ships of the time were made from Russian canvas, the anchors were made of Russian iron, ship rigging (twine and cables) were made of Russian hemp, and in New England, not a single house or ship was built without using Russian-made nails.

In February 1780, during the American Revolutionary War (1775–1783), Russia adopted a declaration of armed neutrality and headed the League of Armed Neutrality. If the goods of a belligerent country were transported on the vessel of a neutral state, they could not be seized. To protect its goods, Russia armed 15 ships and four frigates.

Catherine II (1762–1796) refused to help King George III (which the English monarch requested in a special letter) in putting down the uprising of 13 British colonies on the east coast of North America. From the very onset of the war for independence led by the English colonies in North America, the Russian government pursued a policy of strict neutrality and completely rejected any English attempts to impose allied obligations.

The position the Russian government adopted was met with high praise in the United States. “We are not a little pleased to find, from good authority, that the solicitations and offers of the court of Great Britain to the Empress of Russia have been rejected,” wrote George Washington⁷ in the

⁷George Washington (1732–1799) was an American statesman, the first President of the United States (1789–1797) elected by the Electoral College, one of the founding fathers of the United States, commander-in-chief of the Conti-

spring of 1779. On another occasion, noting the firm refusal of Catherine II to sign a Treaty of Mutual Assistance with England, George Washington stressed that the Russian government motivated its position in expressions reflecting “respect for human rights.”

At the meeting of the Continental Congress on September 26, 1780, Robert Livingston⁸ proposed to recognize that the rules contained in the Russian Declaration were “useful, reasonable and fair.” Similar to other members of Congress, he believed the declaration deserved “the earliest attention of a rising republic.” The Continental Congress officially approved the principles proclaimed by Russia in its declaration of armed neutrality.

Catherine II did not consider Americans “mutineers” against the legitimate monarch George III. Moreover, she viewed the separation of the North American colonies from England as all but inevitable.

nenal Army (formed by Peyton Randolph, the first President of the Continental Congress), a participant in the Revolutionary War, and the founder of the presidency as an institution in America. In 1789, George Washington was elected the first President of the United States. In 1792, he was re-elected for a second term. Serving as head of state, he contributed to integrating the principles of the Constitution in American life, and in the construction of the nation's capital. He was involved in the formation of the central governing bodies and system of governance, and worked to encourage economic development. Washington maintained friendly relations with Congress. In 1794, he suppressed the first-ever uprising against the government in the history of the United States. In foreign policy, he avoided interfering in the affairs of European States. Washington refused to campaign a third time for President. Before leaving his post, he gave a Farewell Address to the nation.

At the end of his political career, Washington retired to Mount Vernon and frequently visited the capital under construction. Congress honored him with the title “Father of His Country.” Amid escalating tensions with France in the summer of 1798, Washington was symbolically appointed commander-in-chief of the army. He died on the night of December 15, 1799 and was buried in Mount Vernon on December 18.

⁸ Robert Livingston (1746–1813). American lawyer, politician, diplomat, one of the Founding Fathers of the United States. The first minister of foreign affairs of the U.S. (1801–1803), the first chancellor of New York (1777–1801), ambassador of the U.S. in France (1801–1804).

The events culminating with the independence of the British colonies in North America played out as follows. In the 17th century, American industry made leaps and bounds in shipbuilding, which helped expand trade relations and open new markets for its products. In 1750, English Parliament passed a law making it more difficult for the northern colonies to pursue independent manufacturing. The Navigation Act of 1763 made the import and export of goods from American colonies legal only on British ships. In addition, all goods imported by colonists on their own were subject to duties and taxes. In the second half of the 18th century, residents of the American colonies were in a state of confrontation with their mother country. In 1765, the American colonial press was made up of twenty-five different newspapers, as well as books, pamphlets, magazines and other periodicals and non-periodicals. The Stamp Duties Act passed by the Parliament of Great Britain hurt these publishers, and also applied to all trade and civil documents. This was a clearly unfair act directed squarely at Americans. For example, obtaining the rights of a notary in England required a commission payment of two pounds sterling, while in America it costed ten pounds. Prior to this law, taxes on the colonists were used to develop the infrastructure and industry in North America, and the population understood their purpose and benefit. But the stamp duty was the first tax intended directly for England. A number of new fiscal measures had been designed to reduce the national debt of Great Britain, which had increased during the Seven Years' War with France, and as a result of the high costs of protecting the borders and North American settlements from native American raids. The motto in the struggle for independence was a short slogan: "No taxation without representation," which meant that no taxes should be imposed without the representation of American colony delegates in the drafting process. The com-

promise proposal of Benjamin Franklin to create a local colonial government headed by a president appointed by the King of Great Britain was rejected by the mother country. Advocates of American independence, who called themselves the “Sons of Liberty,” began to set up chapters in all the colonies. Among the leaders of this organization was John Adams, one of the founding fathers of the United States and the future second President. In the context of growing unrest, the British Parliament abolished the Stamp Duties Act in 1766. But the very next year, the mother country imposed a customs duties on glass, lead, paper, paint and tea imported into North American colonies, followed by an order to governors to dissolve any legislative assemblies in the colonies that failed to comply with decisions of the British authorities. Americans reacted by leading an organized campaign not to purchase the goods subject to duties. As a result, while the British Treasury spent 15 thousand pounds on the program, it earned revenues of only 16 thousand British pounds. In 1770, all the new duties were abolished except for the duty on tea. In 1773, several members of the Sons of Liberty boarded three ships in Boston Harbor, Massachusetts, and threw 342 chests of tea into the water. This event went down in history as the Boston Tea Party. The British authorities then decided to close the port until the Boston administration paid compensation for the destroyed cargo, under the assumption that the mutiny was carried out by a group of radical fanatics. Unfortunately, they were deeply mistaken on that account. In response to the crackdown in Boston, the protest movement swept across all the 13 North American provinces. Great Britain was forced to dissolve the legislative assemblies of all other colonies. In 1774, an illegal meeting of representatives from 12 colonies (except Georgia) was convened in Philadelphia. It was called the First Continental Congress. The Congress was attended by George Washing-

ton, Samuel and John Adams, and other prominent American figures who drafted a petition to the king appealing to the English people. They recognized the connection of America to their mother country, but Congress insisted on the abolition of the recent parliamentary acts and threatened to boycott British goods if the crown refused to meet their demand. In response to the petition, Great Britain declared martial law in the colony of Massachusetts.

The Congress decided to form an army under the command of colonel George Washington, a veteran of the Seven Years' War with the French and Indians.

On April 19, 1775, the first armed clash took place between British troops and American separatists in the outskirts of Boston.

On May 10 of the same year, all 13 North American colonies convened in Philadelphia and petitioned King George III of England for protection from the arbitrary acts of colonial administration. The Congress also took the opportunity to announce the mobilization of its armed militia led by George Washington.⁹

George III described the situation in the North American colonies as a mutiny, and in the summer of 1776 sent a fleet carrying 30 thousand German mercenaries known as “Hessians” to quash the rebellion. British troops went on the offensive, and in 1776 they captured New York, followed by Philadelphia in 1777.

In response to British expansionism, on July 4, 1776, the representatives of the colonies adopted the United States Declaration of Independence (Independence Day, a national holiday in the United States, is celebrated on July 4).

On October 7, 1777, American troops at Saratoga surrounded the British army and forced their surrender, thus

⁹ 2010–2017: “Vse o SSHA” <http://www.usa-info.com.ua>

thwarting all the plans of British strategists and serving as a turning point in the war. At the battle of Saratoga (New York), American rebels defeated the royal forces in combat for the first time.

On February 6, 1778, France struck an alliance with American troops. In response to these actions, Great Britain declared war on France. French volunteers were sent to America, and Spain also joined the French and American fighters for independence.

From 1778 to 1779, the war was marked by the victory of the British Commander-in-Chief in North America general H. Clinton over the rebels in Georgia and South Carolina.

In 1780, lieutenant general count de Rochambeau, the commander of the French expeditionary corps, forced general H. Clinton to divert his attention to combat in New York.

From 1780 to 1781, the new British commander general Charles Cornwallis was successful in North Carolina, but his troops were exhausted by the guerrilla warfare. Ultimately, he was forced to retreat to Virginia.

In 1781, American and French troops cut off and surrounded the troops of Charles Cornwallis and forced the capitulation of the nine thousand-strong British army on October 19 in Yorktown, Virginia. The defeat at Yorktown was a severe blow to England and led directly to the outcome of the war. The battle of Yorktown was the final major military engagement on land, although 30,000 British troops still held New York and a number of other cities.

Several naval battles took place in late 1781 and throughout 1782.

On June 20, 1783, the final naval battle took place at Cuddalore in the Bay of Bengal between French and English squadrons, ending with a French victory. The battle took place after peace was concluded in Europe, but before the news had reached India.

The recognition of America's independence by Great Britain on September 3, 1783 is rightly considered one of the main outcomes of the war. Great Britain took its seat at the negotiating table in Paris. During the hostilities, the United States received support from France, Spain, the Netherlands and Russia. The independent American government gave Spain Florida and the island of Menorca (the Balearic Islands in the Mediterranean sea),¹⁰ while Spain relinquished its rights to the West Bank of the Mississippi river in favor of France. The rights of Great Britain in Canada were officially recognized, and British troops vacated New York. About 40 thousand supporters of the British crown (loyalists) also left along with them for Canada.¹¹

Now we can loop around back to the Declaration of Armed Neutrality adopted by Russia in 1780. This document is of great historical significance because at its core, it was aimed against the maritime despotism of Great Britain and served the interests of other countries, primarily the United States. The Declaration facilitated a unification of all neutral European powers around Russia, who played a role on the global stage not as a military force, but as an adherent of international law. In addition, the signing of the Declaration was an important milestone in the development of international maritime law, and also marked the beginning of official relations between the United States and Russia.

It is no coincidence the Declaration was so highly regarded by the leaders of the young republic. In the future, for many decades, the protection of neutral navigation rights provided a solid foundation for Russia–United States rapprochement.

¹⁰ eAmerica.ru, 2008–2014.

¹¹ See: *Apteker G. Istoriya amerikanskogo naroda. Amerikanskaya revolyutsiya 1763–1783*, Moscow, 1962, Vol. 2.; *Ocherki novoy i noveyshey istorii SSHA*, Moscow, 1960, Vol. 1.

Many years later, U.S. President James Madison¹² (1809–1817)¹³ described armed neutrality as an “American doctrine.” The President stressed that the declaration of armed neutrality by the Russian government in 1780 marked “an era in the history of maritime law,” and noted the “special interest” of the United States in maintaining it.¹⁴

During the American Revolutionary War, Paris was England's main rival in Europe and the epicenter of diplomatic struggle between European powers. Benjamin Franklin visited the French capital in December 1776 with a diplomatic mission as the Minister Plenipotentiary from the United States of America.¹⁵

¹²James Madison (1751–1836) was an American statesman, the 4th President of the United States and one of the key authors of the U.S. Constitution and Bill of Rights. He advocated for the creation of a strong central government, and the drafting and adoption of a new U.S. Constitution. Madison is hailed as the “Father of the American Constitution.” In 1809, he moved into the White House and continued the domestic policy of Thomas Jefferson. He declared war on England in 1812, dealing a serious blow to the U.S. economy. He wanted British rulers to recognize the United States as a sovereign power rather than a “dependent, distant relation.” In August 1814, British troops attacked Washington, the U.S. capital, and burned down the President's residence, the Capitol, and all its ministries. On January 8, 1815, general Andrew Jackson dealt a crushing defeat to more than 5 thousand Britons in New Orleans. It was the largest-ever victory of Americans on land. On December 24, 1814, a peace treaty was signed in the Flemish city of Ghent. Madison ensured he was replaced by James Monroe (1817–1825), his chosen successor. After the end of his term, Madison retired to his Montpelier estate.

¹³Hereinafter, the period of holding the office of President of the United States is always indicated. The footnotes at the first mention of historical figures indicate the years of their lives.

¹⁴See: *Bolkhovitinov N.N.* (1991). *Rossiia otkryvayet Ameriku (1732–1799)*, chapters 3, 4, 5.

¹⁵Benjamin Franklin (1706–1790) was an American politician, diplomat, scholar, inventor and writer. He was one of the leaders of the American Revolutionary War. Franklin was the only founding father to sign all three documents on the establishment of the United States of America as an independent state: the U.S. Declaration of independence, U.S. Constitution, and the Treaty of Ver-

In a detailed report dated December 4, 1776, the Russian Ambassador to France, Prince I.S. Baryatinsky,¹⁶ stressed the importance of Benjamin Franklin's mission and the tremendous impression he made in France. "The public is so preoccupied with him that they hardly talk of anything other than the reasons behind his trip here...", wrote I.S. Baryatinsky.

In the spring of 1777, I.S. Baryatinsky sent a letter to St. Petersburg describing Marquis de Lafayette (1757–1834), who set off with a team of other French officers to Bordeaux, "hired a ship" and equipped it with arms "paying for it all up to five thousand livres," and set sail for America "with the intention of joining the service of the warring colonies." Before leaving France, Lafayette made sure his domestic affairs were "in perfect order and took with him more than one

sailles of 1783. This Treaty ended the war with Great Britain and recognized the independence of the 13 British colonies in North America. He was also the first American to become a foreign member of the St. Petersburg Academy of Sciences. In 1731, he founded the first public library in America; in 1743, the American Philosophical Society; and in 1751, the Philadelphia Academy, which later served as the basis for the University of Pennsylvania. In 1776, he was sent as Minister Plenipotentiary from the United States of America to France to secure an alliance against England. The quote "time is money" is attributed to Franklin (from his essay "Advice to a Young Tradesman," 1748). He was the undisputed spiritual leader of the new American nation in the second half of the 18th century and first half of the 19th century.

¹⁶ Ivan Baryatinsky (1738–1811) was a Russian diplomat under Catherine II who served as the envoy to Paris. In 1771, he was promoted to the rank of major general. In 1775, he was appointed as the envoy to Paris, where he served for 12 years maintaining friendly relations between Russia and France. When tsarevich Paul arrived in Paris during his travels in Europe with his wife under the pseudonyms of "Count and Countess Severny," Ivan Baryatinsky hosted them at his house and accompanied them on their journey through France. In 1785, he signed the Treaty of Versailles with the Austrian Ambassador, who served as mediator, and as a gesture of gratitude was presented portraits of the kings of France, England and Spain decorated with diamonds. Ivan Baryatinsky was promoted to the rank of lieutenant-general in 1779 and awarded the Imperial Order of Saint Alexander Nevsky in 1784 before retiring in 1786.

hundred fifty thousand livres in cash, many guns and lots of ammunition.” According to I.S. Baryatinsky, this event caused “a great sensation in the public and at the court.”

As concerns the special mission of Benjamin Franklin to France, on February 6, 1778, the statesman and the French Minister of Foreign Affairs signed two important treaties on alliance and trade. Moreover, France signed “a treaty with the Americans as with an independent power... in short, this means war, although it has not been formally declared. Indeed, the announcement is expected any minute now,” reported the Russian Ambassador from Paris to St. Petersburg.

As already noted, Benjamin Franklin's personality made a strong impression on French diplomats. The brilliant scientist, writer and statesman was modestly dressed, wore a brown suit, did not wear a wig and had smoothly combed hair. The high society of Paris could not but note the simple manners of the plenipotentiary representative of the United States of America, which stirred up considerable curiosity. After learning that the French Queen Marie Antoinette was amused by the republican simplicity demonstrated by the American envoy, Catherine II said, “...in her circumstances, I would be afraid of being told that he who laughs last, laughs best.” The prophetic meaning of her remark became clear after the execution of Marie Antoinette on the guillotine during the French revolution of 1789.

In 1778, the authorities in St. Petersburg were alarmed by reports of the sighting of two foreign ships off the coast of Chukotka. The Ambassador of Russia to France was instructed to discuss this event with B. Franklin, who happened to be in Paris at the time. After the meeting, I.S. Baryatinsky reported that these were most likely the ships of captain James Cook, an English navigator who embarked three years ago to circumnavigate the globe. His conjecture was ultimately proven quite reasonable and accurate.

In 1781, in hopes of acquiring Russia's recognition of the young republic (after France), the leaders of the United States sent Francis Dana as an American envoy to conclude a treaty of friendship and trade. He was accompanied by the fourteen-year-old son of the 2nd U.S. President John Adams Sr. (1797–1801),¹⁷ who was studying in Paris at the time, to serve as a French-English interpreter for the diplomat during his mission. However, Catherine II was in no hurry to meet with the American envoy. Unable to gain the audience of the empress, Francis Dana left the Russian capital on August 24, 1783. This was an unfortunate and regrettable step, as by a cruel trick of fate, this was just three days after the signing of the Treaty of Versailles between the United States and its allies, including France, Spain and the Netherlands, on the one side, and England on the other.¹⁸ This document eliminated the obstacles Russia was facing in recognizing the American

¹⁷John Adams Sr. (1735–1826) was an American politician, lawyer and prominent figure in the American Revolutionary War, the first Vice President (1789–1797) and 2nd President of the United States (1797–1801). He was a member of the First and Second Continental Congresses, was directly involved in drafting the Declaration of Independence and also signed it. John Adams proposed to appoint George Washington commander of the Continental Army. Starting in 1777, he served as an envoy to France. In 1780, he was made ambassador to the Netherlands, where he secured diplomatic recognition of the United States. In 1783, he participated in drafting the Paris Peace Treaty with England. From 1785 to 1788, he served as the envoy to Great Britain. The presidency of J. Adams was marked by crises and conflicts, including the diplomatic incident that led to the undeclared naval war between the U.S. and French fleets, the adoption of laws on foreigners and sedition, and confrontation with the supporters of Thomas Jefferson. He is also considered the founding father of the American navy. The 11th amendment to the Constitution was introduced during his presidency. John Adams was the first resident of the White House, which was built during his presidency but had yet to acquire its moniker. His son John Quincy Adams was elected as the 6th President of the United States in 1825.

¹⁸See: *Sovetskaya istoricheskaya entsiklopediya*, in 16 volumes, Moscow, *Sovetskaya Entsiklopediya*, 1973–1982, Vol. 3, Washington – Vyachko, 1963.

republic. Since no telegraph existed in those years, Francis Dana had no way of learning about this in time.¹⁹

In the late 18th century, Russian merchants settled in Alaska, parts of Northern California, and the Aleutian and Kuril Islands. A joint-stock Russian-American company was established to develop fishing and fur trade. In addition to entrepreneurs and merchants, its shareholders also included members of the imperial family, as well as prominent Russian state and public figures. The decree to establish the company and grant it a monopoly on fishing and trade in the Pacific Ocean was signed by the Tsar of Russia Paul I (1796–1801). The main leader of the Russian colony in America was Alexander Baranov, a Russian nobleman who carried out the decrees of the Tsar for two decades in North America. The Russian-American Company was a large monopoly operating on the basis of close collaboration between fishermen, traders, dealers and state authorities. Large-scale fishing off the coast of North America continued during the reign of Tsar Alexander I (1801–1825), who was also a shareholder of the Russian-American Company and made significant contributions to its successful activities.²⁰

Unlike his illustrious grandmother Catherine II, who disliked the republicans, Alexander I held the political achievements of the United States in high accord. The second attempt to establish diplomatic relations between the American republic and Russia initiated by President Thomas Jefferson²¹ (1801–1809) panned out perfectly. In his letter to

¹⁹ See: *Bolkhovitinov N.N.* (1966). *Stanovleniye Russko-amerikanskikh ot-nosheniy 1775–1815*, Moscow.

²⁰ See: *Dvornichenko A. Yu., Ilyin E.V., Krivosheev Yu. V., Tot Yu. V.* (1999). *Russkaya istoriya s drevneyshikh vremen do nashikh dney*, 3rd edition, revised and amended, St. Petersburg.

²¹ Thomas Jefferson (1743–1826) was a prominent figure in the American Revolutionary War, the 3rd President of the United States (1801–1809), a

Alexander I, he expressed confidence that “just and faithful conduct on the part of the United States, will strengthen the friendly dispositions” of the Tsar “towards them, and be a fresh motive with so just and magnanimous a sovereign for enforcing, by the high influence of your example, the respect due to the character and rights of a peaceable nation.” The level of trust held by the United States towards Russia is obvious from the following statement of the American President: “...Russia (while her present monarch lives) is the most cordially friendly to us of any power on earth, will go furthest to serve us, and is most worthy of conciliation.” Thomas Jefferson wrote these words on July 20, 1807.

In 1808, the decree issued by the Collegium of Foreign Affairs of Russia established a consulate in the United States.

founding father, and a highly esteemed politician, diplomat and philosopher of the Enlightenment. The milestones of his successful presidency include the Louisiana Purchase (1803) and the Lewis and Clark expedition (1804–1806). Jefferson headed the committee to draft the Declaration of Independence (other committee members: John Adams, Benjamin Franklin, Roger Sherman and Robert Livingston). At one of the committee meetings, they unanimously appointed Jefferson to be the sole author of the Declaration. His book collection served as the basis to establish the U.S. Library of Congress. Jefferson founded the University of Virginia and crafted its first course list. He served as the Governor of Virginia (1779–1781), 1st Secretary of State (1789–1795), 2nd Vice President (1797–1801), and 3rd President of the United States (1801–1809). Thomas Jefferson and Martin Van Buren were the only American politicians to successively hold the positions of Secretary of State, Vice President and President. He was a versatile scientist, agronomist, architect, archaeologist, paleontologist, inventor, collector and writer. As an architect, T. Jefferson designed, among other projects, the Capitol building (Virginia), the University of Virginia and his own estate of Monticello. He is widely known as one of the main proponents of the doctrine of separation of church and state. As President, Jefferson compiled his own version of the New Testament in his spare time, known today as the Jefferson Bible. As he once wrote in a letter to John Adams, “there will be found remaining the most sublime and benevolent code of morals which has ever been offered to man.” In 1904, U.S. Congress published his work as a lithograph, and until the mid-1950s the book was given to every new member of Congress.

Andrey Dashkov²² was appointed as the General Consul in Philadelphia and Chargé D'Affaires. The main purpose of his mission was to expand trade and economic relations between the two countries. In 1809, the United States appointed John Quincy Adams (the future 6th President of the United States) as its envoy to Russia.

As Russian-American trade continued to develop, Dashkov was ordered by the Russian government to demonstrate loyal and restrained behavior in the republican country, and study its constitution, traditions and customs. He was specifically instructed to avoid interfering in domestic affairs, as this could jeopardize his ultimate mission of developing trade between Russia and the United States. He sent his first reports of conversations, including meetings with the newly elected President James Madison (1809–1817), with his American counterpart John Adams,²³ who travelled to Russia as the American envoy. John Adams arrived to Kronstadt

²² Andrey Dashkov (1775–1831) was the first diplomat to represent Russia in the United States, from 1808 to 1817. He was a member of the Dashkov family of Russian noblemen, the son of Yakov Dashkov (a court counselor) from his first marriage, whose second marriage in 1792 was to Alexandra Tatishcheva.

Andrey Dashkov began his military service in 1786 as a sergeant in the Leib Guard unit of the Semenovsky regiment. In 1799, he retired in the rank of second lieutenant. In 1804, he was appointed as senior assistant in the Department of Commerce. In 1807, Russia and the United States officially established diplomatic relations. In 1808, Dashkov was appointed the Russian Consul General and Chargé D'Affaires to the United States.

²³ John Adams Jr. (1767–1848) was the 6th President of the United States (1825–1829) and the first official U.S. envoy to Russia (1809–1814). He was the eldest son of the 2nd U.S. President John Adams Sr. In 1817, President Monroe appointed him as Secretary of State, a position he held for the next 8 years. He was one of the main authors of the Monroe Doctrine. After the end of Monroe's term and the following elections, in which no candidate won a majority of the electoral vote, John Adams was elected by the House of Representatives in accordance with the Constitution as the President of the United States. This was the second of just two occasions in U.S. history when the President was elected by Congress (the first was the election of Thomas Jefferson in 1800).

in October 1809 and was received promptly by the Tsar. He assured the Tsar that the United States was interested in developing trade with Russia and ensuring the security of trade relations between the neutral countries during war time. Despite his republican beliefs, John Adams developed a very friendly relationship with the Russian Tsar. Sometimes they would meet to walk together along the Neva river embankment and discuss the weather and their health, but never about politics. The Tsar was apologetic about Russia's cold climate.

In October 1803, the American Consulate was opened in St. Petersburg. In May 1805, a representative office headed by the vice-consul was opened in Revel (Tallinn), followed by another in February 1806 in Arkhangelsk.

The American envoy made every effort to promote trade, which expanded noticeably after the establishment of diplomatic relations between the United States and Russia. In just the spring of 1812, 200 U.S. ships entered the Baltic sea. John Adams was always ready and willing to support domestic businesses. At one point he was approached by Robert Fulton, the famous American inventor of the steamer, who was seeking a monopoly on the use of the steamer on Russian rivers. The envoy helped him by making a personal appeal to Alexander I.

In 1812, the Russian Foreign Ministry offered the United States its mediation services in negotiations with Great Britain. The Russian Empire considered it beneficial to have strong trade ties with the American business community and maintain Britain's involvement in armed confrontations with France, not the United States. The American government consented, but Britain did not allow a third party to participate in the negotiations. On December 24, 1814, Great Britain and the United States struck peace by concluding the

Treaty of Ghent without Russian mediation. Americans rightly refer to this war (1812–1814) as the Second War of American Independence.

In 1821, Alexander I issued a decree on the expansion of Russian possessions in America to the 51st parallel, and on a restriction of trade with Americans.

On April 17, 1824, Russia and the United States signed the Russian-American Convention on friendly relations, trade, navigation and fishing in St. Petersburg, which regulated relations between the two countries in the northwestern part of North America. The Convention resolved disagreements between the countries regarding the borders of Russian possessions in Alaska, and confirmed the ownership of the United States over disputed lands in Oregon. Fishing and navigation along the Pacific coast were declared open to the vessels of both countries for 10 years.

Here we shall return to the activities of the U.S. envoy in the last two years before his departure from Russia. Unlike many foreign diplomats, John Adams did not evacuate St. Petersburg in 1812 during the French invasion of Russia, but remained in the city enduring the wicked frosts. For 17 days, he could not even hold a pen in his hand. When leaving Russia in 1814, he could not anticipate that almost 100 years later his grandson Henry Adams would visit the country. In his book *The Education of Henry Adams*, this historian and statesman described the role of Russia in the life of his esteemed grandfather, “...the personal friendliness of the Czar Alexander I, in 1810, saved the fortunes of J.Q. Adams, and opened to him the brilliant diplomatic career that ended in the White House.”

The first steps in the history of Russia–United States relations laid a reliable foundation for establishing friendly long-term partnership ties in the future. In America, John Adams

served as the Secretary of State (1817–1825) in the government of President James Monroe and earned a reputation as one of the best secretaries the country has ever seen. He is responsible for creating the Monroe Doctrine²⁴ of 1823, which formed the basis of U.S. foreign policy. Later in his ca-

²⁴The statement of U.S. President J. Monroe, later known as the Monroe Doctrine, was published on December 2, 1823.

The Monroe Doctrine was drafted at a time when there was a real threat of intervention by European monarchies in the affairs of the Western hemisphere to the detriment of the interests and influence of the United States and their claims to leadership on the American continent.

By the end of the 19th century (and even more in the 20th century) as the United States evolved into an imperialist power, the Monroe Doctrine turned into a blatantly offensive diplomatic weapon. Armed with the Monroe Doctrine, Washington tried to establish a Customs Union of American States under the auspices of the United States in 1889. In 1898, the United States used the Monroe Doctrine as a cover to go to war with Spain and ultimately seize its colonial possessions in the Caribbean and Pacific. The Monroe Doctrine was also used by the United States in the repeated interventions of American troops in Cuba, Nicaragua, Mexico, Haiti and other countries. The Monroe Doctrine served as justification for Washington's dollar diplomacy" and "big stick policy." The Monroe Doctrine, which was initially expressed as "America for Americans," later began to be interpreted as "Latin America for the United States." This caused the Latin American countries who did not want to recognize the tutelage of their Northern neighbor to adopt a sharply negative attitude towards the Monroe Doctrine. It was also opposed by the European powers, whose interests were at odds with the United States in Latin America.

At the Fifth Pan-American Conference in Santiago (1923), representatives of certain Latin American countries raised the issue of the nature, meaning and interpretation of the Monroe Doctrine. Henry Fletcher, the United States representative, said the doctrine was not subject to discussion, as it is "a unilateral matter of U.S. national policy." His statement was soon followed by Secretary of State Charles Hughes, who speaking on the occasion of the one hundredth anniversary of the Monroe Doctrine, publicly stated that the United States did not intend to discuss with other countries any issues related to the principles or application of the Monroe Doctrine. "...the Government of the United States reserves to itself its definition, interpretation and application," he stated.

After World War II, when the United States grew into the leading power of the imperialist camp, the Monroe Doctrine acquired a particularly reactionary and aggressive nature as an integral diplomatic tool of American imperialism.

reer, he served as a U.S. Congressman from Massachusetts until his death.

In the same period, tragic events unfolded in St. Petersburg that left a permanent scar in Russian history. The progressive members of the nobility who came of age in the context of liberalization under Catherine II and Alexander I included many highly-educated young military veterans. This group of refined officers who defended their country in the Patriotic War of 1812 and foreign campaigns of 1813–1815 assimilated the ideas of Western liberalism on popular sovereignty and civil liberties during their prolonged contact with European countries. The progressive stratum of the Russian public began searching for ways to transform Russia and establish a democratic form of government. The future Decembrists sought to nudge the country towards the creation of a Western-style state.

News about the death of Alexander I in Taganrog reached St. Petersburg on November 27, 1825. Grand Duke Constantine Pavlovich renounced the throne. However, the Manifesto on the accession of Nicholas I (1825–1855) to the throne was only published on December 12. The uprising's main figures, primarily from the Moscow Guard Regiment and several companies of the Guard Sea Crew, as well as units from the 2nd battalion of the Grenadier Regiment (about 3,000 soldiers led by 30 officers), capitalized on this two-week confusion, and at 11 a.m. on December 14, gathered on Senate Square to refuse to swear an oath of allegiance to Nicholas I and demand the adoption of a constitution. To avoid bloodshed, Nicholas I sent the Governor General of St. Petersburg M. Miloradovich, who enjoyed well-deserved popularity in the army, to admonish the mutineers to cease their protest. But as soon as he had approached the conspirators and asked them to disperse, De-

cembrist P. Kakhovsky shot and fatally wounded the military hero. Subsequent attempts to appease the rebels were also unsuccessful. It was then that Nicholas I ordered three artillery pieces to open fire at close range. The crowd broke and ran, leaving many dead and wounded.

Unfortunately, the accession of Nicholas I to the throne was marked by bloodshed. In the very first months of his reign, the Tsar publicly acknowledged that the discontent of his people was justified and that he was aware of the need for serious change in Russia.

The Decembrist movement had a lasting international significance because by rising up against the tsarist regime, they struck a blow to the principles of the Holy Alliance established in 1815 to suppress revolutionary sentiments wherever manifested.²⁵

Quashing the Decembrist revolt helped Tsar Nicholas I consolidate power in Russia. However, for the sake of objectivity, his thirty-year long rule should not be remembered as a time marked solely by the suppression of democracy and liberation movements both in Russia and Europe. Indeed, this period is also known for the flourishing of Russian science, theater and the arts, including the Golden Age of Russian literature, and a rise in social consciousness.

In 1832, Russia and the United States entered into a treaty on trade and navigation. Under this treaty, the parties operated under the most-favored-nation principle regarding the goods and citizens of both countries. In accordance with the treaty, Russian and U.S. citizens were allowed to trade freely in both countries, wherever foreign trade was permitted. They were guaranteed uninhibited commercial activities, security and protection on an equal basis with local resi-

²⁵ See: *Klyuchevsky V.O* (1989). *Kurs russkoy istorii*, Moscow, Vol. 9, p. 428.

dents. The treaty was ratified by the Senate in 1833 and remained in effect for approximately 80 years. U.S. President Martin Van Buren²⁶ (1837–1841) said that “between Russia and the United States sentiments of good will continue to be mutually cherished.”

By the time Nicholas I took the throne, the commander-in-chief of the American colonists and first President of the United States of America was already one of the most revered persons in world history. Russian school books published during the tsar's reign referred to him as “immortal Washington.” In the late 1830s, during an audience with Nicholas I, George Sumner (1817–1863), a nineteen-year-old American citizen, presented the Russian Tsar with an acorn from an oak tree growing near the grave of Washington at Mount Vernon. After accepting the gift, Nicholas I shared that there is no personality “in history he would revere as much as Washington.” The Tsar ordered to plant the oak tree seed at his family residence on the islands of the Royal Pond. But this symbolic gift also had a subtext, as symbolically, an embryo of freedom was given by a US citizen to a Russian autocrat. In Russia, only the supreme power personified by the Tsar could become a source of freedom.

Natalia Yaroslavova-Chistyakova²⁷ writes in her article that “the acorn symbolizing the 'embryo of freedom' was pre-

²⁶ Martin Van Buren (1782–1862) was the 8th President of the United States. He was born in 1782 to a peasant family in the Dutch village of Kinderhook, New York. His father was a tavern keeper and slave owner (in the state of New York, slavery was abolished only in 1799). Van Buren, a native Dutch speaker, is the only U.S. President who did not know English as his mother tongue. In addition, he was the first President to be born in the independent United States, rather than in the British colonies.

²⁷ Orden 22 fevralya: Dzhordzh Vashington – kumir Nikolaya I Romanova, simbol svobody i progressa v Rossii, Natalia Yaroslavova-Chistyakova, February 14, 2011, St. Petersburg, Peterhof.

sented to the tsar as a sovereign ruler, rather than to the people, as under the absolute monarchy of Nicholas I only the Russian leader could become a source of freedom. If we apply these conclusions to the vertical of power headed by the (de facto) sovereign ruler today, we note that he alone bears responsibility for the Spirit of Freedom of the Russian people and its progress.”

Historians believe that a certain paradoxical similarity in the views of Nicholas I and George Washington can explain the following statement of the Russian Tsar that “I understand the Republic, it is a way of governance which is clear and honest. I understand the absolute monarchy, because I myself lead such an order of things, but I do not understand the representative monarchy. This is a deceitful way of ruling... and I will never agree to it.” In principle, this reasoning of Nicholas I is his answer to the debate on constitutional monarchy, which is also often discussed today.

In his conversation with Nicholas I, George Sumner noted that Russia was full of splendor and gold, yet it noticeably lagged behind America with its railways and widespread implementation of scientific and technical achievements. The Tsar, who was aware of the need for a technological revolution in Russia, sent an expedition to the United States led by esteemed engineer and future first minister of railways of Russia P.P. Melnikov to get acquainted with the country's outstanding technical progress.

In 1842, Nicholas I authorized the construction of the Moscow–St. Petersburg railway and invited the outstanding American engineer George W. Whistler²⁸ to consult on de-

²⁸George Washington Whistler (1800–1849) was an illustrious American engineer. After a trip to England to improve his professional skills, he set about

sign and construction works. This event marked the beginning of an influx of experts from the United States. After thoroughly studying the route and its natural conditions, despite the objections, George Whistler insisted on laying a 5 feet (1524mm) wide gauge, and estimated the number of ties per 1 km of track. These parameters later became a uniform standard for the entire wide-gauge railway network of the Russian Empire.

Railway construction officially began in 1844. It included 272 major structures and 184 bridges, two of which were designed personally by George Whistler. Russians customarily called the engineer Yegor Vistler, as he is referred to in the documents of the Russian State Historical Archive (St. Petersburg). Nicholas I highly praised the work of the American railway guru and invited him to settle in Russia. In 1847, he was awarded the second class of the Order of Saint Anna. On April 9, 1849, the American designer and builder of the first railway in Russia died of a heart attack. Another American engineer, major Thompson Brown, completed the construction works, and the railway was put into operation on November 1, 1851. With the support of the Tsar, George Whistler's body was transported on a barge to Kronstadt, and from there to Boston on an American ship.

Whistler's eldest son, George William, lived and worked as a railway engineer in Russia until his death in 1869. At the

building railways in Ohio and Massachusetts. Nicholas I capitalized on Whistler's extensive engineering knowledge and survey experience acquired in the construction of American railways. In 1842, upon the order of the Tsar, Pavel Melnikov invited Whistler to Russia to consult on the construction of a railway from St. Petersburg to Moscow (after the death of Nicholas I in 1855, it was renamed the Nikolaevskaya railway in his honor). At a salary of 12 thousand dollars a year, the Russian government made the esteemed expert an offer much better than what he earned at home.

suggestion of Nicholas I, his second son, James Whistler, studied in the St. Petersburg Academy of Arts at the Russian government's expense. He became a great Anglo-American artist of his time.

In 1844, in his annual State of the Union address, the President of the United States John Tyler²⁹ (1841–1845) stated that “Russia, the great northern power, under the judicious sway of her Emperor, is constantly advancing in the road of science and improvement.”

During the presidency of Millard Fillmore³⁰ (1850–1853), the US government continued to maintain mutually beneficial trade relations with Russia, particularly as concerned whaling.

During the Crimean War (1853–1856), in which Russia was opposed by the Ottoman Empire, Britain, France and a number of other European countries, the United States maintained neutrality. In 1854, when the Russian Ambassador to the United States Alexander Bodisko died, both houses of the U.S. Congress took a full day of mourning, an unprecedented act at the time. President Franklin Pierce³¹

²⁹ John Tyler Jr. (1790–1862) was the first President to take office from serving as Vice President after the death of the head of state, rather than being directly elected. He was nominated to his position under President W. Harrison and took office on March 4, 1841. On April 5, he received the unexpected news of the President's death, rushed off to Washington, and on April 6, 1841, was sworn in as the 10th President of the United States. His most important accomplishment, the accession of the independent Republic of Texas (1845), came at the end of his presidency.

³⁰ Millard Fillmore (1800–1874) was the last President of the United States from the Whig Party (which existed from 1832 to 1856 and opposed authoritarian rule by supporting the supremacy of Congress over the executive branch), and the second to take office following the death of his predecessor. He then twice ran for President on his own, both times unsuccessfully.

³¹ Franklin Pierce (1804–1869) was the 14th President of the United States and the first to be born in the 19th century. When Pierce ceased his political ac-

(1853–1857) personally attended the ambassador's funeral. In the same year, remarking on the Crimean War, he stated that “if further events expand the field of battle and the United States is forced to take part, then it could be said with confidence that it will not stand on the side of the enemies of Russia.” At the end of the war in 1856, Russian foreign minister Alexander Gorchakov³² described the actions of the United States as follows, “the sympathy of the American nation towards us has not waned throughout the war, and America has provided us, directly or indirectly, with more services than might have been expected from a power maintaining strict neutrality.”

In 1857, Russia placed an order for the construction of warships in America.

tivity in 1857, only a few of his contemporaries regretted it. During the American Civil War (1861–1865), he rejected the emancipation of slaves by Lincoln as contrary to the Constitution. Branded as a traitor by many Americans, Pierce died lonely and bitter four years after the end of the war.

³²Alexander Gorchakov (1798–1883) was a Russian diplomat, statesman and Chancellor (1867). He belonged to an ancient family of Yaroslavl princes from the Rurik dynasty, was educated alongside Alexander Pushkin in the Lyceum, served for his entire career as a diplomat, was extremely educated and spoke several languages. In April 1856, he was appointed Minister of Foreign Affairs. Gorchakov dramatically changed Russia's foreign policy from pursuing the “internationalism of nobility,” to protecting the national interests of a country weakened after defeat in the Crimean War. Gorchakov's motto at the beginning of his career was “Russia is not sulking, she is collecting herself” a saying that eventually became an unshakable principle of his policy. Through ingenious machinations, diplomatic skills and perseverance, he managed to achieve his main goal of abolishing the dangerous and humiliating prohibitions for Russia to maintain a navy in the Black Sea (1870). He understood the danger posed by the establishment of an aggressive German Empire, and correctly identified a counterbalance in forming an alliance with France. His diplomatic service reforms remained fully in place until 1917, and are essentially unchanged even today.

The presidency of Abraham Lincoln³³ (1861–1865) overlapped with the reign of Alexander II in Russia (1855–1881). At the time, the United States and Russia were unified in their opposition of Great Britain, who supported the Southerners in the American Civil War and Poles in the Polish uprising from 1863 to 1864. In 1863, to prevent military intervention in the United States, Russia sent its Baltic and Pacific navy squadrons to the ports of New York and San Francisco. The heads of Russia and the United States maintained correspondence, in which both Alexander II and Lincoln signed their letters as “Your good friend.”

A.I. Lipkin, Doctor of Philosophical Sciences, rightly noted that “there are many similarities in the history of Russia and the United States. Both of them are quite young, both

³³ Abraham Lincoln (1809–1865) was an American statesman and 16th President of the United States (1861–1865). He was the first President from the Republican Party, the liberator of American slaves, and a national hero. As an opponent to the expansion of slavery in America's new territories, he helped found the Republican party, was elected its presidential candidate and won the national elections of 1860. His election resulted directly in the secession of the southern states and formation of the Confederate States of America. In his inaugural speech, he called for the reunification of the country, but was unable to prevent armed conflict. Lincoln personally directed the military actions leading to victory over the Confederation during the Civil War from 1861 to 1865. His presidency helped consolidate power in the executive branch and abolish slavery in the United States. Lincoln appointed his opponents to state positions and united them to work together on a common goal. Throughout the war, the President prevented Great Britain and other European countries from intervention. His term in office was marked by the construction of the transcontinental railway and passage of the Homestead Act, which resolved the agrarian question. Lincoln was a talented orator, and his speeches inspired the Northerners and remain a significant part of his legacy to this day. On April 14, 1865, Lincoln was fatally wounded in a theater, becoming the first President of the United States to die by assassination. Based on popular opinion polls, he remains one of America's best and most beloved presidents, although he was severely criticized during his tenure in office.

are huge continental powers which rapidly expanded in the 18th and 19th centuries (Russia to the East, and the United States to the West) to relatively scarcely populated areas inhabited by hunters and gatherers or nomadic cattle-breeders....Both Russia and the United States also share the unifying idea of a 'God-chosen country' with a global mission."³⁴ Historians also draw parallels between Alexander II and Abraham Lincoln, as the former passed laws abolishing serfdom in 1861 and the latter freed the slaves in 1862, and both died tragically by assassination.

On December 16, 1866, Russian Tsar Alexander II convened a meeting in St. Petersburg on the sale of Alaska. All those present unconditionally supported the sale of Alaska to the United States. But how justified was this decision, and what was the reasoning behind it?

Alaska was discovered in 1732 by a Russian expedition led by M.S. Gvozdev. For many years, it was developed commercially by private individuals, and only in 1799 did the Russian-American Company establish a monopoly.

At the beginning of the 19th century, Alaska generated stable revenues through the fur trade. However, by the middle of the century, it became clear that the costs of maintaining and protecting this remote and geopolitically vulnerable territory significantly outweighed its potential benefits.

The option of selling Alaska to the United States was raised for the first time in the Russian government by the Governor-General of Eastern Siberia count N.N. Muravyov-Amursky in 1853, who noted that in his opinion, the sale was inevitable, and would also consolidate Russia's position on

³⁴ DOI: 10.7256/2222-1956.2014.6.13365 *Lipkin A.I. (2014). Subtsivilizatsionnaya spetsifika SSHA // Kul'tura i iskusstvo, 6 (24), pp. 619-621, 623.*

the Asian coast of the Pacific in the face of an expanding British Empire.

On March 18, 1867, U.S. President Andrew Johnson³⁵ (1865–1869) signed the official document authorizing Secretary of State William Henry Seward to conduct negotiations with Russian envoy baron Eduard de Stoeckl, during which they agreed on the general terms of the draft treaty on the purchase of Russian land in America. The treaty was signed on March 30, 1867 in Washington in English and French (the two “languages of diplomacy” at the time); no official Russian version of the treaty was ever drafted. The price of the deal was 7.2 million USD in gold (at the exchange rate of 2009, this is equivalent to approximately 108 million USD in gold).

On March 30, 1867, Russia sold 1.5 million km² of its possessions East of the Bering Strait to the United States, including Alaska, the Aleutian archipelago and a number of islands in the Pacific Ocean. This deal marked the largest sale of territory in world history. The Russian population in Alaska at the time was estimated from 600 to 2500, while other ethnic groups exceeded 50–60 thousand persons. In discussions of the upcoming purchase, the Foreign Relations Committee of the U.S. Senate expressed doubts about the expediency of such a burdensome acquisition, particularly in the aftermath of the Civil War. Nevertheless, the deal was supported in the Senate by 37 to 2.

³⁵ Andrew Johnson (1808–1875) was the 17th President of the United States (1865–1869). Although originally a Democrat, he was elected in 1864 as Vice President under Republican Abraham Lincoln (at the time, they represented an organization known as the National Union Party). Despite being the successor to Lincoln, Johnson lost the popular vote even after the acquisition of Alaska, and the U.S. Senate considered the option of his impeachment.

In 1871, during the presidency of Ulysses Grant³⁶ (1869–1877), the United States first received a Russian delegation including a member of the reigning family, Grand Duke Alexei Alexandrovich, the son of Alexander II. Five years later, he returned to the United States for another visit. In 1872, an American delegation led by general William Tecumseh Sherman, an American military commander³⁷ and son of President U. Grant, paid a return visit to Russia. In 1878, after finishing his second term as President, Ulysses Grant spent two weeks visiting Russia and was received by Alexander II.

In May 1878, the New York Times published an article noting that “it is often said that Americans and Russians are natural friends. We seem to be so because we don't know much about each other. We have almost nothing in common, and because of this our interests do not come into conflict.”

This observation on the profound difference in mentality between Americans and Russians reminded me of an incident that took place in Washington in the 1970s involving the Soviet delegation. After completing their business trip,

³⁶ Ulysses Simpson Grant (1822–1885) was an American politician and military leader, commander of the northerners during the American Civil War (1861–1865), and the 18th President of the United States (1869–1877). During the Civil War, Grant proved himself as a brilliant strategist. Americans viewed him as a national hero and used to say that his initials stood for “Unconditional Surrender Grant.” In April 1865, after a long series of intense battles, Grant forced general Lee to surrender with his entire army at Appomattox, thus ending the Civil War. In 1866, he was awarded the rank of General of the Army, established by Congress specially for him. After Grant took office as President of the United States on March 4, 1869, his rank was transferred to general W. Sherman. Despite his enduring fame as a military leader, historians are fairly restrained in their praise of Grant's presidency.

³⁷ William Tecumseh Sherman (1820–1891) was an American politician, military leader and writer. He is recognized as one of the most gifted generals of the Civil War (1861–1865), in which he fought for the North. Sherman is also infamous for his scorched earth tactics.

the group of Soviet specialists, accompanied by an official from the Embassy of the USSR, left for the Washington Dulles International Airport. As they still had some spare time when they arrived, the members of the delegation wanted to visit the U.S. National Air and Space Museum. The accompanying Soviet diplomat walked up to a police officer slowly walking up and down the line of Americans waiting to enter the museum. After the officer asked his usual "How can I help you?" the diplomat replied "we've got five men flying back to Moscow soon who only have 40 minutes to visit the museum. Could you let them in without waiting in line since they're short on time?" The pained expression on the face of the officer made it clear he really wanted to find a way to help. The Soviet diplomat politely asked what the problem was. He also added that in the USSR, people waiting in line would allow a foreign delegation to go ahead without hesitation. The police officer responded in a half-whisper, so no one else could hear him: "you know, we don't have foreigners here. There are only Americans waiting in line. I don't even know how I could help you!" The diplomat went back to his bus and the delegation drove straight to the airport. In Russia, such an outcome would hardly seem likely.

If we compare American and Russian culture in terms of core values, the U.S. and Russia are at the opposite end of the European scale. John Adams, an ideologist of the American revolution, wrote in 1780, "the Usefull, the mechanic Arts, are those which We have occasion for in a young Country, as yet simple and not far advanced in Luxury... The Science of Government it is my Duty to study, more than all other Sciences."

Benjamin Franklin, who needs no introduction, mentored the youth, "...nothing contributes more to the raising of a young man in the world than punctuality and justice in all

his dealings; therefore never keep borrowed money an hour beyond the time you promised....” This preaching of Benjamin Franklin is very close to the ideal in American culture. At its foundation stands a creditworthy, respectable man whose duty is to consider the multiplication of his capital as an end in itself... The *sumum bonum* (highest good) of this ethics is primarily profit, or an ever increasing profit with a complete rejection of the pleasures offered by money.

Starting in the 18th century, Russia began to form its high culture on the basis of European society. The country became a stark example of an idealistic approach dominated by anti-bourgeois sentiment, which in tsarist Russia came in the form of the “noble knight.” According to A.S. Khomyakov, one of the most prominent exponents of the Russian Idea was that its pathos was “far removed from any temporary interests and the harmful influence of practicality.” This pathos is the opposite of the pathos shared by John Adams and Benjamin Franklin. While America gave priority to simple vital interests and pragmatic goals, in Russia these pursuits were viewed negatively as philistinism. In this regard, it is significant that the highest American philosophical achievement was pragmatism, while in Russia, philosophical thought was dominated by the religious, mystical and existential³⁸ theories of V.S. Solovyov and N.A. Berdyaev.³⁹

³⁸ Existential philosophy (existentialism) (*existentialisme* in French from the Latin “*existentia*,” or “existence”), or the philosophy of existence, is a school of thought in the philosophy of the 20th century focusing on the uniqueness of human existence by proclaiming it irrational. Existentialism is not just a philosophical school, but rather a cultural movement capturing the deeply emotional and spiritual dimension of contemporary man through descriptions of the psychological condition and expressing the unique psychological challenges humans face. Albert Camus, the outstanding French writer of the 20th century and Nobel prize winner, is a well-known atheistic existentialist.

³⁹ See: DOI: 10.7256/2222-1956.2014.6.13365 *Lipkin A.I. (2014). Substivlizatsionnaya spetsifika SSHA // Kul'tura i iskusstvo, 6 (24), pp. 619–621, 623.*

In the 1880s, the first storm clouds began to accumulate and refuse to dissipate over the generally clear two-hundred-year-old history of Russia–United States relations. The presidency of Chester Arthur⁴⁰ (1881–1885) in the United States coincided with the beginning of the reign of Alexander III (1881–1894), who took the throne in Russia in the same year. This period marked the start of U.S. foreign policy pivoting towards rapprochement with Great Britain and Japan. The United States was becoming increasingly critical of tsarist authoritarianism. By the end of Arthur's presidency, American and Russian interests were at odds in the Far East and Manchuria.

The late 1880s and early 1890s were marked by the emergence of pronounced opposition to the tsarist regime among the American public, which significantly tarnished Russia's image. Many Americans viewed the relations between the United States and Russia as a conflict between civilization and barbarism, spurring on Russophobic sentiments among the American people. This catalyzed the transition of popular opinion in the United States from moderate criticism of the tsarist regime in Russia to its marked condemnation. The objective reasons behind such changes in the mindset centered on clashes of Russian and American economic interests, the

⁴⁰ Chester Alan Arthur (1829–1886) was the 21st President of the United States of America, a Republican who served from 1881 to 1885. He succeeded James Garfield after his assassination. As President, Arthur's civil service reforms stayed in effect for quite a long time. His measures helped get rid of the "party patronage" and nepotism dictating most public positions. He is known today as the "father of the U.S. civil service." Despite his initial unpopularity, President Arthur was more than just successful in performing his presidential duties. By the end of his term he had won universal acclaim, even from skeptics like Mark Twain, who always laughed at politicians.

After his presidency, Arthur did not express any desire to run for reelection, returned to New York and died a year and a half later from a stroke at the age of 58.

mass immigration of Russian Jews to the United States, technical progress and the development of mass media. In the eyes of the American establishment, Russia should be recast “in the image and likeness” of America. According to Russian historian R. Sh. Ganelin,⁴¹ this period witnessed the pronounced emergence of a global bipolar framework, in which Russia and the United States stood at opposite poles. A certain role was also played by the activities of certain influential Jewish financiers who put pressure on the Russian authorities to remove the ethnic and religious restrictions on Jews in Russia.

In 1886, at the initiative of the U.S. President Grover Cleveland (1885–1889;⁴² 1893–1897), Congress held hearings on

⁴¹ Rafail Ganelin (1926–2014) was a Soviet and Russian historian, specializing in the history of Russia and international relations in the first half of the 20th century. He was a Corresponding Member of the Russian Academy of Sciences. Ganelin’s main research interests included the history of Russia in the late 19th and early 20th centuries, and the history of Russia–United States and Soviet Union–United States relations.

⁴² Stephen Grover Cleveland (1837–1908) (who did not go by his first name) was the 22nd (1885–1889) and 24th President of the United States (1893–1897). He is the only President of the United States to ever hold the position for two terms with a break in between, thus granting him two places in the list of presidents. In 1884, he earned the Democratic Party nomination and won the popular vote, mainly because the Republican Party settled on James Blaine, who was widely suspected of corruption, to run against Cleveland, who was well-known for his irreproachable personal integrity. The first presidency of Cleveland (1885–1889) centered on his efforts to eliminate the spoil system (which required the replacement of all officials after the election of a new President) and limit the excessive growth of government pensions. Frugal governance boosted the public finances of the United States to unheard-of heights, and in 1888, revenues exceeded expenditures by 100 million USD. This allowed the President, who had always been an opponent of the extreme protectionism advocated by the Republican party, to draft a moderate free trade program. When customs reform failed in the face of resistance from the Senate, Cleveland integrated it in the Democratic Party program. This updated platform allowed Cleveland to garner support from a significant number of workers led by Henry George under the Democratic Party banner. During his first presidency, U.S. in-

U.S. policy in the Pacific. Their general sentiment was that of all the countries in the Pacific, only Russia could potentially threaten the interests of the United States. Yet the same year also witnessed a breakthrough in the cultural exchange with Russia. The translations of outstanding works of Russian literature, including novels by Leo Tolstoy and Fyodor Dostoevsky, were for the first time widely published in the United States.

From 1891 to 1892, the United States provided humanitarian aid during the famine in Russia. It was organized by the Russian Famine Relief Committee of the United States, which formed the “Famine Fleet.” The total volume of humanitarian aid was approximately 1 million USD.

In 1893, U.S. Congress approved an Extradition Treaty between Russia and the United States. In the U.S., the treaty caused a wave of controversy over concerns it would allow the extradition of political refugees to Russia.

In 1898, U.S. Secretary of State James Blaine presented a grandiose intercontinental railway project to President William McKinley⁴³ (1897–1901) designed to connect Russia to

terests clashed with England over the issue of fishing off the coast of Canada, where Cleveland’s actions were perceived as severe. In the 1888 elections, Cleveland won the popular vote, but Benjamin Harrison clinched the electoral vote. After the 1888 elections, this happened only twice more in U.S. history: in 2000, Albert Gore won the popular vote against George W. Bush, but lost the electoral vote, and in 2016, Republican candidate Donald Trump won over his rival Hillary Clinton the same way. During his second term, Cleveland opposed the Sherman Silver Purchase Act. His presidency was marked by the restoration of the gold standard (1893). In late 1894, the Republicans scored a major victory in the Congressional elections. In November 1896, the Republican McKinley was elected President. Cleveland, who by that time had lost control over his own party (which nominated William Brian, a supporter of the “silver standard”), refused to run. Cleveland’s second term was marked by the establishment of the State of Utah on January 4, 1896.

⁴³William McKinley (1843–1901) was the 25th President of the United States (1897–1901) and a Republican. He was the first U.S. President in the

North America by bridging the Bering Strait and heading further into South America. As this project was fashioned to reduce the influence of the British Empire, McKinley called it “the future of humanity.” However, the President was assassinated, and the intercontinental railway died along with him.

In the early 20th century, Russia–United States relations continued to deteriorate, in particular due to increased economic and political rivalry in the Far East. In 1901, the United States began providing financial, military and technical assistance to Japan, the main geopolitical adversary of Russia in the Far East. In 1902, the advance of Russian troops in Manchuria sparked protests in the United States.

In 1903, after the Jewish pogroms in Kishinev, Jewish-American banker Jacob Schiff initiated an increase of financial assistance to Japan in the U.S. Congress. U.S. President Theodore Roosevelt (1901–1909) expressed official protest over the events in Kishinev to the Russian Foreign Ministry.

The Russo–Japanese war (1904–1905) for control over Manchuria and Korea ended in defeat for tsarist Russia. In May 1905, during the meeting of the military council, the Grand Duke Nicholas Nikolaevich said that victory over Japan would require approximately one billion rubles and a year of military action, while casualties would reach up to 200 thousand. Nicholas II decided to enter into peace negotiations (earlier, Japan had proposed this idea twice). Chairman of the Council of Ministers S. Yu. Witte was authorized to conduct the negotiations, which began on August 9, 1905 in Portsmouth, New Hampshire, with the mediation of Theodore Roosevelt. The peace treaty was ultimately

20th century and the last President who served in the Civil War. In 1898, the U.S. war with Spain ended with the occupation of Cuba, followed by the Philippines and Puerto Rico. His presidency is remembered for the annexation of Hawaii and abandonment of isolationism (Monroe Doctrine) by the United States.

signed on August 25, 1905. The terms of the treaty were much more favorable to the Russian side. In Japan, the treaty sparked public discontent and led to riots in Tokyo. Russia ceded to Japan the southern part of Sakhalin Island, as well as lease rights to the Liaodong Peninsula and South Manchurian railway. In addition, Russia recognized Korea as a Japanese zone of influence. Backed by U.S. President T. Roosevelt, S. Yu. Witte took a firm stance on two fundamental issues: the rejection of a war indemnity (totaling 1.2 billion yen) and the acquisition of the entire Sakhalin Island. Japan was forced to deal with a country that had never paid a war indemnity in the course of its entire history.⁴⁴

On September 15, S. Yu. Witte returned to Russia, where he was met by an enthusiastic crowd. The next day, Nicholas II bestowed the title of count upon him, and far right politicians immediately gave him the nickname “Count Witte SemiSakhalinsky.” Despite the difficulties of the trip, S. Yu. Witte retained good memories of America and Americans, their simplicity of manners, self-esteem and democratic character. However, S. Yu. Witte struck President T. Roosevelt “as a very selfish man, totally without ideals.” In 1906, U.S. President Theodore Roosevelt was awarded the Nobel Peace Prize for his role as mediator in the treaty negotiations.

From 1905 to 1907, revolutionary events in Russia led to increased Jewish emigration from Russia to the United States.

In 1911, U.S. President William Taft (1909–1913) approved the denunciation of the Russo-American Treaty of

⁴⁴ See: Russko-yaponskaya voyna 1904–1905 gg.: Rabota voyenno-istoricheskoy komissii po opisaniyu Russko-yaponskoy voyny, Saint Petersburg, 1910, Vol. 1–9. *Strokov A.A.* (1994). *Istoriya voyennogo iskusstva*, Moscow, Vol. 5, pp. 34–152.

1832 on trade and navigation (301 members of the U.S. House of Representatives voted in favor of his decision, and one voted against). Taft's reason was Russia's refusal to recognize the passports of Russian Jews who became U.S. citizens.

In the midst of World War I (1914–1917), the United States provided support to countries of the Triple Entente, which included Russia. In August 1915, the Russian Purchasing Committee was established in the United States. From the very first days of the war, the Russian government had to resort to making systematic material resource purchases from abroad. By 1916, military orders amounted to 1 million 215 thousand rubles. The U.S. share in their imports was more than 60 %.

In February 1917, the February Revolution took place in Russia. U.S. President Woodrow Wilson's administration (1913–1921) was the first in the world to recognize the Russian Provisional Government.

On April 6, 1917, Woodrow Wilson decided that the U.S. would enter World War I. He did not sign any alliances with Great Britain or France, instead preferring to act independently as an “associated” (rather than an allied) country. The United States entered World War I on the side of the Triple Entente. Woodrow Wilson declared it “the war to end all wars,” signaling his intent to lay the foundation for a future without war.

In January 1918, in an address to U.S. Congress, Wilson called on Western countries to provide Russia with the full and unhampered opportunity “for the independent determination of her own political development... under institutions of her own choosing...”

From February to March 1919, the American diplomat William Bullitt negotiated with V.I. Lenin on a framework for

new relations between the two countries. However, his efforts were rejected by U.S. President Woodrow Wilson, who did not support the restoration of trade or diplomatic relations with Russia. The President was clearly familiar with the global revolutionary goals of the Soviet government, which included direct interference from countries living under socialism and support for armed uprisings in capitalist countries, all the way up to military intervention. The pronounced “revolutionary character” of the young Soviet Republic fully explains the position of Woodrow Wilson and his successors.

In March 1921, the All-Russian Central Executive Committee of the Russian Soviet Federative Socialist Republic sent a telegram to U.S. President Warren Harding⁴⁵ (1921–1923) with a proposal to restore bilateral trade relations. The American side rejected the proposal.

However, a number of American companies nonetheless gained access to the Soviet market. For example, Henry Ford collaborated extensively with the Soviet government in the 1920s, resulting in the production of the first Soviet serial tractor: the Fordson-Putilovets. Ford was also heavily involved in the construction of the Gorky Automobile Plant.

In 1921, Armand Hammer signed a contract for the supply of 1 million bushels of American wheat to Soviet Russia in exchange for furs, caviar and jewelry stored in Gokhran. After a meeting with V.I. Lenin, he joined the group of busi-

⁴⁵ Warren Gamaliel Harding (1865–1923) was the 29th President of the United States (1921–1923) and member of the Republican Party. On August 2, 1923, after two years in office, Harding died in San Francisco during a tour of the Western States, presumably from a massive heart attack. His death led to widespread rumors of poisoning and other foul play, and suspicion also fell on his wife. Harding was known for his self-indulgent lifestyle (including poker, predilection for alcohol, and extramarital affairs), which remained unchanged during his presidency. His successor was Vice President Calvin Coolidge. Harding's presidency was also known for widespread corruption in his inner circle.

nessmen close to the Soviet inner circle. For many years, he held the reputation as a “friend of the USSR.”⁴⁶

After a trip to the USSR in 1926, a group of American businessmen led by Eddie Sherwood sent a letter to the U.S. President suggesting the immediate establishment of diplomatic relations with Soviet Russia. Moreover, the letter stressed that the U.S. government should not further postpone the recognition of the USSR on terms agreed on the foundation of common interests. However, diplomatic relations were still left unestablished. During the presidency of Calvin Coolidge Jr.⁴⁷ (1923–1929), the United States continued its policy of isolationism in relations with the USSR.

After the election of Herbert Hoover (1929–1933), the issue of recognizing the Soviet Union was not even officially

⁴⁶Armand Hammer (1898–1990) was an American entrepreneur and Chairman of the Occidental Petroleum Corporation (1957–1990). His long-term ties with Soviet Russia began in 1921. In 1926, he proposed to create the first pencil-making concession in the USSR, which in 1932 was purchased by the state (Sacco and Vanzetti Moscow Plant of Writing Accessories).

From the late 1920s to the early 1930s (8 years), Hammer represented many different American companies in Moscow. He also amassed a large collection of Western European art, including many items purchased from the Hermitage. In 1972, Hammer donated a painting by Goya, *Portrait of Actress A. Zarate*, to the Hermitage. He was personally involved in the construction of TogliattiAzot (1979), a major plant for the production of ammonia, and the Togliatti–Odessa ammonia pipeline. The World Trade Center (phase I) was constructed in Moscow in 1980 at Hammer’s suggestion and with his assistance. His memoirs were published in the USSR in 1988.

⁴⁷John Calvin Coolidge Jr. (1872–1933) was the 30th President of the United States (1923–1929) and a member of the Republican party. The Coolidge presidency and its adherence to the principle of non-interference in the economy was fairly successful, and the United States experienced rapid economic growth (a period known as the Roaring Twenties). However, once Hoover took office, this success tanked into a severe crisis known as the Great Depression. Native Americans received full American citizenship under Coolidge, but the African American question was far from being resolved, and the 1920s were marked by a sharp surge in the activities of the Ku Klux Klan and Lynch courts.

discussed in the United States, as the new U.S. President strongly opposed it from the very beginning.

Yet regardless of his political views, President Hoover still made a significant contribution to the salvation of millions of starving Soviet Russian citizens. The Russian famine of 1921–1922 spread through 35 Russian governorates to affect a total population of 90 million, of which at least 40 million were starving. On July 13, 1921, Maxim Gorky made his appeal to “All Honest People” with a request to provide food and medical aid. Herbert Hoover, who headed the American Relief Administration (ARA), left the political stage in a rush to dedicate himself to the efforts in Russia. By the end of its activities, the ARA had spent 61.6 million USD in Russian aid. In addition, the ARA supplied 8 million USD in medicine to help contain the spread of epidemics. Moreover, in 1922 and 1923, it supplied Russia with seed grain to help guarantee good harvests in subsequent years. Excluding war-time losses, the famine of 1921 in Russia was the largest disaster in European history since the Middle Ages. According to Russian statistics, the decline in population in 1920–1922 exceeded 5 million.

The losses would have been even greater if international and Soviet aid had not been supplemented by the philanthropic activities of Herbert Hoover, who helped save the lives of at least 9 million people. In a letter to the Director of ARA, Maxim Gorky welcomed his unparalleled efforts. Today, almost a hundred years later, this man deserves to be remembered with the utmost respect in Russia.⁴⁸

In the U.S. presidential campaign of 1932, Franklin Roosevelt won in a landslide over his opponent Herbert Hoover and took office on March 4, 1933.

⁴⁸ See: *Pipes, Richard*, *The Russian Revolution*, book 3, *Russia Under the Bolshevik Regime from 1918 to 1924*.

By the beginning of Roosevelt's presidency, American public opinion was gradually shifting in favor of normalizing relations with Soviet Russia. The myth that Sovietism was not a viable format was quickly dissipating, and the reality of the ever-bolstering economic and political foundations of the new system had to be reckoned with by people who not long ago balked at the very idea. According to some reports, by the spring of 1933 only $\frac{1}{3}$ of American newspapers were against the normalization of Soviet Union–United States relations. In the latter half of the year, public opinion on the issue of recognition made a dramatic shift.

In October 1933, the U.S. and USSR governments maintained a correspondence expressing a mutual desire to establish normal relations between the two countries. It can be argued with confidence that the new U.S. President based his foreign policy approach on real facts rather than propaganda. Indeed, President Roosevelt believed that once diplomatic relations were restored, the United States and Soviet Union would join efforts in the name of universal peace. The new approach to relations with the Soviet Union did not contradict the idea of the United States' messianic role as a world leader (strategically speaking, Franklin Roosevelt never deviated from it). The existence of the Soviet state as a great power taking the place of tsarist Russia was an objective fact no matter how it was perceived.

The two countries needed each other, as was clear in both the White House and Kremlin, and on November 16, 1933, the key documents were finally agreed and signed. Prior to that, President Roosevelt never once threatened to disrupt the negotiations or touched upon the issue of the illegitimacy of the Soviet system, a favorite talking point of his opposition.

Roosevelt and the Soviet People's Commissar of Foreign Affairs M.M. Litvinov not only exchanged notes on the estab-

lishment of diplomatic relations, but also settled other pressing issues, including non-interference in each other's internal affairs, the right of American citizens to exercise their religious rites unimpeded, and legal protection for American citizens under prosecution in court cases in the USSR. The final conversation between F. Roosevelt and M.M. Litvinov took place on November 17, 1933, and is remembered as particularly worthwhile for its focus on issues in the Pacific related to the threat of further Japanese aggression. The two parties agreed that German and Japanese aggression endangered peace and posed a military threat.

President Roosevelt clearly took to his interlocutor, who surprised him with his unexpected intelligence, erudition, sense of humor and flexibility. M.M. Litvinov was likewise captivated by the American president's sensitivity to the reality behind the ideological facade, his objective views, inexhaustible patience in the search for mutually acceptable solutions, and self-criticism in the assessment of mutual claims. The President personally held face-to-face negotiations with the Soviet People's Commissar, talking privately for hours on end without protocol just to have the opportunity, as he put it, "to quarrel a little bit." In a letter to M.M. Litvinov as he was departing the United States, the President once again raised the issue of peace: "The cooperation of our Governments in the great work of preserving peace should be the cornerstone of an enduring friendship."

The Soviet-American negotiations held from November 7–16, 1933, ended in the signing of 12 documents laying out the legal norms of official relations between the two countries. The documents were signed by the People's Commissar of Foreign Affairs M.M. Litvinov on behalf of the USSR, and President Franklin Roosevelt on behalf of the United States.

The embargo imposed by the United States on Soviet goods in 1931 was lifted after the official establishment of Soviet Union–United States diplomatic relations. The first plenipotentiary envoy of the USSR to the United States was A.A. Troyanovsky (1933–1938).

In 1934, Joseph Stalin described President Roosevelt as the “strongest figure among all captains of the modern capitalist world,” noting his “initiative, courage and determination.”

On July 13, 1935, the Soviet Union and United States signed their first trade agreement for a period of one year, and on January 7, 1937, signed the Soviet-American trade facilitation agreement.

From August 1938 to June 1939, the USSR purchased American goods in the amount of 58.7 million USD. Under the agreement signed in the summer of 1938 (for 11 months), the Soviet trade deficit amounted to 43.3 million USD. The total debt to Americans, including debts from the 1920s, topped 507 million USD. The United States was also interested in trade with the Soviet Union. Manganese supplied from the USSR was in high demand in the naval and air force programs of the United States, as the rare metal was used to reinforce steel parts and armor for maximum durability.

On December 2, 1939, President Roosevelt's administration announced its “moral embargo” on trade with the USSR in connection with the bombing of Helsinki by Soviet aircraft. The embargo imposed a ban on the supply of aircraft equipment to the USSR, as well as materials for the aircraft industry including aluminum, molybdenum, and aviation gasoline.

The “moral embargo” severely limited Soviet access to the markets of western democracies and disrupted deliveries of crucial equipment for Soviet aviation plants. In addition, So-

viet specialists were denied access to American aviation plants. For example, the ban on the supply of the latest American engines postponed tests of the I-185, a promising fighter plane with superior characteristics compared to its German counterpart.

April 1940 was marked by a thaw in relations between the Soviet Union and the United States, but in August of the same year affinities once again chilled following the incorporation of the Baltic States by the USSR. The U.S. embargo on the supply of industrial equipment to the Soviet Union was soon significantly eased with authorization for the export of 70 % of the purchased equipment and freight of American ships, as well as imports of high-octane gasoline and wagon axles.

The thaw in the relations between the Soviet Union and United States was caused by Germany's rapprochement with Japan, which on September 27, 1940, culminated in the signing of the Tripartite Pact (the military and political alliance of Germany, Italy and Japan). In the autumn of 1940, the Americans approached the Soviet leadership in confidence with a request not to publish information in the press about the scheduled visit of V.M. Molotov to Germany. They defended their decision by the desire not to introduce uncertainty in the results of the U.S. presidential election scheduled for November 5, 1940.

On June 22, 1941, Germany declared war on the Soviet Union. As early as June 24, 1941, U.S. President Roosevelt said at a press conference, "of course we are going to give all the aid we possibly can to Russia." On the same day, 39 million USD in the accounts of Soviet organizations were unfrozen.

On June 25, 1941, the American government announced its authorization of American ships to deliver the necessary goods to unoccupied Soviet ports.

On June 26, 1941, the acting Secretary of State Sumner Welles assured Soviet Ambassador K.A. Umansky that “any request for material assistance on behalf of the Soviet government before the United States would be immediately considered.” A key milestone in the evolution of Soviet Union–United States cooperation was the visit of Harry Hopkins, personal envoy of President F. Roosevelt, to Moscow from July 28 to July 31, 1941. He concluded that in the Soviet Union, “there is an unconditional determination to win.”

The specific nature of relations between the Soviet Union and United States during the Great Patriotic War will be discussed in Chapter 4 (World War II). For now, we shall continue our historical outline with the development of Soviet Union–United States relations in the post-war period and subsequent years, including the post-Soviet period.

The first signal leading to the Cold War was given by Winston Churchill in a speech on March 5, 1946 in the presence of U.S. President Harry Truman (1945–1953) at Westminster College (Fulton, Missouri, USA).

On March 12, 1947, in his address to Congress, U.S. President Truman presented the doctrine of the Cold War,⁴⁹

⁴⁹The term “Cold War” was first used by Bernard Baruch, adviser to U.S. President Harry Truman (1884–1972), during a debate in U.S. Congress in 1947. Baruch may just be the most enigmatic figure in the western world. Throughout his career as an adviser to five U.S. presidents, he always preferred to remain in the shadows. There is very little known about him, but Wall Street moguls estimated his fortune at 1 trillion USD. According to some rumors, he was the richest man in the world.

The Cold War was a period formally lasting from the end of World War II until the collapse of the Soviet Union (1945–1991) marked by political and military tensions, and economic and propaganda-related conflicts between the Soviet Union and Eastern bloc countries on the one side, and Western bloc countries, including the United States and Japan, on the other. The ideological justification for the Cold War took shape in 1947 on the basis of U.S. President Truman's doctrine, which stated the conflict of capitalism and communism was

which essentially consisted in “countering the Communist threat hanging over the world.” The Truman Doctrine centered on “containment” as regards the USSR around the world. It is clear that the basis of the doctrine was designed to revise the system of international relations established under Roosevelt and establish a unipolar world led by the United States. This moment marked the beginning of the cold war, which stretched on longer than four decades, alternating with short periods of thaw.

Soviet and Russian leaders twice announced the end of the Cold War. Shortly before the dissolution of the Soviet Union, M.S. Gorbachev and George Bush Senior (1989–1993) announced the end of the Cold War to the world at their meeting in Malta in December 1989. Then in 1992, B.N. Yeltsin and George Bush Senior signed a Declaration at Camp David (USA) on the end of hostilities between Russia and the United States, which (in their opinion) signaled the culmination of the Cold War era.

Yet scholars (especially historians and international specialists) do not share any commonly accepted view of this is-

not resolved, and that the objective of the United States was to roll back communism to the borders of the USSR.

Over time, the clashes between the two powers only worsened. The United States began to surround the Soviet Union with military bases, and around 1948 the first bombers with nuclear weapons aimed at the USSR were stationed in Great Britain and West Germany.

Many Russian (and western) experts argue that, despite the 1992 Declaration, the Cold War is still not over.

The Cold War continues today, as Russia has risen up and regained its strength and status as a great independent power since V.V. Putin took office. As an important supporting point, I would mention the Munich speech of 2007, when President Putin stated that Russia would pursue an independent policy, regardless of the opinion of the international community, which is de facto the opinion of the United States. Undoubtedly, the annexation of Crimea by Russia is also a significant catalyst.

sue. In fact, many argue that the Cold War continues on today. This confrontational chain of events stretching on for more than a century includes just several (unfortunately) brief periods of *détente* and allied relations during World War II. It is enough to recall the confrontation of the British Empire as a great maritime power and the Russian Empire as a great continental power. “In fact, the ideological component is not so important, as a cold war was experienced by two monarchies (British and Russian), communist USSR and democratic America, and finally, democratic United States and democratic Russia,” wrote Mikhail Moshkin, deputy editor of a political column in the *Vzglyad* newspaper. He also added that we find ourselves in the midst of the Cold War again after the historic speech of Vladimir Putin (Munich, 2007).

Towing the line of its Cold War Doctrine, U.S. leadership began an arms race in the early 1950s. In just 20 years, the United States tallied 10 thousand strategic nuclear warheads in its arsenal. By 1955, the number of bombers capable of striking the USSR reached 1350. In the late 1950s, the combat load of atomic bombs on a single American strategic bomber was equal in destructive power to all the bombs dropped by allied aircraft on Germany during World War II. The Soviet nuclear forces in these years were noticeably inferior to American forces. The Soviet Union had no military bases near the borders of the United States, while the Americans established numerous military bases along the entire perimeter of the Soviet Union.

The Soviet Armed Forces pursued the goal of creating intercontinental ballistic missiles that could strike the United States from space. In parallel, they also strove to develop their bomber aviation and create a strategic submarine fleet (the three parts of the “nuclear triad”). After the death of

J.V. Stalin, the Chairman of the Government G.M. Malenkov expressed his readiness to improve Soviet Union–United States relations. In his response, U.S. President Dwight Eisenhower⁵⁰ (1953–1961) proposed an honorary truce in Ko-

⁵⁰ Dwight David Eisenhower (1890–1969) was an American statesman and military leader, Army General (1944), and 34th President of the United States (1953–1961). The Eisenhower family were pacifists and staunch opponents of any war, but Dwight looked forward eagerly to studying military science. His father used to bring him books describing the battles of Napoleon, Hannibal and other great military commanders. In 1911, when he entered the military academy, his mother did not utter a word condemning his choice, although there were no military men in their family for 400 years. Eisenhower was baptized on February 1, 1953, in the Presbyterian Church. This is the only known case in history when a current President was baptized. After the end of his term, he remained a formal member of the Presbyterian Church in Gettysburg. But the chapel in his presidential library was designed to be inter-religious, i.e., it did not belong to any single religion.

On December 7, 1941, simultaneously with the attack on the American naval and air base of Pearl Harbor in the Hawaii Islands on the Pacific, Imperial Japan officially declared war on the United States of America. This event dragged the United States into World War II. From November 1942 to October 1943, Eisenhower commanded the allied forces during the offensive in North Africa, Sicily and Italy. After the Second Front was opened following the Tehran Conference, Eisenhower became the Supreme Commander of expeditionary forces. He led the Anglo-American forces in crossing the English Channel and during the landing of troops in Normandy, France, on June 6, 1944. In December of the same year, Eisenhower was promoted to the rank of Army General. On January 7, 1951, Eisenhower was appointed commander of NATO's land, naval and air forces. As the Deputy Commander-In-Chief of NATO forces, he also invited Field Marshal Montgomery (Great Britain) to serve. Eisenhower's brother Milton recalled, "I have never in my life heard Eisenhower express the opinion or fear that the USSR will attack the United States of America. And I believe there could be no such fears." One of Eisenhower's most prominent achievements as President was the disbandment of the House Un-American Activities Committee, the end of the practice of persecution for leftist beliefs known as "McCarthyism," and the discrediting of senator McCarthy. Another significant accomplishment was the construction of the interstate highway system in the United States, which began in 1956 with the adoption of the relevant federal legislative act. In line with the traditional doctrine of republicanism, Eisenhower believed the federal government should expend the minimum possible resources on social security issues, relegating them instead to trade unions, local authorities,

rea, a treaty with Austria, and the creation of a European community including a united Germany. He also insisted on the independence of Eastern European countries, arms limitations and international control over nuclear energy.

The Korean War ended on July 27, 1953. On January 26, 1955, a protocol was signed on the early return of the naval base in Porkkala Udd to Finland, and Finland also extended its Treaty of Friendship with the USSR and declared neutrality on the international stage. In January 1955, the USSR adopted a Decree on ending the war with Germany. In May 1955, delegations from the USSR, Great Britain, USA and France signed a State Treaty with Austria on the cessation of war and permanent neutrality. Soviet troops were withdrawn from Austria, and in the summer of 1955, the Belgrade Declaration was signed between the Soviet Union and Yugoslavia on the normalization of relations.

According to most historians, the invention of intercontinental ballistic missiles by the Soviet Union in the mid-1950s negated the core of American foreign policy: the invulnerability of U.S. territories. U.S. leadership reached the same conclusion as the Soviets that the use of nuclear weapons was unthinkable, as they would simply destroy the world as we know it. The first meeting of the Big Four, including the USA, USSR, Great Britain and France, took place in July 1955 and led to the emergence of what is referred to as the

and above all else, workers themselves. These views reflected the credo of Republican Party leadership as the party of big businesses. Eisenhower was one of the few American politicians who understood the United States was not omnipotent and could not simply do as it pleased. Just as Eisenhower was the last U.S. President to recognize the right of Congress to decide on the declaration of war, he was also the last President to recognize that even the United States has limitations. As a major military authority, Eisenhower stressed that “the only way to win World War III is to prevent it.”

“spirit of Geneva.” At the 20th Congress of the Soviet Communist Party (February 1956), Soviet leadership put forth the theory of peaceful coexistence, the essence of which was in the recognition that a long-term coexistence of capitalist and socialist systems was inevitable. These different social systems would compete with each other in economic and cultural development. From that point onwards, Soviet Communist Party ideologists recognized the possibility of a non-violent transition to socialism in the West (“as a result of their internal contradictions and class struggle”). This led to the crucial conclusion that in the present circumstances there was no fatal inevitability of war, and military operations could be prevented altogether. It took almost 40 years after the October Revolution to do away with Lenin's directive on the inevitability of world revolution and the overthrow of capitalism by force, which at its core recognized requisite armed conflict. It is hard to imagine that after so many years of confrontation, the West bought into the new Soviet Doctrine so easily. All the more so after N.S. Khrushchev, in “high spirits” after an embassy reception, declared his intent to “bury capitalism” personally as the gravedigger. But the new ideology still laid the foundation for rapprochement between the two opposing systems. And as the saying goes: better late than never.

After N.S. Khrushchev's official visit in September 1959 to the United States, plans were made for Dwight Eisenhower to visit the Soviet Union and hold negotiations on nuclear disarmament in Moscow. However, flights of American U-2 reconnaissance aircraft intruding in Soviet airspace on two occasions (April 9 and May 1, 1960), led to the cancellation of the summit and a sharp deterioration in Soviet Union–United States relations. On May 1, 1960, a Soviet interceptor

missile shot down an American spy plane over Sverdlovsk. The scheduled visit of President Eisenhower to the USSR was canceled indefinitely.

In October 1962, the world found itself on the brink of nuclear conflict during the Cuban Missile Crisis. In response to the deployment of medium-range American missiles near the Soviet borders in Turkey, Soviet leadership mounted medium-range missiles with nuclear warheads in Cuba. American reconnaissance aircraft discovered them during flyovers. Measures previously considered unthinkable in diplomacy were taken in the tense atmosphere that ensued. On October 27, the message of N.S. Khrushchev to U.S. President John Kennedy (1961–1963) was transmitted over Russian radio. In response, the U.S. administration also breached standard diplomatic practice and played the message of President Kennedy over the radio as well. After the exchange of messages, tensions began to subside. The Soviet government committed to withdraw its missiles from Cuba, and the Americans agreed not to invade Cuba and to remove their missiles from Turkey.

It is difficult to overestimate the role played by the former Ambassador Extraordinary and Plenipotentiary of the USSR to the USA A.F. Dobrynin.⁵¹ In the midst of the Cuban Missile Crisis, he held talks with top officials in Moscow and Washington around the clock, flexibly and consistently defending Soviet interests. At the same time, the first Deputy Minister of Foreign Affairs of the USSR V.V. Kuznetsov was

⁵¹ Anatoly Dobrynin (1919–2010) was a Hero of Socialist Labor, statesman, Soviet and Russian diplomat, Secretary of the Central Committee of the Soviet Communist Party (1986–1988), and Soviet Ambassador to the United States (1962–1986). In these roles, he played an important part in resolving the Cuban Missile Crisis, defusing international tensions and stabilizing Soviet Union–United States relations.

stationed in New York and negotiated on the number and characteristics of Soviet weapons to be withdrawn from Cuba. In addition to the major contributions of A.F. Dobrynin and A.V. Kuznetsov to the resolution of the Cuban Missile Crisis, no less a role was played by the First Deputy Chairman of the Council of Ministers of the USSR A.I. Mikoyan, who flew to Cuba, and on the way there and back held talks with top American leadership on the final resolution and future guarantees. Despite the fact that A.I. Mikoyan's wife died in Moscow while he was in Cuba, he had to stay there and see the complex negotiations through to the end. For three weeks, A.I. Mikoyan stretched all his diplomatic skills to convince Cuban leaders of the need to stop the burgeoning crisis. The agreement A.I. Mikoyan reached with Fidel Castro helped withdraw the tactical weapons from Cuba. All these contacts between Moscow, New York, Havana and Washington directly or indirectly involved the Soviet Ambassador and required numerous meetings to clarify the negotiating positions of the parties. A.F. Dobrynin maintained order in this multi-pronged operation and responded promptly to rapidly changing events. He was truly an outstanding diplomatic personality in the history of the Soviet Union. Before he was appointed the Secretary of the Central Committee of the Soviet Communist Party for International Affairs, A.F. Dobrynin served as the Soviet Ambassador to the United States for almost 25 years, seeing through five secretaries general of the communist party in the Soviet Union, and six U.S. presidents. He was often contacted by officials from the U.S. State Department asking for advice on "issues from the old days," including meetings, speeches from politicians of the two countries, and for clarifications on the negotiating positions of parties in the preparation of Soviet Union–United States agreements.

The first nuclear confrontation showed that both the USSR and USA were fully aware of the disastrous consequences an armed conflict between superpowers could have for mankind as a whole. The all-obliterating might of nuclear weapons forced the leaders of the two countries to constantly and persistently look for ways to reach political compromise. The Treaty Banning Nuclear Weapon Tests in the Atmosphere, in Outer Space and Under Water signed by the USSR, the United States and Great Britain in Moscow in August 1963 was of particularly significance. From that point forward, only underground nuclear tests were authorized for the modernization of nuclear weapons (the USA conducted them in Nevada, and the USSR near Semipalatinsk in Kazakhstan).

The normalization of relations between the East and West, also known as the “*détente*,” was based on military parity between the USSR and USA, and the awareness of politicians that it would be impossible to win a nuclear war.

1968 was marked by the Treaty on the Non-Proliferation of Nuclear Weapons, signed by most world countries. In 1972, the Soviet Union and United States entered into the Anti-Ballistic Missile Treaty, as well as two strategic arms limitation treaties (SALT I in 1972 and SALT II in 1979).

The adoption of SALT I imposed a ban on the increase in the total number of land-based ballistic missiles and submarine-launched ballistic missiles (SLBM), as well as on the number of SLBM capable submarines. The treaty also prohibited the construction of new ballistic missile silo launchers, but allowed for the completion of submarines and missile silos already under construction. Thus, the Soviet Union completed 62 submarines capable of carrying up to 740 missiles without violating the terms of the treaty.

One of the provisions also required that both parties limit down to one the number of sites protected by ABM systems. The Soviet Union deployed its system around Moscow in 1966, while the United States built theirs around the twelve launchers at Grand Forks Air Force Base. The Soviet Union–United States Strategic Arms Limitation Treaty (SALT I) was signed in Moscow in 1972 by L.I. Brezhnev and U.S. President Richard Nixon (1969–1974).

Negotiations on SALT II to limit the production of nuclear weapons took place from 1972 to 1979, and in essence were a continuation of talks on SALT I. The agreement on the limitation of launchers was reached in Vienna on June 18, 1979. A limit was also established on the deployment of nuclear weapons in space (R-36ORB orbital missiles). The treaty was signed by L.I. Brezhnev and U.S. President Jimmy Carter (1977–1981).

Six months after signing SALT II, the Soviet Union sent troops into Afghanistan, and the treaty was never ratified by the U.S. Senate. Nevertheless, its provisions were observed by both parties. The preparation of SALT II and talks with the American side involved the dynamic participation of the First Deputy Minister of Foreign Affairs of the USSR G.M. Kornienko and the heads of the main directorates of the General Staff of the Soviet Ministry of Defense.

The Conference on Security and Cooperation in Europe (CSCE) is credited with significant contributions to de-escalating the confrontation between the East and West. It was attended by 33 European countries, as well as the United States and Canada. The negotiations held from 1972 to 1975 culminated in the signing of the Final Act in Helsinki on August 1, 1975. The final document established ten principles at the base of CSCE country relations: the sovereign equality of

states, territorial integrity; inviolability of borders, peaceful settlement of disputes, non-interference in internal affairs, the priority of human rights, equality, mutually beneficial cooperation, adherence to international law, and freedom of information and movement.⁵² Significant contributions to the final draft are attributed to the esteemed Soviet diplomat, First Deputy Minister of Foreign Affairs of the USSR A.G. Kovalev.

From the late 1970s to early 1980s, the *détente* gave way to a new era of international relation deterioration and conflicts. The intervention of Soviet troops in Afghanistan in December 1979, the deployment of next-gen Soviet and American medium-range missiles in Europe, and the Strategic Defense Initiative (known as the “star wars” program) put forth by U.S. President Ronald Reagan (1981–1989) all contributed to one of the most dramatic periods of the Cold War. It was considerably aggravated by the incident near Sakhalin island on the night of August 31, 1983, when a South Korean passenger Boeing-747 was shot down after violating USSR

⁵²The framework of the Conference on Security and Cooperation in Europe (CSCE) covered the “three baskets,” or the three major issues to be discussed at the meeting in accordance with consensus-based agreements applying to all areas of inter-state relations. The first basket was filled with issues of political security and arms control. The second concerned the development of cooperation on economic, scientific, technological and environmental issues. The final basket contained issues of humanitarian cooperation, as well as in the sphere of information, culture, education and public contacts. It also included the sensitive topic (for Eastern bloc countries) of human rights. Amid the ongoing (though somewhat calmer) confrontation between the two ideological systems, the first period of CSCE activities emphasized the third basket above all else. This stance was primarily in the interests of the West, which sought to create additional pressure points in countries of the communist bloc, but to a certain extent did not contradict the interests of the Soviet Union or Warsaw Pact countries, which by signing the Final Act not only strengthened their positions in the international arena, but also acquired a certain political reputation.

airspace. During these years, the influence of neoconservatives⁵³ on the foreign and military policies of the United States became particularly distinct. President Reagan called the Soviet Union an Evil Empire, and the confrontation between the two superpowers once again escalated sharply.

The foreign policy of the USSR began to change dramatically following the initiation of perestroika (“reconstruction”). Individuals with new mindsets ascended to leadership positions in the Soviet Union. M.S. Gorbachev declared the priority of universal values over class differences, and a rejection of the basic postulate of Soviet ideology, which divided the world into two opposing social and political systems. The world was recognized as one indivisible whole. In 1987, M.S. Gorbachev and Ronald Reagan signed a treaty on the destruction of intermediate-range (1000 to 5500 km) and short-range (500 to 1000 km) missiles (known as the Intermediate-Range Nuclear Forces Treaty, or INF Treaty). Ambassador Extraordinary and Plenipotentiary of the USSR to the Federal Republic of Germany Yu. A. Kvitsinsky made significant contributions to the preparation of the INF Treaty. In addition, the decision was made at the meeting to withdraw Soviet troops from Afghanistan within two years. In February 1989, the withdraw was complete.

In December 1989 (a few weeks after the fall of the Berlin Wall), M.S. Gorbachev and U.S. President George H.W. Bush (1989–1993) met in Malta, where they declared the end of the Cold War. Furthermore, they agreed that the main tool for resolving international disputes would be the balance of

⁵³ Since the 1980s (and especially in the 1990s), the dominant ideological positions in the U.S. Republican Party have been led by neoconservatives (“neo-cons”). The key message of neoconservatives is a lively, often aggressive and unilateral (if necessary) U.S. policy designed to spread American-style democracy, protect human rights and assert global U.S. leadership.

interests of the parties rather than the balance of power. In a description of M.S. Gorbachev's position at the Malta summit, U.S. Ambassador to the USSR Jack Matlock observed that "he needed to be seen to do business with Bush on an equal footing, rather than as a defeated opponent."

The Treaty on Conventional Armed Forces in Europe (CFE) was signed in November 1990. After signing it, the Soviet Union put forth a counter initiative and unilaterally reduced the number of land forces by 500 thousand. In July 1991, Mikhail Gorbachev and George Bush Sr. signed the Strategic Arms Reduction Treaty (START I). The parties agreed on a significant reduction in the number of conventional weapons in Europe. The first official visit of U.S. President George Bush to Moscow culminated in the signing of the large-scale Strategic Arms Reduction Treaty (START I) on July 31, 1991. It called for a reduction in the entire strategic nuclear triad. Under the treaty, each side was required to reduce its total number of warheads and carriers by almost half within seven years. For each side, the total number of nuclear weapon carriers was established at 1600, and the number of warheads was to not exceed 6000.

START I was prepared under the direction of A.A. Bessmertnykh,⁵⁴ an esteemed diplomat and Soviet Minister of

⁵⁴ Alexander Bessmertnykh was a Soviet diplomat and Americanist who devoted more than a quarter of a century to the improvement of relations between the USSR and USA. From 1970 to 1983, he worked at the Soviet Embassy in the United States, where he successively held positions as the First Secretary, Counselor, and Minister-Counselor of the Soviet Embassy in the United States. From 1983 to 1986, he headed the U.S. department and was a member of the Collegium of the Soviet Ministry of Foreign Affairs. From 1986 to 1991, he served as the Deputy Minister, First Deputy Minister of Foreign Affairs, Ambassador Extraordinary and Plenipotentiary of the USSR in the USA, and Minister of Foreign Affairs of the USSR. In July 1991, during his term as Minister, the START I Soviet Union–United States treaty was signed in Moscow. After the defeat of the State Committee on the State of Emergency in August 1991, he was removed

Foreign Affairs who devoted decades of his career to building mutual relations between the USSR and USA. Colonel-General N.F. Chervov, the Head of the Treaty and Legal Directorate, participated in negotiations on behalf of the General Staff of the Soviet Ministry of Defense. As a team, they ensured the interests of the Soviet side were respected in this treaty of paramount importance in the midst of an extremely complex diplomatic environment.

When meetings between the foreign ministers of the two countries intensified, the so-called “Shevardnadze-Baker” personal channel emerged. According to the Soviet Ambassador to the United States A.F. Dobrynin, James Baker “achieved a lot through this channel.” In September 1989, Foreign Minister Eduard Shevardnadze visited Washington with the announcement that the Soviet Union agreed to dismantle its radar station in Krasnoyarsk, the construction of which was nearing completion. The American side viewed its construction as a violation of the 1972 ABM Treaty, but E.A. Shevardnadze did not consider this issue in the framework of dismantling similar radars in Thule (Greenland), Fylingdales (UK) and Vardo (Norway). This was a unilateral, unjustified concession on the Soviet side.

George Bush Sr. supported the need to improve trade and economic relations between the United States and the Soviet Union. However, right off the bat he only supported granting most-favored-nation status to the Soviet Union on political conditions, including the demand to end Soviet assistance to Nicaragua and Cuba. Only in this way “we can start discussing a trade agreement,” he added.

In contrast to Ronald Reagan, who felt no kinship with Soviet Russia whatsoever, George Bush Sr. is remembered

from his position. In 1992, Alexander Bessmertnykh was appointed President of the International Foreign Policy Association.

quite differently. An intelligent national leader with a disarming and friendly smile, he made an excellent impression in person and generated a feeling of trust in the course of meetings. However, after getting to know him better, people would inevitably conclude that George Bush Sr. was in fact “an iron hand in a velvet glove.”

After the Malta Conference, M.S. Gorbachev's position was based solely on its outcomes, as any serious opposition was perceived by the United States as a departure from the Malta agreements, the “new way of thinking,” and the “right policy.” Any further improvement of Soviet Union–United States relations thus implied comprehensive Soviet policy concessions.

As compensation for concession in Germany (i.e., Gorbachev's consent to the unification of Germany), George Bush Sr. agreed to sign the trade agreement long sought by Gorbachev. Yet this time only under the condition that the Soviet Union would lift its sanctions imposed on Lithuania. Finally, despite the proclaimed end of the Cold War, the trade agreement still failed to remove restrictions on the supply of high-tech products.

A total of 24 documents were signed during the visit of George Bush Sr. to Moscow in the summer of 1991. However, some of them were overtly detrimental to the national interests of the Soviet Union. For example, the agreement on the maritime boundary in the Bering and Chukchi Seas, under which Russia ceded to the Americans a vast maritime area in the Bering Strait (51 thousand square kilometers). Starting in the late 19th century, this issue had been a subject of dispute with the United States. In this area, the USSR caught more than 150 thousand tons of valuable commercial fish, or 10 % of its total catch.

By the end of the 1980s, the Soviet Union could no longer cooperate with the United States as an equal. In Soviet Union–United States relations, it played a role no greater than a junior partner. Unlike the Soviet Union, the United States were guided by real pragmatism and skillfully capitalized on “new political thinking” in their own interests, which contributed to its transformation into the dominant power. As the balance of power shifted against the USSR, Moscow was forced into following Washington's policy.

After the dissolution of the USSR, strategic arms reductions continued in post-Soviet Russia. U.S. President George Bush Sr. promoted the idea of signing a new Strategic Arms Reduction Treaty (START II). In 1992, at a meeting in Camp David (USA), B.N. Yeltsin and George Bush Sr. signed a Declaration stating that “Russia and the United States do not regard each other as potential adversaries,” and that they intend to build relations “based on friendship, partnership and mutual trust.” The meeting also included the first discussions of START II, which culminated in its signing in January 1993. START II was designed more as an additional protocol to START I. While START I reached 500 pages, START II was restricted to only about a dozen pages, including all its annexes. In accordance with START II, the parties agreed to reduce their strategic nuclear forces by two-thirds (already subject to reduction by one-third under START I). It also provided for destruction of all “heavy” missiles (SS-18 and SS-19) and all strategic missiles with multiple independently targetable reentry vehicles (MIRV) by 2003. By 2000, the total number of warheads in the triad was not to exceed 4250 (3500 by 2003). However, the next day after the U.S. withdrawal from the Anti-Ballistic Missile Treaty on June 13, 2002, Russia announced it would no longer participate in START II. The treaty dictated a reduction in the number of

warheads to 3500 by January 1, 2003, including 1750 warheads on submarine launched ballistic missiles (SLBM). This was also made the deadline to complete the planned reduction of MIRV ICBMs and heavy ICBMs.

START II was never officially ratified. In the State Duma, many deputies did not want to part with heavy MIRV missiles, as they were considered the last remaining attribute of Russia's dominate status and a crucial means of self-protection. Thus, President B.N. Yeltsin refrained from submitting the treaty for ratification.

The degradation of Russia in the 1990s was the outcome of economic policies initiated by pseudo-liberals⁵⁵ in 1992. Modern liberalism advocates for free competition with minimum state intervention in business activities. However, long-term international experience shows that a liberal economic approach has no universal contours applicable to all countries at all stages of development. This fact was ignored in Russia. Homegrown pseudo-liberals carried out privatization for its own sake by pursuing the single goal of wide-scale reform, forgetting all the while that the most crucial element was privatization for the sake of higher production efficiency. The domestic market flung its doors wide open to ruthless global competition. During the years of reform (1992–1998), total losses in the Russian economy more than doubled the losses suffered by the Soviet economy in World War II.

A.I. Solzhenitsyn wrote about the reforms of the 1990s that “as a result of the Yeltsin era, all the main areas of our state, national economic, cultural and moral life have been destroyed or stolen. We literally live among our own ruins, but pretend everything is normal... We were told the nation

⁵⁵ Pseudoliberalism is an attempt to transplant liberal values and institutions in the “soil” of traditionalist and egalitarian values, which inevitably leads to the erosion of this ideological model.

was undergoing great reforms. But these were false reforms because they left more than half of the country's population in poverty... How can we possibly comprehend their continuation? Should we just loot Russia until there's nothing left? God forbid these reforms are seen through to the end.”

In the first half of the 1990s, Russia's socio-economic devastation was accompanied by a toothless foreign policy centered around “entry into the civilized world,” entirely neglecting the national interests of Russia. Russia became a follower along the well-travelled path of U.S. policies. As for the United States, after the dissolution of the Soviet Union, it emerged as the strongest military, political and economic force in the world.⁵⁶

U.S. Deputy Secretary of State Strobe Talbott (1994–2001) (who knew Bill Clinton from his student years), published memoirs in which he openly described the peculiar habits of B.N. Yeltsin long known in Russia. However, no senior state figure in the West had ever spoken about them before. Breaking the taboo, Talbott wrote: “September 1994. A one-on-one meeting of two presidents in Washington. The official Russian position is that the expansion of NATO to the East is totally incomprehensible. But Clinton puts his hand on Yeltsin's shoulder and delivers a long speech full of platitudes on 'great friendship.' Boris Nikolayevich succumbs to it immediately. In response to the announcement of the upcoming expansion of the North Atlantic Alliance, the Russian President declared 'I understand. Thank you for what you said.' After that, Moscow spends the next several years shouting that NATO expansion is 'totally unacceptable.' But Washington had already turned a deaf ear to all their stern

⁵⁶ See: *Primakov Ye. M.* (2009). *Mir bez Rossii?*, Moscow, Rossiyskaya Gazeta, pp. 14–16.

warnings. They knew quite well what the Russian President really thinks.”⁵⁷

In an interview with Moscovsky Komsomolets, Strobe Talbott stated frankly “I think America and the IMF should have been much tougher in opposing the loans-for-shares scheme in 1995–1996.” Moskovsky Komsomolets also added that during this period, Russian oligarchs gave loans to the Russian government, and in return, received shares of the most lucrative enterprises on the cheap.⁵⁸

In 1995, Russia and the United States extended the moratorium on nuclear testing. In 1996, the 50th anniversary session of the UN General Assembly adopted and opened the Comprehensive Nuclear-Test-Ban Treaty for accession. To enter into force, the treaty must be signed and ratified by 44 states. However, in a decade only 34 countries have done so (the United States has signed but not ratified the treaty).

In the history of Russia–United States relations, the 21st century has been marked by the emergence of new political leaders both in Russia and the United States. On May 7, 2000, Vladimir Putin was elected President of Russia, and on January 20, 2001, George W. Bush (2001–2009) started his term as President of the United States. During his presidency, neoconservatives began to play a prominent role on the U.S. political scene, and after 9/11/2001, started exerting major influence on the development of foreign policy. After the tragic events of 9/11, neoconservatives supported by right-wing Republicans adopted a course towards reviving the global hegemony of the United States. The White House

⁵⁷ Strobe Talbott (2003). *The Russia Hand: A Memoir of Presidential Diplomacy*, New York, Random House.

⁵⁸ A Bill li drug? // Moscovsky Komsomolets, May 21, 2002.

adopted the doctrine of unilateralism.⁵⁹ Ideologists of this doctrine argued that after the dissolution of the Soviet Union, the unipolar world order presented the ability to change the balance of power in different regions for the benefit of American national interests, allowing it to act unilaterally. Neoconservatives are convinced of the expediency of exporting democracy, regardless of the historical, cultural, ethnic and religious background of countries where, in their opinion, the Western model should be imposed. Based on this doctrine, George Bush Jr. conducted a forceful democratization of Iraq, gunning for its transformation into the “first Arab democracy.” It was a blatant, forceful transition imposed from the outside with no regard to the traditions of the Muslim world. According to many Arab scholars, international terrorism is a war against American military intervention in the Muslim world. A certain unnamed CIA analyst is also convinced that the unprovoked forceful actions of the United States in the Middle East are perceived as an attack on Islam. That is why the opposition to America is so strong.⁶⁰

During the previous election campaign, Obama supporters noted, not without reason, that George Bush Jr. was too committed to Jacksonianism.⁶¹ This caused considerable re-

⁵⁹ Unilateralism is a foreign policy consisting of unilateral actions taken without considering the opinion of the international community or decisions of international organizations. This term is most often used in relation to the United States. The term first appeared in the lexicon of Western media, and in the late 1990s was adopted by the Russian media as well. It gained widespread popularity following the outbreak of the war in Iraq in 2003. It is the opposite of multilateralism.

⁶⁰ See: *Scheuer M.*, *Marching Toward Hell: America and Islam After Iraq.*

⁶¹ Since the first American settlements, feelings of animosity towards the highly educated with good wages and connections has generated waves of popular discontent within the political system. This kind of populism is often called

putational damage and doomed the Republicans to defeat. Inconsistent foreign policy, a willingness to indiscriminately use military force, “blind” support for Israel’s policy in all its manifestations, disregard for international organizations and international norms and rules, underestimation of the importance and effects of non-terrorist threats (for example, climate change), and bellicose rhetoric such as “you’re either with us or against us,” all of which were part of the George Bush Jr. administration, clearly showed Democrats what happens when Jacksonians get their way.

A year after moving into the White House, George Bush Jr. visited Moscow in May 2002 and signed the Strategic Offensive Reductions Treaty (SORT), also known in the West as the Treaty of Moscow between the United States of America and the Russian Federation. The terms of the treaty limit the number of operationally deployed nuclear warheads from 1700 to 2200 for each side. SORT entered into force on June 1, 2003, after its joint ratification by Russia and the United States. It expired on December 31, 2012.

Jacksonianism in memory of Andrew Jackson, the U.S. President who skillfully harnessed such energy of the masses in the 1830s to redesign the party system in the United States and introduce the broadest possible voting rights for the benefit of the country.

Andrew Jackson (1767–1845) was the 7th President of the United States (1829–1837). He was the first President of the United States elected as a candidate from the Democratic party, and is viewed as one of its founders. In 1830, Jackson signed the Indian Removal Act, which legalized the ethnic cleansing of lands populated by Indians. He strove to minimize state interference in the economy and politics. Before his death, Jackson was asked what he considered to be his greatest achievement. Without hesitation, he replied, “I killed the Bank.” This referred to the fact that he banished the Rothschilds in 1836. Today, as a new surge of populism coincides with the mass loss of confidence in the establishment, including mainstream media, diplomats, intellectuals, financiers, corporate leaders and the government itself, Jacksonianism denies it the ability to shape the national agenda and policy.

START I expired on December 5, 2009. START III replaced START I and abrogated SORT (2002).

In addition to the expiration of START I, the political atmosphere was a significant factor for initiating work on the new treaty. The start of negotiations coincided with the so-called “reset” in Russia–United States relations, which was initiated by the administration of the new President Barack Obama (2009–2017) shortly after his inauguration. The treaty was signed by Presidents D.A. Medvedev and Barack Obama on April 8, 2010 in Prague. Many experts agreed that in the context of changes announced in the U.S. foreign policy, the new treaty was a personal victory of Obama in his political struggle against the Republican Party. The treaty was signed for 10 years with a possible 5-year extension by mutual agreement of the parties. The treaty provides for the reduction of nuclear warheads to 1550, and intercontinental ballistic missiles, submarine-launched ballistic missiles and heavy bombers to 700.

After a long debate and heated discussions both in the State Duma of Russia and the U.S. Senate, the treaty was ratified in December 2010 in Washington and in January 2011 in Moscow.

In 2014, following the voluntary accession of Crimea to Russia and marked aggravation in the Donbas region, relations between Moscow and Washington began to deteriorate rapidly. The United States, EU and a number of other countries have since imposed sanctions on certain Russian citizens and companies. Moscow introduced retaliatory sanctions, including an embargo on food products.

In connection with the Annexation of Crimea, U.S. Secretary of State John Kerry (2013–2017) stated that the “reset” policy was a thing of the past, as “we have entered another

phase of relations with Russia.” Russia–United States relations have now cooled more than ever since 1991.

In June 2015, the tension between the two countries increased even more following U.S. plans to deploy tanks, armored personnel carriers, rocket artillery, and other heavy weapons in Eastern Europe. Russia viewed this decision as the “most aggressive step since the Cold War.”

News reports never refuted by Washington claimed that the United States plans to spend 355 billion USD from 2015 to 2025 to build 12 new strategic submarines with nuclear weapons, about 100 new strategic bombers, new intercontinental ballistic missiles that can be launched from mobile units, and over one thousand cruise missiles capable of carrying nuclear warheads. The Western media concluded that Russia and the United States are beginning to fully restore their Cold War nuclear arsenal.

I cannot help but make a comment here that may hurt some people, especially the staff of Russian federal TV channels or management of the Russian defense industry sector, depending on who's in charge. Russian TV channels and other media continue to praise the superiority of weapons and military equipment produced by the Russian defense industry. Their boastful claims flaunt superiority in all respects (“higher, faster, farther, more accurate weapons that are also fully invulnerable against any opponent”) compared to foreign analogs. What's the point of all this? Is Russia trying to expand weapons exports to other countries? There's no need to go shouting from the rooftops! Suppliers and buyers already have long, solid partnerships. Channels exist for targeted advertising with detailed descriptions of the tactical and technical characteristics of products and their commercial terms of delivery. In particular, offers describe the price

of the product, terms and period of payment, lending opportunities and loan repayment terms. Additional information includes venues and times of upcoming arms exhibitions and demonstration shows, which are often organized in conditions similar to real combat, etc. This proves bragging is entirely unnecessary to achieve commercial results. So then why do we hear so much of it? Who are we trying to wind up? The Pentagon? NATO?

Our long-standing partners in the field of military and technical cooperation (China and India) certainly don't need any of this hype. It almost seems as if Russia misses the arms race, which played such a significant role in the collapse of the Soviet Union. The advertising campaign promoting Russia's "undeniable superiority" in armaments cannot be considered well thought out. In any event, Russia's potential adversaries will learn about the advantages of its modern weapons and military equipment and their superiority over foreign analogs (if any). Experience has shown that secrets involving military technological superiority never last long.

In the previous century, nobody advertised the T-34 tank designed by engineer M.I. Koshkin, the IL-2M attack aircraft ("Flying Tank") created by the design bureau of S.V. Ilyushin, or the automatic assault rifle of M.T. Kalashnikov. However, the T-34, IL-2M, Kalashnikov assault rifle, Katyusha rocket launcher developed by G.E. Langemak, along with Volkswagen mass passenger vehicles and the Boeing-747 airliner, were among the greatest engineering and technical achievements of the 20th century.

The true pinnacle of technological innovation was the computer (digital) revolution, which triumphantly wrapped up the second millennium A.D. Born in the early 1980s in the United States, today it embraces the entire world with mass

PC production.⁶² Next in line after the computer revolution was the emergence of robotics and internet technologies. Today, internet technologies are the main tool for addressing global challenges in the world economy. Currently, the number of internet users has reached 3.6 billion people, or almost half of mankind. I am confident that such a high rate of globalization in this area can be explained by the growing need of mankind for this service. This objective process is evolving without any outside effort on behalf of advertisers.

Modern weapon systems are inconceivable without a heavy reliance on microelectronics, first and foremost the most cutting edge digital microprocessors. However, after

⁶²The computer revolution (PC revolution, digital revolution) is one of the components of the scientific and technical revolution in the last quarter of the 20th century. The start of the computer revolution is considered to be the widespread introduction of personal computers (so-called “third generation computers”) in everyday life. The emergence of an information society is one of the main outcomes of the computer revolution. Robotics (artificial intelligence) and internet technologies are the most important fruits of the computer revolution.

By consolidating the leading role of multinational corporations (Microsoft, IBM), the computer revolution is a catalyst for globalization. Online stores (eBay, 1995) and e-payment systems are becoming increasingly widespread in the economy.

Modern computers, robotics, automation devices, measuring instruments, radio equipment and telecommunications are all based on digital technologies.

In 1969, the Pentagon developed a local network, the predecessor of the Internet. Email has been functioning since 1972. The 1990s marked a turning point in the development of internet technologies. The invention of the browser in 1993 brought the internet to a global level. Now, the majority of the world's working age population participates in the processing, storage and transfer of information products and services. Borders no longer have an impact in the information sphere. Computer equipment, training programs and multimedia files are now familiar attributes of everyday life around the world.

In August 2013, Facebook partnered with a number of major companies (Samsung, Ericsson, MediaTek, Opera Software, Nokia and Qualcomm) to launch the Internet.org project. It is designed to help provide internet access over the next several years to people living in countries where there is no such access available today.

the failure of the 1990s, Russia is doomed to playing developmental “catch-up” in this field. In the Soviet period, the lag in certain segments could be up to five years, but after the “Post-Soviet Depression,” it is difficult to tell how wide this gap is today. Hardly anyone will believe the West will fully modernize itself in parallel to or after the rearmament of Russia. This will lead to a repeat of the arms race, which would be exhausting to Russia's immature economy and once again dredge up what contributed to the socio-economic devastation of the late 1980s and early 1990s.

In the United States, the net economic welfare (NEW)⁶³ is incomparably higher than in Russia, and this also applies to the social security of the population. It would be a good idea to stop this “show of muscle” in the arena or at least somehow restrain it. Large-scale projects and financial flows related to military and technical cooperation love silence (with increased control by the Accounts Chamber over the use of budgetary funds to cut off all possible channels of siphoning).

In October 2016, U.S. Director of National Intelligence James Clapper said that Vladimir Putin “has this vision of a great Russia, as a great power. It’s extremely important to him that Russia be treated and respected as a global power on a par with the United States.” He described the state of relations between Russia and the United States as “very bad”

⁶³The physical health of every individual and environmental conservation for future generations are the real value and outcome of national wealth. Therefore, social and environmental factors are now particularly important in this calculation. Paul Samuelson, American economist and laureate of the Nobel Prize in Economics (1970) proposed to use the net economic welfare (NEW) indicator to measure the economic welfare of society by considering not only revenues, but quality of life. However, the NEW calculation represents a considerable challenge, as there is still no method or indicator for an absolute measurement of the shadow economy, leisure or environmental pollution.

and noted there are too many differences between the countries concerning both Syria and Ukraine.

According to Stephen Cohen, a Sovietologist and professor at Princeton University and New York University, “The end of the Cold War has provided the United States and Russia with a historic opportunity to establish good relations, but this chance has been missed. This can be blamed mainly on the American political elite.” Stephen Cohen explained this by the fact “the Clinton administration decided to treat Russia as a country defeated in the Cold War.” Andre Liebich, Honorary Professor at the Graduate Institute of International and Development Studies, Geneva, noted “...Americans believe they won the Cold War, and that's why everyone else should behave as befits the vanquished. Germany and Japan understood this well, repented and admitted, so to speak, their mistakes, but Russia does not share this opinion, instead believing it voluntarily put an end to the Cold War.”

How will Russia–United States relations develop in the future? It is always more difficult to overcome the effects of confrontation than to provoke them. Yet we will keep our faith in the victory of common sense.

Chapter 2

THE UNITED STATES AND RUSSIA IN THE LATE 19th AND EARLY 20th CENTURY

The genesis of the Great Depression from 1929 to 1933 and the ramifications of the U.S. Stock Market Crash are described in detail in international and Russian media, economists and historians, as well as by major business representatives. But a more harmonious picture of the underlying causes of the Great Depression in the world's largest economy can be provided by an analysis of the monopolistic capitalism of the United States in the late 19th to the early 20th century in comparison with the nature of changes occurring in the Russian economy over the same period, albeit under a different scenario.

The world press widely covered the developments in the United States that preceded its economic collapse. On September 14, 1901, U.S. Vice President Theodore Roosevelt¹

¹Theodore Roosevelt (1858–1919) was the 26th President of the United States (1901–1909). At the center of his Square Deal reform policy starting in 1903 was public control over giant trusts. Based on the Sherman Antitrust Act of 1890, Theodore Roosevelt initiated an antitrust case against Northern Securities Company, a railroad conglomerate, as a result of which the trust was dissolved. This was followed by other antitrust cases. Roosevelt also demonstrated pragmatism and avoided clashes with financial tycoons on Wall Street, who showed a willingness to cooperate and recognized public control over their business ac-

took the helm of the country. That was the day William McKinley (1897–1901), who was re-elected for his second presidential term, died from being fatally wounded by an anarchist at the Pan-American Exposition in Buffalo on September 6, 1901.

At the start of the 20th century, the people really calling the shots in America were representatives of big capital, who actually held the power to define the rules of the game. Theodore Roosevelt was convinced of the need to wrench the power back for legally elected representatives of the people. He stressed that a complete lack of control on the part of public authorities led to the unlimited growth of corporations.

Indeed, at the time, nowhere else in the world was there such omnipotent influence of the rich. From the late 19th to the early 20th century, the United States experienced a significant centralization and concentration of production. This paved the way for monopolistic associations and strengthened the role of banking and financial capital.

Theodore Roosevelt was the first U.S. President to address the relations between capital and the government. Businesses that joined together as a monopoly (usually in the form of a trust) were losing their production and commercial independence. The parent company, which included the management of the trust, was a majority shareholder. This allowed the trusts to control various sectors of the economy by squeezing out their competitors and seizing the relevant commodity markets.

The first monopoly in the U.S. industrial sector was Standard Oil, the oil trust established in 1879 by John Rockefeller

tivities. By the end of Roosevelt's presidency, the United States was the second largest maritime power in the world. In collective historical memory, Theodore Roosevelt is associated with America's transformation into a world power.

on the basis of the Standard Oil Company of Cleveland, which had been active on the market since 1870. After crushing the competition by lowering prices on the domestic market, as well as through bribery and blackmail, the Rockefeller trust took control of 90 % of the U.S. oil refining industry by 1879, and by 1900, of 84 % of the domestic oil trade and 90 % of its exports.²

The largest association in the steel industry was Carnegie Steel Company, founded in 1870 by Andrew Carnegie. By 1890, it dominated the industry by specializing in the manufacturing of end products, such as steel pipes, wires and barbed wire. In the last decade of the 19th century, output increased by a factor of ten, while profits shot up from USD 3 million in 1893, to USD 40 million in 1900. In 1901, Andrew Carnegie decided to devote himself to charity, and sold the company to John P. Morgan. The merger of Carnegie Steel with its main rival, Federal Steel Company, and other major manufacturers of finished products, including American Steel & Wire Company, American Tin Plate Company and National Tube Company helped form United States Steel, a giant trust with capital of 1.4 billion USD. The so-called Steel Trust became the world's first corporation with capital exceeding 1 billion USD. The Steel Trust had $\frac{3}{5}$ of the total steel production in the United States under its control. It had a particularly advantageous position on the market, as the products of the trust were in demand by agriculture, railways, construction companies, machine-building plants, coal and other mines, as well as in new sectors, including the electrical and automotive industries.

²See: *Golubovich V.* (Ed. by), *Ekonomicheskaya istoriya zarubezhnykh stran.* Glava 4. *Ekonomicheskoye razvitiye vedushchikh kapitalisticheskikh stran s 70-kh gg. XIX v. i do nachala Pervoy mirovoy voyny.*

The best known company of the electrical industry was General Electric Company, established in 1892 following the merger of Edison General Electric and Thompson House Company. Its influence extended even further in the early 20th century, when it came into the orbit of J.P. Morgan & Co., a banking institution. General Electric was not only engaged in the production of electricity, but also manufactured various equipment. It likewise held joint ownership rights over certain patents with Westinghouse Company, its rival. In 1903, the corporation had a capital of USD 82 million and was the monopoly owner of a group of patents generating net income of more than USD 10 million annually. Therefore, by this time, capitalism in the United States had already exhibited telltale monopolistic features.³

The scene looked different in the Russian Empire, where the role of monopolies in the economy was insignificant until the beginning of the 20th century. The first monopolies in Russia were formed in the early 1880s (for example, the Union of Rail Manufacturers). In contrast to the United States, where they developed mostly organically, the Russian government actively interfered in the establishment and activities of domestic monopolies. This was particularly true for entities that provided for public needs or were of strategic importance for the state. This included such economic sectors as metallurgy, the oil and sugar industries, railways and water transport. State monopoly trends in the development of monopolies were the most apparent in these areas. Capital was also concentrated in the banking sector.

Overall, Russia was home to at least 50 different unions and agreements of entrepreneurs in the 1880s and 1890s.

³ Golubovich V. (Ed. by), *Ekonomicheskaya istoriya zarubezhnykh stran*. Glava 4. *Ekonomicheskoye razvitiye vedushchikh kapitalisticheskikh stran s 70-kh gg. XIX v. i do nachala Pervoy mirovoy voyny*.

Most often, they were either cartels or syndicates, which almost completely monopolized the sales of finished products and services, while the participants retained their operational and financial independence. Gradually, new forms of associations such as trusts emerged with the support of the government. These included military and industrial monopolies, trade and industrial companies such as Proddparovoz, Prodvagon, the Nobel Brothers partnership, Produgol, Krovlya, Med, Provoloka, ROST, the thread-making trust and others.

The industrial boom beginning in 1910 further accelerated the monopolization of the economy. In the industrial sector, the number of cartels and syndicates reached two hundred, with a few dozen in transportation as well. Many large banks grew into banking monopolies, and their penetration in industry further strengthened this sector's trusts and concerns. For example, such industrial and banking associations included Russian Oil General Corporation, Treugolnik, Kolomna-Sormovo, the Military and Industrial Group of the Russian-Asian Bank, and others. The merging of industrial and banking monopolies with the State Bank and Ministry of Finance increased the government's ability to control both individual enterprises and the economy as a whole.

As concerns foreign investments, in contrast to the current period, where they are funneled primarily into extractive industries, in this early period foreign companies invested in manufacturing and trade. The main areas of investment were heavy industry, trade, as well as the enterprises of chemical, metallurgical and electrical concerns. But, of course, the oil, copper and gold industries were not ignored entirely. Companies with foreign participation were an integral part of the Russian economy, and in no way did they stand in opposition to it.

Thus, just as in the United States, albeit lagging a bit behind, the Russian Empire also experienced the monopolization of its economy. However, its scale was much smaller, and the enterprises were far below the level of American manufacturers. Stock exchange speculation was neither as large-scale nor as popular as in the United States. Yet while fundamentally no different from capital in other Western countries, Russian capital (and this is of vital significance) was influenced by state monopoly trends as early as the stage of its formation,⁴ i.e., the role of the government in the management of the economy in Russia was much higher than in the United States.

Russian businesses not only perceived state patronage as a natural phenomenon, but sought to acquire government contracts and viewed them as of the utmost benefit. Close ties with the state apparatus served as a guarantee for obtaining profitable government orders, and subsidizing them whenever necessary. The Russian bourgeoisie was subordinate to the collective owner (represented by the state), who kept a strangle hold on the upper echelons of the economy and management, in particular, of resource distribution. Officials could seize property from businessmen at any time if such a desire or need ever arose. Needless to say, businessmen were there to “feed” them. This is how “administrative rent” (or plain corruption) historically emerged in Russia.

Candidate of Historical Sciences V.I. Baklanov shares his thoughts on bureaucratic state monopoly capitalism in Russia: “...the emergence and development of Russian capitalism

⁴ See: *Tsiperevich G.* (1927). *Sindikaty i tresty v dorevolutsionnoy Rossii i v SSSR*, Leningrad; *Granovsky E.* (1929). *Monopolisticheskiy kapitalizm v Rossii*, Leningrad. *Tarnovsky K.N.* *Formirovaniye gosudarstvenno-monopolisticheskogo kapitalizma v Rossii v gody Pervoy mirovoy voyny (Na primere metallurgicheskoy promyshlennosti)*.

began under Alexander II and accelerated rapidly under Alexander III, when the modernization of the country spread to all spheres of public economic activity. Russian capitalism was distinct in that as a socio-economic formation, it intertwined a combination of Western and Eastern attributes. While the institutional infrastructure of capitalism inherent in the Western model was present, the state also retained the key role in the economy, which is typical of Eastern industrialization.”⁵ At the time, the Russian bourgeoisie lacked a class consciousness that encouraged it to seize political power. Yet it is impossible to do business confidently and with decent prospects in a country where the government engenders property, and not the other way around. At the turn of the 20th century, Russian companies and firms actively sought ways to establish monopoly associations. But here they were also in need of “connections” with the state apparatus, i.e., the same sort of “administrative rent.” Unlike Western companies, in Russia, the industrial and banking sector never experienced a developed stage of free competition, and from the very beginning pursued monopolization to avoid difficulties with the sale of their products and to make arrangements for acceptable prices.

Before the outbreak of the war in 1914, Russia was home to an established financial oligarchy at the helm of banks, monopolies and exchanges closely connected to the state and bureaucratic elite. This “financial Olympus” was comprised of A.I. Putilov, P.M. Ryabushinsky, A.I. Vyshnegradsky, S.I. Mamontov, S.T. Morozov and others. Other financial magnates included ministers V.I. Timiryazev and P.L. Bark, as well as members of the nobility, such as prince D.A. Golitsyn, baron G.O. Ginzburg, count V.S. Tatischev, count

⁵ See: *Baklanov V.*, Byurokraticheskii-monopolisticheskii kapitalizm, February 24, 2015.

A.P. Bobrinsky and others. In an attempt to close the gap with the West, in the 1890s, the Chairman of the Russian Council of Ministers S. Yu. Witte pursued the active modernization of Russia, including with the involvement of foreign capital. During these years, investments were mainly from France (30 %), Great Britain (25 %), Germany (21 %), Belgium (12 %), and the United States (6 %). The share of foreign investment was as follows: mechanical engineering and metalworking – 72 %, mining – 70 %; the chemical industry – 31 %. Western investors earned exorbitant profits, which exceeded European standards by quite a bit. While in France the dividends on invested capital were just over 2 %, in Russia they topped 40 % or more.

The non-equivalent exchange between the West and the Russian Empire reserved the role of a donor to industrialized countries for the latter. The export of capital from Russia under external loans was much higher than its import. From 1881 to 1913, Russia repaid foreign loans, including interest, in the amount of more than 5 billion rubles, which was more than it received by a factor of 1.5.

During this period, Russia was also engaged in aggressive economic expansion along its Asian borders. In the early 20th century, it was among the top global military and political powers, and pursued a colonial policy in the East. Yet Russia played a peripheral role in the global capitalist system, and was an object of economic expansion for Western powers.

Therefore, in the early 20th century, the Russian Empire was a symbiosis of old and new. It preserved its autocratic institutions and feudal estate divisions in society alongside a semi-feudal landlord economy and peasant community agriculture. The population carried out its economic activities in the form of subsistence farming, patriarchal and petty com-

modity production. At the same time, monopoly capitalism was expanding rapidly under the patronage of the state.

Returning to the history of American capitalism, we must note that the widespread monopolization of the economy had a negative impact on the conditions and living standards of ordinary citizens. Throughout the years of economic crises, this meant many lost their jobs and/or savings. Only powerful monopolies with huge reserves were able to withstand the shocks. These monopoly associations usually took over firms experiencing financial difficulties. Despite the fact that new firms never stopped emerging on the market, according to official statistics, the number of bankruptcies and the displacement of small businesses by corporations increased from year to year. In the United States, during the crisis of 1873–1878, industrial production fell by 32 %, which resulted in the bankruptcy of 10.5 thousand firms with assets of approximately 250 million USD. A similar situation was observed in the cyclical crises of 1882–1885 and 1893–1897. The latter sent deep shock waves through industrial and commercial enterprises, as well as credit institutions in the United States.

The concentration of production and capital accompanied by the bankruptcy of small and medium-sized enterprises markedly increased during the economic crises of 1900–1903, 1907–1908 and 1913. At the same time, the share of industrial products manufactured by large enterprises increased just as steadily as the share of products manufactured by small and medium-sized firms declined. This caused understandable outrage among broad segments of the population. In this context, U.S. Congress passed the Sherman Antitrust Act of 1890, which read: “Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce... is declared to be illegal.”

Around the same time, two major financial groups (Morgan and Rockefeller) were established in the United States. Morgan controlled two banks, including First National Bank and National Bank of Commerce. The capital of the former reached 25 million USD, while the capital of its depositors totaled 630 million USD. National City Bank of Rockefeller held fixed capital of 25 million USD and managed the funds of its clients in the amount of 474 million USD. Morgan and Rockefeller groups wielded tremendous influence. They owned railway, oil, metallurgy, machine-building, electrical, chemical, automotive and other companies. Thus, the country's development of monopoly capitalism led to the merging of banking capital with industrial capital.⁶

In the early 20th century, the pace of founding new monopolies (in the form of corporations) increased dramatically. In 1904, corporations and joint-stock companies, which constituted 23.6 % of the total number of all businesses in the United States, produced 73.7 % of its overall output. In 1914, these figures reached 28.3 % and 83.2 % respectively. In the same year, the enterprises of large corporations employed 80 % of all workers in the industrial sector. The profits of monopoly associations grew steadily from year to year: from 1904 to 1914, they increased from 4.5 billion to 8 billion USD.⁷

In the United States, the early 20th century was marked by a broad-based progressive movement⁸ culminating in the

⁶ See: *Allen F.L.* (1949). *The Great Pierpont Morgan*, N. Y., pp. 179–180.

⁷ See: *Golubovich V.* (Ed. by), *Ekonomicheskaya istoriya zarubezhnykh stran*. Glava 4. *Ekonomicheskoye razvitiye vedushchikh kapitalisticheskikh stran s 70-kh gg. XIX v. i do nachala Pervoy mirovoy voyny*.

⁸ The essence of progressivism is described in detail in *D. McInerney* (2009) "SShA: Istoriya strany", *Eksmo*, pp. 385–404.

The author notes that instead of passive inaction, the most progressive Americans (primarily the middle class) were active in their opposition of mo-

implementation of several reforms. This period is referred to as the Progressive Era. As part of American society, progressives maintained traditional views of American culture, such as the rejection of special privileges, fear of concentrated economic power (which in their opinion could lead to large-scale abuses), and the habit of putting public good above private interests. They were fierce proponents of social justice and public control. In their attempts to eliminate glaring inequalities, they rejected methods that did not fit into their familiar pattern of a "good society." This Progressive Era was opened by the Square Deal policy of U.S. President T. Roosevelt. At the heart of Roosevelt's policy was the idea of federal control over the activities of trusts. To implement it, the United States adopted a number of fundamental laws from 1903 to 1905, including acts on the establishment of the Department of Commerce and Labor, with a special Bureau of Corporations to gather information on investigations into their activities; on the prohibition of railway companies to change declared rates on the transportation of goods, and on the control of state authorities over the production of food products and medicines.

Shortly after taking office, Roosevelt invited the owners of major monopolies, including Morgan and Rockefeller, to the White House. Morgan refused to meet, but the President did not back down, and significantly raised taxes on big capital. In February 1902, the most influential businessmen promptly accepted the second invitation to meet with the President. At the meeting, President Roosevelt stated that now the government would dictate the terms of the game. He strongly

nopolies and corrupt political entities. Their adherence to the principles of non-interference would only exacerbate the vices of society. Adherents of the new creed assumed the government should actively interfere in the daily life of society, as its main constitutional duty was "to maintain public welfare."

opposed the monopolization of business by big capital. Based on the antitrust law adopted in 1890 (The Sherman Antitrust Act),⁹ Roosevelt opposed the explicit restrictions on free

⁹ Antitrust legislation is a system of regulations, individual legal norms and institutions designed to protect buyers from manufacturer monopolies by establishing economic and organizational restrictions, such as bans on regulating prices, and establishing a system of legal sanctions for monopoly-based activities. Antitrust committees are established to organize antitrust activities. In the late 19th century, the development of the U.S. economy was marked by the attempts of large corporations to monopolize entire market sectors. By uniting as trusts, corporations dictated prices on the market, imposed restrictions on trade between individual states and with foreign countries, and sought to prevent the formation of new manufacturers on the market. All this violated the principle of free trade and competition, which is sacred for Americans, and negatively affected the interests of broad segments of the population. The Sherman Act (1890) made it illegal to combine companies into trusts and pools if they restricted trade between individual states or with other countries, and prohibited the monopolization of such trade. The Sherman Act provided for criminal prosecution of its violators. The act also applied to worker unions demanding higher minimum wages, resulting in its infamous reputation as the “anti-worker law.”

In practice, the Sherman Act was rarely applied and served more as a preventive measure. Later laws (such as the Federal Trade Commission Act of 1914 and the Clayton Antitrust Act) further developed the antitrust provisions of the previous act by specifying its effects against unfair trade practices, price discrimination, and the weakening of competition. The Clayton Antitrust Act placed workers and farmers associations outside the scope of the Sherman Act. In 1950 and 1955, American antitrust legislation was modernized by new federal laws. The most well-known case when the antitrust legislation was applied in practice was the breakup of Standard Oil Company, the oil empire of John Rockefeller, into several competing companies in 1911.

Similar regulations were also adopted in other countries (Japan in 1947 and 1953, Great Britain in 1948, 1956, 1965 and 1976, and France in 1945 and 1986) and eventually constituted their own branch of law. By the end of the 20th century, antitrust laws had become an integral part of commercial law in any economically developed country.

There are two distinct systems in antitrust legislation: American and European. The American doctrine prohibits the very establishment of associations for the purpose of monopoly domination in the market, and is considered the strictest. Europeans focus instead on the preventive inspection of firms to prevent potential monopoly abuses. Antitrust law is sometimes contradictory and

trade imposed by trusts, but the conservative views of Congress on the government's role in economic matters allowed him to achieve only minor legislative changes. Nevertheless, during his eight years in office, Roosevelt applied the Sherman Antitrust Law against the most influential corporations and earned his reputation as the "trust buster." He presided over the breakup of the 44 largest monopolies in the United States. Naturally, during his duties as 26th President of the United States, he acquired many influential and dangerous enemies. Roosevelt was an adherent of "national progressivism." This phenomenon reflected the social unrest that emerged among the public at the turn of the century and led to a new political movement in the United States. It spread like wildfire at the beginning of the 20th century and reached the federal level, where it was embraced by two presidents, Roosevelt and Wilson, who shared national progressivist views.¹⁰

inconsistent, as the full implementation of free trade and competition principles can weaken the positions of local businesses in the face of more competitive foreign rivals.

¹⁰Thomas Woodrow Wilson (1856–1924) was the 28th President of the United States (1913–1921). He was also known as a historian and political scientist. In 1919, he was awarded the Nobel Peace Prize for his peacemaking efforts. He was elected Governor of New Jersey in 1910 and, in 1912 as a Democrat, and President of the United States when the Republican vote was split between Theodore Roosevelt and William Taft. He was then re-elected in 1916. The second term of his presidency was marked by U.S. entry in World War I and Woodrow Wilson's active diplomatic efforts for a peaceful resolution. Germany accepted Wilson's demands, and he then asked Great Britain to scale back their naval blockade of Germany, which complicated Anglo-American relations. In 1916, Wilson was nominated again as a presidential candidate. The main slogan of his campaign was "He kept us out of war." During his second term, Wilson concentrated his efforts on World War I, which the United States entered on April 6, 1917, a little more than a month after the start of his second term. The United States also repeatedly interfered in Latin America, especially Mexico, Haiti, Cuba and Panama. U.S. troops entered Nicaragua and Haiti (and remained there from 1915 to 1934). In 1919, he suffered a severe stroke, which

The social discontent brewing in society at the turn of the century was fueled by muckraking journalists (so-called “garbage collectors”) and the works of authors whose writing revealed the dark side of American life at the time.

Benjamin Norris, who introduced French naturalism in American literature, is a textbook example of the Progressive Era. His novel *The Octopus: A Story of California* (1901), described the conflict between farmers and big corporations. *McTeague* (1899), another of his novels, and *A Hazard of New Fortunes* (1890) by William Dean Howells denounced the corrupt power of the new market.

Norris' works reflected socialist views and inspired the numerous masterpieces written by later progressive writers.

In his novel *The Jungle* (1906), Upton Sinclair studied in detail the operation of the meat industry. This was a revelation provoking indignation and an almost physical disgust in the unsuspecting public. *Maggie: A Girl of the Streets* (1893), a novel by Stephen Crane, and *Sister Carrie* (1900) by Theodore Dreiser, touched on the disastrous impact made by the big city on young and innocent souls.

The shock and indignation caused by these works contributed to the emergence of a powerful movement to change the existing order. Progressives rushed to the forefront with their extensive program of reforms, which touched on almost all aspects of American life. In the political sphere, they called to replace the corrupt power structures with intelligent control by administrative institutions not affiliated with any political party and staffed by qualified professionals.¹¹

By putting public interests first, progressives sought to eliminate the glaring vices of the existing system without any

paralyzed the entire left side of his body, and he went blind in one eye. Wilson was almost completely incapacitated until the end of his presidency, but this fact was hidden from the general public until his death on February 3, 1924.

¹¹ See: *D. McInerney* (2009) “SSH: Istoriya strany”, Eksmo, pp. 385–404

“revolutionary explosions” and based on views accepted as traditional in American culture. They believed these vices included the growing economic power of monopolies, and as a result, the special privileges and large-scale abuses perpetrated by the “high and mighties.” Moreover, as ardent advocates of social justice and public control, progressives demanded to place public good above all private interests. Progressives sought the adoption of antitrust laws and regulations to ensure control over minimum wage, working hours, the prohibition of child labor and the introduction of pensions. Their political demands included direct primaries to elect the President and Vice President, direct election of senators, and the right of legislative initiatives, referendums and recall of candidates who failed to gain the trust of their voters.

Unfortunately, progressives could not avoid certain undemocratic and even reactionary proposals, although the term “progressivism” indeed implies a progressive perception of reality and social progress. As supporters of restrictions on immigration, they proposed reform that hurt the most vulnerable group of the population. In 1919, the fight against alcohol abuse led to the prohibition on the production, sale and transportation of hard liquor across the United States. What is known in America as the Prohibition was in force until 1933, when it was repealed by President Roosevelt in the midst of the Great Depression. Leaders in Russia also repeatedly made this mistake in different periods of the country's history. Both in the United States and Russia, similar policies led to dismal results. Without promoting a healthy lifestyle, “prohibition” aggravated the situation with increased crime, damaged public health, and at the same time deprived the government of significant revenues. White progressives also turned a blind eye to the segregation sys-

tem, which is remembered as a tarnish on the fabric of American history.

Ultimately, the movement for progressive reforms made its way to the federal level. Presidents Roosevelt and Wilson took center stage in the process of deep social and economic transformations in the United States.

The aggressive and resolute Roosevelt showed himself as a staunch proponent of reforms and an active president. He viewed the head of the executive branch as a national leader destined to serve public interests, and as such, entitled to address the people directly, bypassing traditional intermediate institutions. Similar to Abraham Lincoln, he wanted to use the powers vested in him by federal law to oppose the political forces threatening the republic. The President showed no less fervor in his fight against economic crises.

According to President Roosevelt, the country's main challenge was related to the consolidation of industrial production. He understood it was beyond his power to turn back the hands of time and return to the era of small and medium-sized enterprises. Besides, was it even worth it, he wondered? Big businesses were major drivers of improvements and helped to significantly increase production efficiency. It would be much more correct to accept centralization with all its achievements, and integrate elements of order and justice in it. As a result, in 1904, President Roosevelt came up with the Square Deal and never stopped seeking to implement it.

He viewed state regulation as the key to healing the country's ailments. If regulation was raised to a new level, this would help resolve issues without resorting to extreme measures. Armed with this theory, Roosevelt jumped into the thick of it when a strike broke out in the coal industry in 1902. The active involvement of the President helped the

United Mine Workers of America reach an agreement on a nine-hour working day and a significant increase in wages. Roosevelt also repeatedly intervened on the side of industrial corporations against the “excessive” demands of workers, believing the President should be a fair mediator in economic disputes.

The President also followed this same “golden mean” rule in issues of natural resource protection. However, he was guided in these cases by the principle of restraint rather than complete bans, preferring to control the use of America's resources by commercial entities. He believed it impossible to oppose economic development, so regulating it instead was much smarter.

Roosevelt left the White House in March 1909. However, serious disagreements soon flared up with William Howard Taft, his successor in the White House. In 1912, Roosevelt joined the election campaign as a candidate from the Progressive Party (or Bull Moose Party, as it was known informally). His program called for a transformation in the role of the federal government from a simple defender of law and order, into an ardent champion of social justice and public welfare. Ultimately, Roosevelt shot ahead of Taft in the popular vote and in the electoral college. However, a new rival—Democratic Party candidate Woodrow Wilson—left both Republicans in the dust.

In his support of progressive concepts, U.S. President Woodrow Wilson leaned on tariffs to stimulate economic competition in the United States, as a reduction of tariffs was designed to attract new participants to the market. In accordance with the President's plan, democratic Congress adopted a new tariff in 1913. To compensate for the inevitable reduction of state revenues, congressmen approved a progressive tax designed to ensure additional investment in state social programs.

As his next move, Wilson took a decisive offensive position against the so-called “money trust” of Wall Street. To prevent a handful of bankers and financiers from taking over money circulation in the United States, the President founded the Federal Reserve System (FRS) in 1913. This institution was designed to streamline and stabilize the country's economy. Federal Reserve banknotes were now the single American currency, and the Federal Reserve Board (appointed by the President himself) was empowered to control the money circulation and lending rates of banks. The Federal Reserve System established a dozen regional banks that could promptly respond to the situation on the ground in real time based on the circumstances by increasing or decreasing the number of banknotes in circulation.

From 1914 to 1917, President Wilson kept the United States out of World War I. With Theodore Roosevelt at the helm, the Republicans criticized Wilson for his peaceful policies and unwillingness to form a strong army. Yet by arguing that an arms race will drag the United States into the war, Wilson won over the sympathy of pacifist Americans. He continued to actively campaign against the unrestricted submarine warfare currently pursued by Germany. German naval forces destroyed any ship entering the area near Great Britain. On May 7, 1915, a German submarine sunk the *Lusitania* ocean liner, killing more than 1000 people, including 124 Americans, which sparked outrage in the United States.

In 1916, President Wilson issued an ultimatum to Germany to end its unfettered submarine warfare, and dismissed his pacifist-minded Secretary of State William Bryan. Germany agreed with the demands, but when the country again resumed its no-holds-barred submarine warfare in early 1917, Wilson made the decision on the entry of the United States in World War I. He did not sign any alliances

with Great Britain or France, instead preferring to act independently as an “associated” (rather than an allied) country. Wilson declared it the war “to end all wars.” In other words, he proposed to create a new world order by laying the foundations for a world without wars, thus excluding the possibility of confrontations that sow death and destruction. The President advocated for the idea of forming a collective security system based on voluntary disarmament and the renunciation of war as an instrument of international policy, embodied in a concept known today as Wilsonianism. In foreign policy studies, this term was introduced by esteemed American scholar Francis Fukuyama¹² in reference to the new theory. Wilson defended the importance of crafting public policy based on moral value. He crafted a comprehensive concept of a new world order in which America had the right to resist any outside aggression and count on unprecedented security.

The President aspired to lay the foundation for a future without war and prevent future catastrophic military actions and the death and destruction they sow. To suppress defeatist attitudes at home, Wilson pushed the Espionage Act (1917) and Sedition Act (1918) through Congress, designed to suppress anti-British, anti-war or pro-German sentiment. He also supported the socialists, who advocated for U.S. participation in the war.

¹² Francis Fukuyama (born in 1952, Chicago) is an American philosopher, political economist and writer of Japanese descent. Since February 2012, he has worked as a Senior Fellow at the Freeman Spogli Institute for International Studies at Stanford University. Fukuyama became well-known for his book *The End of History and the Last Man* (1992), in which he proclaims that the spread of liberal democracies around the world could become the final form of human government. His work has been translated into more than 20 languages and resonated far and wide in the academic community and media. At the start of the new millennium, he sharply dissociated himself from the neo-conservative movement in American politics he was strongly associated with in his early career.

After its entry in World War I, the U.S. government started issuing war bonds. These bonds were very popular among the American public and helped stimulate national enthusiasm for playing the stock market in the 1920s, which was ultimately a forerunner of the Great Depression starting in 1929.

After World War I, the United States under Woodrow Wilson rose to the top of the world economy, outstripping Great Britain.

Similar to the United States, a progressive party was also formed in Russia in 1912. Its leaders were I.N. Efremov, an influential land owner from the Don region, and Moscow industrialists A.I. Konovalov and brothers P.M. and V.M. Ryabushinsky. In terms of political views, progressives were the party of businessmen and the intelligentsia. Its political demands were moderate, including a constitutional monarchy, bicameral parliament with representation based on income qualification, and the expansion of rights for Russian businesses. While in the United States progressives achieved deep socio-economic reforms and left behind a lasting legacy in the establishment of the rule of law, the good intentions of Russian progressives went largely unrealized. They failed to make any significant impact on the development of social, political and economic life in Russia.

As for the Old World, World War I led to the economic collapse of colonial mother countries. In 1918, the public debt of Great Britain increased by a factor of ten compared to 1914, reaching 7.5 billion Pounds. Germany's debt at the end of the war was higher than in 1914 by a factor of 20 (105.3 billion Marks), and France's debt in the same year was higher than in 1914 by a factor of five, topping 154 billion Francs. The situation was no more cheerful for the Russian Empire, with a total debt amounting to 45.8 billion rubles,

including 37.8 billion rubles of internal debt and 8 billion rubles of external debts.

In 1920, the national wealth¹³ of the United States was approaching 0.5 trillion USD, and the total value of industrial production in the United States almost tripled during World War I, reaching 69 billion USD.¹⁴

While Washington was looking for the most effective ways to invest its multibillion-dollar revenues earned during the war, Russia was plagued by multiple coups in 1917. The February Revolution initiated by the new bourgeoisie and noble families replaced Emperor Nicholas II with a Provisional Government. However, over the next eight months, the government changed its form three times. After the second turnover, prince G. Ye. Lvov, who headed the first and second provisional governments, was replaced at the helm (for three months) by A.F. Kerensky, who quashed the rebellion of General L.G. Kornilov, and in September 1917 was appointed Head of the Directory (a governing body composed of five ministers). Russia was ushered out of this impasse by the October Revolution, which began on October 25 (November 7), 1917 led by the Bolshevik Party headed by V.I. Lenin (Ulyanov).

¹³ National wealth is the aggregate value of all economic assets (nonfinancial and financial) held at market prices at a given date by residents of a given country, minus their financial liabilities to both residents and non-residents. The main contribution to the national wealth of Russia is from natural capital, Russian human capital and production capital.

According to the World Bank, the share of human capital in the national wealth of Russia at the end of the 20th century was 50 %, the share of natural capital was 40 %, and the share of production capital was 10 %.

At the end of the 1990s, about 70 % of all investments in the most developed countries of the West were made in human capital, and about 30 % in production capital. In addition, the main share of investments in human capital in these countries was made by the government.

¹⁴ See: *Tsaturyan S.*, Chetyrnadsat' punktov, kotoryye ob'yedinili Vil'sona i Lenina, January 8, 2017, REGNUM.

Shortly after the events in October in Russia, U.S. President Woodrow Wilson wielded the financial and economic power of his country to launch a broad diplomatic offensive. On January 8, 1918, he addressed Congress with his now-famous theses and vision of how to achieve an equal world for all nations (Fourteen Points). To preserve and maintain the territorial integrity and political independence of large and small nations, Woodrow Wilson's post-war order project proposed to form the League of Nations and stop the practice of secret international agreements. He also spoke in favor of open diplomacy and transparent peace treaties.

In this context, it is crucial to keep in mind that immediately after the outbreak of the October Revolution, at Lenin's initiative, the Second All-Russia Congress of Soviets of Workers' and Soldiers' Deputies adopted the Decree on Peace. This document called upon "all warring peoples and their governments to begin negotiations at once leading to a just democratic peace," and also condemned "the annexation or seizure of foreign territory" and rejected "secret diplomacy" and "secret agreements." To promote his plan, Woodrow Wilson personally attended the Paris Peace Conference and became the first U.S. President to ever visit Europe while in office. Ultimately, he managed to include the provision on the League of Nations in the Treaty of Versailles and won the Nobel Peace Prize 1919. However, Wilson failed to convince the U.S. Senate to ratify the agreement on the League of Nations. The main obstacle was the refusal of Congress to limit its right to declare war. Woodrow Wilson advocated for the absolute freedom of navigation outside territorial waters not only during peace, but also in wartime, and called for the elimination of economic barriers and equal trade conditions, i.e., proclaimed the open door doctrine.

The President supported international disarmament and the reduction of defense budgets to the minimum level nec-

essary to ensure national security. The principle of international legal personality, which opened the path to decolonization, was subsequently enshrined in the Covenant of the League of Nations and the Charter of the United Nations. A significant portion of the program was dedicated to territorial arrangements in Europe based on the rejection of the imperial model in favor of traditional nation states. Woodrow Wilson directly addressed the Germans, Hungarians, Czechs, Slovaks, Serbs, Croats, Poles, Russians, Romanians, Slovenes and other peoples by supporting their struggle for national liberation and self-determination. In addition, the Ottoman Empire had to provide and guarantee inviolable conditions for the autonomous development of ethnic groups under Turkish rule.

A separate point in the U.S. President's plan was the issue of Germany's evacuation of all Russian territories acquired in accordance with the Brest Treaty of March 3, 1918. Woodrow Wilson called on Western countries to provide Russia with a full and unhampered opportunity "for the independent determination of her own political development... under institutions of her own choosing... The treatment accorded Russia by her sister nations... will be the acid test of their good will,... and of their intelligent and unselfish sympathy." At about the same time, V.I. Lenin called upon the conscious workers of the three most influential nations—England, France and Germany—"to conclude peace successfully, and at the same time emancipate the laboring and exploited masses of our population from all forms of slavery and all forms of exploitation." In essence, Woodrow Wilson and Vladimir Lenin expressed the same views and took an identical stance against Western European colonialism. Therefore, the appeals of the two leaders to colonial powers as regards the post-war world order are the first and perhaps only example

of a coinciding political approach in the history of Soviet Union–United States relations.¹⁵

Paradoxically, Woodrow Wilson and Vladimir Lenin presented a unified approach to Western European colonialism. Woodrow Wilson sought to limit the appetites of French and German monopolies, and Vladimir Lenin wrote in his book *Imperialism, the Highest Stage of Capitalism* that “the characteristic feature of imperialism is precisely that it strives to annex not only agrarian territories, but even most highly industrialized regions (German appetite for Belgium; French appetite for Lorraine)...” Woodrow Wilson was the only U.S. President in the history of Soviet Union–United States relations, who called on the West to provide political support to the young Soviet Republic.¹⁶

Now to return to the federal-level progressive and Republican Theodore Roosevelt. He was a distinctive and vibrant personality with interests reaching far beyond his political activities. In 1898, while commanding the Rough Riders, a cavalry regiment during the Spanish-American War in Cuba, he was recommended for the Medal of Honor for bravery. However, this proposal was approved only in 2001. Posthumously, Theodore Roosevelt became the first and only President in the history of the United States decorated with the highest military award of the country. His biography also includes another fact of no less interest: from 1913 to 1914, Theodore Roosevelt took part in a research expedition to Brazil as a naturalist, where he explored an unknown river later named Rio Teodoro in his honor. He was an avid and

¹⁵ From a practical perspective, Woodrow Wilson's diplomacy fundamentally differed from his strategic peace points. After the October revolution, as early as in December 1918, the United States ceased its trade relations with Soviet Russia.

¹⁶ See: *Tsaturyan S.*, Chetyrnadtsat' punktov, kotoryye ob'yedinili Vil'sona i Lenina, January 8, 2017, REGNUM.

experienced hunter, and his personal hunting trophies included more than a dozen lions.

Young Franklin Roosevelt admired his distant relative and even imitated Theodore Roosevelt's gestures and manner of speech. He also often visited his estate, where he met and fell in love with Eleanor Roosevelt, Theodore's niece. At the wedding of Eleanor and Franklin, Theodore Roosevelt was the adoptive father of the bride. Both Roosevelts shared similar views on the relationship between the government and capital, although in practical terms Franklin Roosevelt achieved much more progress.

The memory of presidents Theodore Roosevelt and Franklin D. Roosevelt is carefully preserved in the United States and still is alive and well. We witnessed this at the end of 1986 when, together with the Soviet Minister of Foreign Trade Boris Aristov, I was invited to meet U.S. President Ronald Reagan during the annual meeting of the US-USSR Trade and Economic Council (USTEC).¹⁷ Before the meeting, we were ushered into the meeting room in the West Wing of the White House (next to the Presidential Oval Office), which in 1969 was named the "Roosevelt Room" by President Richard Nixon in honor of U.S. presidents Theodore Roosevelt and Franklin Roosevelt (the first built the West Wing, while the latter expanded it). Here we were welcomed by U.S. Vice

¹⁷ From 1985 until the dissolution of the Soviet Union, the author served as the Co-Chairman of the US-USSR Trade and Economic Council (USTEC) on the Soviet side. The Council was established on February 12, 1974 by American businessmen and Soviet trade and economic agencies to promote trade and tourism, business contacts between banks, insurance and transport organizations, and to ensure a technological exchange between the United States and USSR. The USTEC executive office staffed citizens of both countries. Since 1974, it published the *Journal of the US-USSR Trade and Economic Council*, a bi-monthly publication on Soviet Union–United States trade and economic relations, in New York. The USTEC ceased its activity along with the dissolution of the Soviet Union.

President George Bush Senior. Hanging on the wall above the traditional conference table and its chairs were two softly illuminated portraits of Theodore and Franklin Roosevelt. It has been tradition in the White House since the second half of the 20th century to hang a portrait of the Roosevelt whose party won the most recent presidential election (Theodore Roosevelt was a Republican, while Franklin D. Roosevelt was a Democrat). As far as I know, this tradition was ignored during the presidency of Bill Clinton, but was later restored. Here for the first time we heard stories about the lives of Theodore and Franklin Roosevelt straight from future U.S. President George Bush Sr., who spoke about their role in the emergence of the United States as a great power. On our way to the Oval Office, George Bush Sr. left us in the company of representatives from the State Department participating in our negotiations with the U.S. President.

The meeting with Ronald Reagan was of a protocol nature and proceeded relatively calmly. After expressing his wishes for a successful annual meeting of the USTEC, he traditionally touched upon the issue of human rights. Reagan explained why the American side was so preoccupied with this issue. "The United States is a melting pot, where millions of immigrants from all over the world become a single nation of Americans," said the President. "All these people came to the U.S. in search of a better life, so people here are extremely sensitive to any obstacles restricting human rights." We took the opportunity to mention that the American side also had information about the free emigration of anyone who wanted to leave. The only exceptions were individuals with access to top-secret information. After the expiry of the limitation period, these people are also granted permission to leave. Again, in accordance with tradition, we raised the issue of the Jackson–Vanik amendment, which was adopted by Con-

gress and had not been repealed at the time. This amendment prevented the trade agreement between our countries from entering into force, and suspended the repayment of debts under the Lend-Lease program. Reagan looked at Secretary of State George Shultz, who nodded to confirm that indeed, the balance of power in Congress still did not allow to repeal the amendment.

We added that emigration to Israel continued unimpeded and cases of people returning back to Russia were becoming increasingly frequent. "Nostalgia?" Reagan piped up. We said "perhaps, but it's more likely issues finding employment, especially for people in artistic professions. As regards a number of other professions, such as medical staff, these specialists are usually in demand. The main thing is to learn Hebrew, which isn't easy. Emigrants often change their destination at transit points (Rome and Vienna), and instead of Israel, travel to various cities of Europe and America." George Shultz said, "yes, changes in destination are not uncommon. Typically, emigrants discuss this burning matter before their departure with their friends and relatives who left the Soviet Union earlier. Plus, major American cities have strong expat communities that help newcomers." Then we noted that "to avoid social isolation, newcomers tend to live among their compatriots. They're united by a common language, former way of life, religion, cultural and ethnic traditions. There's no need to look far for examples. Just take Brighton Beach in New York."

The atmosphere at the meeting increasingly came to resemble a working negotiation. This allowed us to touch on the investigation into the spurious allegations of dumping with regard to Soviet exports of ferrous metals and chemical fertilizers (under a compensation agreement with Armand Hammer). George Shultz, who was well versed in issues of

trade and economic cooperation with the USSR and Soviet Union–United States relations, promised to look into this issue. We should give him credit as well, because soon a solution was found with his assistance. During the conversation, Reagan held some paper sheets a quarter of a standard page (A4), and frequently consulted the text prepared, apparently, by George Shultz.

My overall impression of Reagan was that he had a strong, powerful personality, appeared to be visibly aging, and was reserved towards Russia, to say the least. He was a difficult negotiator, who could hardly be convinced to change his mind, but who typically abided by any agreements reached. Earlier, in 1985, Reagan underwent surgery for bowel cancer in Bethesda Naval Hospital (located in a suburb of Washington), which was brilliantly performed by a 32-year-old captain of the military medical service. He ended up living for almost two more decades, and died from a completely different, yet no less formidable disease.

On their way back from the White House after the meeting, the State Department officials exchanged remarks with their colleagues from the Soviet Embassy in Washington and said, “this is our response to Gromyko!” It was widely known that when Andrei Gromyko was the Soviet Minister of Foreign Affairs, he firmly defended his negotiating position and almost never conceded to his opponents. American diplomats dubbed him the “No man.”

To wrap up the story of that White House visit when we met Ronald Reagan, I'd like to mention a detail that stuck in my memory. In 1994, Ronald Reagan was diagnosed with Alzheimer's disease (senile progressive dementia), which he informed the American people of in a hand-written letter. In his farewell address to the nation, he wrote, “I now begin the journey that will lead me into the sunset of my life. I know

that for America there will always be a bright dawn ahead. Thank you, my friends. May God always bless you.” This was a touching episode between a national leader and his people, which was unusual for us. As most Americans know, the “City upon a Hill” is a metaphor from a sermon written by John Winthrop, who believed the mission of Puritan Protestantism¹⁸ in the New World was to create God’s City upon a Hill. This sermon established not only the principle of American exceptionalism, which later became a stereotype, but also messianism. In other words, a kind of exclusivity that gives the right to dictate the rules of conduct to other countries, while also remaining beyond the control of these rules and regulations.

After returning to the Soviet Embassy from the meeting at the White House, we prepared a detailed report on our talks while our impressions were still fresh. The report was signed by Minister Boris Aristov and Soviet Ambassador to the USA Yuri Dubinin, and promptly sent to Moscow. Later that evening during our dinner at the Ambassador’s residence, I told Yuri Dubinin and his wife a story about life in Brighton Beach. A colleague of mine shared it with me right after he came back from a business trip to the United States and shortly before I left for America. Our compatriots, who by a twist of fate found themselves living in Brighton Beach, greeted Soviet business travelers warmly and kindly. They

¹⁸ Puritan Protestantism encompasses the idea of predestination and a God-chosen people in unison with the perception of financial wealth as an expression of such choice (the more successful an individual is in their earthly life, the closer they are to God, and vice versa).

John Winthrop (1588–1649) was a preacher of Puritan Protestantism, a branch of pseudo-Christianity, and an American statesman. In 1629, he was elected the Governor of the Colony. In one of his sermons delivered in 1630, he expressed his idea of exclusivity and expansion as follows: “We shall be as a city upon a hill, the eyes of all people are upon us.” American society emerged from Puritan Protestantism values.

always showed a keen interest in everything that was happening back at home. It was nice to be in New York and see shops and restaurants with familiar names in Russian, such as Odessa, Chernoye More and Prodmag. As he was walking around Brighton Beach, my colleague went into Prodmag, a grocery store with all kinds of popular food products from the Soviet Union on display in the window. The woman who apparently owned the store stood majestically behind the counter, and her delicately built shop assistant was nearby. My acquaintance looked over the products on display with interest. The ladies behind the counter apparently guessed this visitor wasn't a buyer, so they continued talking to each other in Russian with a friendly smile. Suddenly, a man entered the store, the owner unmistakably recognized him as an American and immediately focused her attention on him. She said to the shop assistant, "Sonya! Go help out the foreigner!" When the customer left, my acquaintance walked up to the owner and asked "what's it like living here in America?" Her answer was short, "we never go to America here!"

To circle back to the main focus of our study, let's dig into the economic development in Russia during these years and compare it with industrialized Western countries.

In early 20th-century Russia, emerging capitalism coexisted with backward feudal peasant agriculture. On its path to monopoly capitalism, Russia was a quilt of unfinished bourgeois and democratic transformations, which along with traits of new capitalism (imperialism), also had elements widely common to pre-capitalist relations. During this historical period, the Russian Empire was marked by all the typical socio-economic contradictions, including those between labor and capital, emerging capitalism and remnants of feudal serfdom, and relatively highly developed industrial areas and straggling borderlands. The war that began in 1914 further aggravated the situation.

Today, more than one hundred years after the October Revolution of 1917, there are still voices claiming these tragic events could and should have been prevented. They claim that by moving step by step along the democratic path outlined in February 1917, Russia could have avoided the mistakes that led to its bloody wars and conflicts, as well as the countless victims of the 20th century. These people deliberately use public trust, or have a very poor understanding of what really happened in those distant years.

From January to February 1917, 676 thousand workers went on strike with mostly political demands (in 95 % of strikes), such as “down with the monarchy” and “no more war!” The growing peasant and workers movement showed that the “lower classes no longer wanted to live in the old way.”

On February 14, a demonstration was held near Tauride Palace demanding that the State Duma create a “government of national salvation.” 90 thousand people descended on the streets of Petrograd, and on February 23, the strikes spread to the Vyborg Side and Petrograd Side, and bakeries and bread shops all over town were looted. The strike tallied more than 300 thousand people! On the morning of February 26, the insurgents were joined by soldiers of the Volynsky, Preobrazhensky and Litovsky regiments, who captured the armory and arsenal.

Claims that the Bolsheviks squashed any opportunity for measured development for the sake of seizing power is a profound misconception, or rather a malicious distortion of events. The fact is that at the time, there was no socio-political force capable of handling such a task. Anyone professing the possibility of stable evolutionary development in 1917 must answer the question of what prevented the Provisional Government, which in early 1917 had broad public

support, from embarking on this salutary path?¹⁹ The fact is that apart from all the heart-warming talk about constitutional monarchy and parliamentarism, there were no concrete steps taken to meet the political demands of the people. Moreover, no such steps could have been taken. The corrupt ties of the large national bourgeoisie with the state land owning and bureaucracy-related apparatus prevented Russian capitalists from properly perceiving their class interests and fighting for their fulfillment. Like Siamese twins, the bloated bourgeoisie fused together with the tsarist bureaucratic elite, and one group was unable to act independently from the other.

Martin Malia, an American researcher of the events in 1917 and Professor at the University of California, who cannot be suspected of harboring any sympathies for Bolshevism, concluded the following: “The defeat of the cadets and moderate socialists shows that in 1917, these two forces had no opportunity to form a democratic constitutional parliamentary system in Russia. If the monarchy was removed in 1914, these political forces could perhaps have created a Western-style democratic state, but later this was no longer possible.”²⁰

During the same years before the outbreak of World War I, the United States was neither a superpower, nor a holder of world currency, nor a leading player in Europe. America was in debt. The United States only entered the war on the side of the Triple Entente on April 6, 1917. Prior to that, Woodrow Wilson consistently pursued a policy of neu-

¹⁹ See: *Oktyabr' 1917: velichaysheye sobytiye veka ili sotsial'naya katastrofa*, ed. by P.V. Volobuev (1991), Moscow, Politizdat, pp. 65–85. *Butenko A.P.* (1997), *Sotsiologicheskiye issledovaniya*, No. 2.

²⁰ *Martin Malia* (1924–2004) a PhD and instructor at the University of California at Berkeley from 1958 to 1991.

trality. War orders contributed to the accelerated development of its industrial sector, and food supplies led to a sharp increase in agricultural production. In 1920, national wealth reached 490 billion USD (in 1917, just 192 billion USD). During the war, exports of American goods tripled, although industrial production increased by just 20 %. In postwar years, bankrupt Europe needed not only food and industrial goods, but also equipment to rebuild its industry. From a debtor to European countries, the United States reversed its position into their creditor. Profits soared to 35 billion USD. In 1918, the United States controlled half of the world's gold reserves. America continued to develop its market economy while the economy in other Western countries was becoming regulated by the state.

World War I catapulted the United States forward as the number one power in the capitalist world. During the presidency of Woodrow Wilson, the United States emerged from the war as the world's economic leader, leaving Great Britain²¹ behind.

More than any of his predecessors, Woodrow Wilson acted as a conduit of progressive ideas in American life. He tried to build both the domestic and foreign policy of the United States in accordance with these principles. Based on their broad social movement, progressives managed to significantly improve the existing socio-economic system by reforming it and preventing all sorts of "revolutionary explosions." The reforms implemented by Theodore Roosevelt and Woodrow Wilson changed the role of the federal government by transforming it from an administration protecting law and order, into a staunch advocate of social justice and welfare.

²¹ See: *Gershov Z.M.* (1983). *Vudro Vilson*, Moscow, Mysl. *Utkin A.I.* (1989). *Diplomatiya Vudro Vil'sona*, Moscow, International Relations.

Indeed, it was Theodore Roosevelt who, while remaining a consistent supporter of progressivism, believed the most crucial task of the federal government was to minimize the size of syndicates. In 1914, Woodrow Wilson succeeded in establishing the Federal Trade Commission, which was authorized to conduct thorough investigations of illegal acts committed by the giants of American industry. Over time, he increasingly came to share the position of Theodore Roosevelt: if you can't beat big trusts, at least try and control them.

By 1914, an interesting situation had formed on the American landscape. The progressive movement was gradually losing steam, but on the other hand, the need to maintain public support prevented Woodrow Wilson from straying too far from the path of reform. The President did everything in his power to adopt a number of progressive laws, such as the Child Labor Act, Workingmen's Compensation Act, Federal Farm Loan Act, and the federal law establishing an 8-hour work day for interstate railroad workers.

Unfortunately, by the end of Wilson's presidency, American economic growth had slowed amid the 1921 crisis caused by the conversion of manufacturing to civilian purposes (after the end of World War I). However, the economy soon resumed its high pace of development.

In 1920, the United States made up only 6 % of the world's population, but produced half of the world's industrial output, including 85 % of all cars, 66 % of petroleum products, and more than half of all iron and steel. The automotive industry was developing at a particularly high pace, which ensured jobs for other industries as well. Vehicle manufacturing required ferrous and non-ferrous metals, rubber products, petrochemical products, glass, electrical equipment, etc. However, this growth also resulted in some significant drawbacks. During nine years of growth from

1921 to 1929, output only increased by 26 %, while production capacity remained underutilized by 19 % and mass unemployment reached 2 million. These were signs of a looming crisis from the very start. While the automotive, petrochemical, aluminum, radioelectronic, and aircraft engineering industries were rapidly developing, the old sectors, such as metallurgy, coal and textiles, stagnated. The markets for these products were shrinking. Following World War I, the development of various industries became increasingly uneven.

The widespread introduction of the conveyor method and the replacement of coal with electricity and petroleum products rapidly stimulated output growth. Intensive development was observed in mechanical engineering, electrical engineering, chemistry and aircraft engineering. From 1920 to 1921, American foreign investments reached 11.6 billion USD, with 40 % in capital investments in Europe, and 22 % in Latin America. By the end of the 1920s, the share of wages in the country's national income reached 80 %, and wages had risen by 43 %. The financial welfare of the U.S. population had far surpassed the level of other countries. The US dollar was on the brink of edging out the British pound.

While the United States prospered, Great Britain and its allies were exhausted by the war. The 1920s in America were marked by a consumer revolution and subsequent speculative boom. In that period, the stock market was growing at breakneck speeds. From 1928 to 1929, the average return on securities soared by 40 %, and their trading turnover increased from 2 million to 5 million shares a day. The spirit of optimism filled the air. Few Americans doubted America's bright future and unprecedented economic growth. In the United States, the 1920s saw rapid development in the automotive industry, aircraft engineering and electrification,

and new technologies, home radios and televisions came on the market. People throughout the country started buying household appliances. From 1925 to 1926, the United States manufactured 5 million cars. Everyone wanted to buy a new Ford or Chrysler, and most families had at least one car. An era of unbounded prosperity was just beginning to unfold for Americans. It was the heyday of consumer culture, generating mass consumption on an unprecedented scale. The middle class was moving to suburban homes. Cars and suburban homes became the new American standard. Layaway purchases for more expensive goods were increasingly encouraged.

Personal loans were another innovation of the 1920s that gained widespread popularity. People took to the formula “buy now, pay later.” Along with it, new algorithms of consumption were touted: “live today without thinking about tomorrow,” and “every self-respecting American has the right to be rich.”

Playing the stock market turned into a stock trading addiction. It all started with World War I, when the U.S. government began issuing liberty bonds to help fund its massive military expenditures. This was a way to borrow money from people at a certain interest rate. For the first time ever, the liberty bonds allowed the U.S. public to invest in marketable securities. Newspapers published information on the price of securities at a certain date. Liberty bonds helped foster an investment culture in the United States. Previously, average Americans were afraid of stocks, and therefore never acquired securities. However, the situation gradually changed. In America, there was a small group of Wall Street bankers who sought to benefit on public interest in investment. They preferred to do business with each other and keep out the “mere mortals.” These years gave rise to prominent busi-

nessman Charles E. Mitchell, President of the National City Bank, who struck on a profitable niche in the market. His goal was to change the face of the financial world. Knowing how successful liberty bonds were during World War I, Charles Mitchell proposed to issue corporate bonds. As a smart businessman, he was confident people would invest money to increase the capital of private companies listed on the New York Stock Exchange, and thereby get a return on their shares.

Over time, people became used to stocks and no longer viewed them with such apprehension. While in the past stocks had been associated with a significant risk, in the 1920s, the public believed investing in stocks was not only a reliable, but also a respectable endeavor. To benefit from this new and lucrative business, Charles Mitchell opened brokerage firms across the United States, where Americans could play the stock market. The stock market epidemic encompassed a wide swath of Americans. The public fell in love with the stock exchange. In the 1920s, the stock market became an integral part of American gambling culture. People played with the stock of different companies for high stakes. Among the most popular were stocks of RCA (Radio Corporation of America). In the mid-1920s, almost three million Americans were playing the stock market. The stock exchange was appealing to people. One vibrant, exciting account of playing the stock market, with all the ups and downs of investors, was shown in the story of Frank Cowperwood, the main character of *The Financier*, a novel in the Trilogy of Desire series by Theodore Dreiser. Fantasies of a bull market, where prices only grow, captured the imagination of many Americans.

Children learned how to read with stock market reports in the newspaper at breakfast and dinner. This was their world.

People believed so much in the bull market that they even borrowed money to buy more shares. In this scenario, investors pay only part of the price, while the rest was taken care of by their broker. The “buy now, pay later” motto spread to the stock exchange as well. In the late 1920s, 90 % of stocks were purchased with borrowed money. There was no limit on borrowing, and people took out huge sums to buy stocks. They would pay 25 USD to buy a hundred-dollar stock, while the remaining 75 was covered by the broker. In the late 1920s, 40 cents of every borrowed dollar was spent on stocks. The huge inflow of borrowed funds had increased the demand for stocks and inflated their prices. In 1928, the return on stocks was 50 %, and from 1927 to 1929 (inclusive), stock prices of U.S. companies had doubled.

As prices kept rising, more and more Americans borrowed money to get “their slice of the pie.” This laid the foundation for what we see today both in Russia and other countries, where money makes money while offering virtually nothing to the real sector and further inflating the financial bubble. Indeed, a comparison of the stock exchange in the early 21st century and at the beginning of the 20th century highlights a clear similarity. The most salient example is the financial crisis of 2008–2009, caused primarily by the boom in the mortgage-based housing market. The massive debt obligations of many countries, including members of G7 and G20, are also of great concern. As for the Russian Federation, its stock market is dominated by financial speculation. It is unrelated to the real sector of the economy and contributes solely to colossal capital outflows.

Growth on the U.S. stock market in the 1920s and the improving welfare of Americans helped the Republican Party stay in power. In 1923, after the death of Warren G. Harding, another Republican, John Coolidge Jr., was elected Presi-

dent. He believed the main job of the government was to avoid interfering in the market, as it had already led the United States to prosperity. During his presidency, the power of Wall Street continued its unchecked rise.²²

The administration of John Coolidge Jr. was closely connected to the banking and financial elite of Wall Street. The wealth and connections of these people facilitated their strong influence on state financial policy. These small elite groups of people from Wall Street, perceived by the public as firms with limited capital, in reality wielded tremendous power. The most prestigious and influential among them was the J.P. Morgan & Co. bank. Located opposite the New York Stock Exchange on Wall Street, it was destined to play a key role in the looming crash. Thomas Lamont, senior partner at J.P. Morgan & Co. (elected Chairman of the Board of Directors in 1943), was the most powerful man on Wall Street. He steered J.P. Morgan & Co. through all the turmoil on the stock market. This close relationship between Wall Street and the government helped quash difficulties as soon as they emerged on the stock exchange. Unchecked by the government, the market played by its own rules. The banking elite often carried out large-scale financial fraud.

The stock market of the 1920s was neither fair nor democratic. In essence, it was a huge gambling house run by professional gamblers who were far from models of integrity. People like Joseph Kennedy²³ (the father of the future

²² See: *The Independent*, London, April, 2005.

²³ Joseph Patrick "Joe" Kennedy Sr. (1888–1969) was the founder of the clan, an Irishman by birth. He made his fortune bootlegging during Prohibition. Afterwards, he bought and sold land and real estate, and speculated on the stock exchange. At the age of twenty-five he was already the head of a bank, and at thirty-five a multimillionaire. He was appointed the U.S. Ambassador to Britain. Joseph P. Kennedy made millions on risky stock speculation and bold real estate deals. After the end of Prohibition in 1933, Joseph P. Kennedy significantly in-

U.S. President) did not build their fortunes by choosing the right stocks wisely. They profited from the gullibility of amateur newcomers.

Economists have never reached a consensus on what caused the Great Depression in 1929. However, among the rich diversity of views on its origin, it appears it was triggered by a combination of the following factors:

1. An inadequate money supply, as binding the money supply to gold reserves limited the ability to expand it. At the same time, the supply of goods, both in terms of output and range, expanded many times over. As output grew, new types of high-tech expensive products appeared on the market (such as cars, airplanes, comfortable yachts, radios, etc.). A limited money supply and increased commodity volumes led to strong deflation, and the falling prices caused financial instability, defaults on loans and bankruptcy of many companies.

2. Erroneous and untimely actions of the Federal Reserve.

3. The newest crisis of overproduction inherent in the capitalist socio-economic formation (according to Karl Marx).

4. The stock market bubble created by investments in manufacturing beyond real need.

5. Rapid population growth and its added pressure on the labor market, as progress in healthcare and better living standards significantly reduced the natural decline of the population from diseases.

created his wealth when Somerset Importers, his company, received the right to be the exclusive representative of liquor brands such as Gordon's Gin and John Dewar & Sons Scotch Whiskey. He also owned Chicago Merchandise Mart, the largest office building in the United States. In 1961, he suffered an apoplectic stroke. Paralyzed and unable to speak, he was confined to a wheelchair in the final years of his life. His wife Rose survived him by several decades. She died in 1995 at the age of 104.

6. The adoption of the Smoot–Hawley Tariff Act in 1930, establishing high customs duties on imported goods, which sharply increased the prices for previously cheaper imports. This reduced household purchasing power and affected American exports as a result of retaliatory measures adopted by Western partners.

7. Margin loans. The idea of these loans is simple— you buy stocks by paying only 10 % of their value. For example, you can purchase stocks worth a thousand USD for just 100 dollars. These loans were popular in the 1920s when everyone was playing the stock market. But they had a catch: the broker may demand at any time to repay the debt, in which case it must be repaid within 24 hours. This is known as the “margin call,” and it usually entails the sale of stocks purchased on borrowed funds. On October 24, 1929, New York brokers who had issued loans began making margin calls en masse. Everyone started dumping their stocks to avoid payments on margin loans. The need to pay for such claims caused a shortage of funds in banks and resulted in their bankruptcy.

The Great Depression had disastrous global effects. The crash pulled down industrial production to the level of the early 20th century, that is, 30 years ago, and unemployment topped 30 million in developed capitalist countries.

Chapter 3

THE GREAT DEPRESSION IN THE USA

When the Soviet Union was dissolved in 1991, this led to an economic meltdown in post-Soviet Russia in the 1990s, and for as many as 25 years, the search for a way out has failed to yield the desired outcome. In terms of economic effects for Russia, this event can be reasonably compared to the century-old crisis known widely as the Great Depression. For many historians and international economists who study this phenomenon, it was Franklin D. Roosevelt's New Deal that pulled the world market (first and foremost, in the United States), back from the precipice of the most severe economic crisis in human history. At its core, the policy allowed government regulation of the economy.

In this context, it makes sense to study the methods used to overcome the effects of economic collapse in the 1930s, including the urgent measures taken way back when in order to avoid the threat of social upheaval, and try to identify the role and place of the government in the management of a market economy in the 21st century.

The global economic recession,¹ which for most countries began in 1929, triggered financial panic and a crash of the

¹In economics (in particular, macroeconomics), the term “recession” (from Latin “Recessus,” meaning “retreat”) stands for a relatively moderate, non-critical downturn in production or a slowdown in economic growth. A downturn

world's exchanges, ultimately resulting in a protracted crisis (depression). The world bounced back from its depression all the way up to 1939. Therefore, the entire 1930s are generally viewed as the period of the Great Depression. In Russian, the more commonly used term is the "global economic crisis," while the term "Great Depression" refers mostly to the crisis in the United States.

The crisis severely affected the most developed Western countries, including the United States, Canada, Great Britain, Germany and France, but impacted other countries as well. Industrial cities suffered the most. In some countries, construction came to a virtual standstill. Reduced effective

in production means zero growth of Gross National Product (GNP) (stagnation), or its decline for more than six months. Recessions are a phase in the economic cycle that follow a boom or sustained smooth growth, and are followed by a depression. Recessions often lead to a massive decline in stock exchange indices. The economy of a country typically depends on the economy of other nations, therefore the economic downturn in one country may lead to a recession in other nations, and even a crash of world markets. Recessions also encompass many other signs of cyclical crises, such as rising unemployment.

The terms "recession," "depression," "stagnation" and "downturn" were explained by Murray Rothbard (with his signature sense of humor) in his article *Economic Depressions: Their Cause and Cure*, published in 1969. "In the old days, we used to suffer nearly periodic economic crises, the sudden onset of which was called a 'panic,' and the lingering trough period after the panic was called 'depression.' The most famous depression in modern times, of course, was the one that began in a typical financial panic in 1929 and lasted until the advent of World War II. After the disaster of 1929, economists and politicians resolved that this must never happen again. The easiest way of succeeding at this resolve was, simply to define 'depressions' out of existence. From that point on, America was to suffer no further depressions. For when the next sharp depression came along, in 1937-38, the economists simply refused to use the dread name, and came up with a new, much softer-sounding word: 'recession.' From that point on, we have been through quite a few recessions, but not a single depression. But pretty soon the word 'recession' also became too harsh for the delicate sensibilities of the American public. It now seems that we had our last recession in 1957-58. For since then, we have only had 'downturns,' or, even better, 'slowdowns,' or 'sidewise movements.'"

demand drove down prices for agricultural products by 40–60 %.

Here I would like to add a few words about the events that took place in the United States on the eve of the Great Depression. March 1929 was marked by the inauguration of newly elected President Herbert Clark Hoover.² He assured Americans that the United States had reached a level of prosperity never seen before in the history of mankind.

Herbert Hoover made economic prosperity his election theme, and proclaimed the imminent end to poverty in the U.S. His campaign slogan was “a chicken in every pot and a car in every garage.” This helped win him an overwhelming victory over the Democrats. Herbert Hoover was a gifted administrator, technocrat and the first President to come from an elite management position. He pushed to avoid di-

²Herbert Hoover (1874–1964) was a Republican and the 31st President of the United States (1929–1933). Following the onset of the Great Depression in October 1929, Herbert Hoover became captive of his own principles, as he was against government interference in the economy, and for a long time failed to grasp the scale of devastation and poverty. He still continued to pin his hopes on the “self-healing powers” of a market economy. For too long, Herbert Hoover delayed adopting anti-crisis measures. The Reconstruction Finance Corporation was established only in January 1932, and the government was forced to resort to more energetic and wide-ranging steps to overcome the crisis. However, the Congressional proposal to introduce unemployment benefits was vetoed by Herbert Hoover at the end of 1932. In the fall of 1932, right before the presidential election, his popularity hit a historic low. However, with no alternative to Herbert Hoover, the Republicans nominated him again, and as a result, he suffered a crushing defeat at the hands of democratic candidate Franklin Roosevelt. Nevertheless, despite all the serious miscalculations made by President Herbert Hoover during the Great Depression, today’s researchers see the hallmarks of a visionary in his policies. Herbert Hoover was always against the resumption of diplomatic relations with Soviet Russia. However, the Russian people should know and remember that regardless of political views, he made tremendous contributions to saving the lives of millions during the mass famine of 1921–1922 in the USSR. The American Relief Administration, which he headed, provided food and medicine worth over 60 million USD. The philanthropic aid of Herbert Hoover helped save 9 million from starvation.

rect state interference in the economy. Instead, he preferred to influence it by interacting with the American financial and economic elite through close informal contacts. When he met with these financial movers and shakers in an informal setting, he often expressed concern about the future of the U.S. economy. Despite venting his outrage over stock speculation privately, as President he avoided interfering in Wall Street matters. Meanwhile, events proceeded at a relentless and rapid pace.

A full-blown recession broke out in the United States in August 1929, two months before the stock market crash (although construction volumes started to decline as early as in 1926). In February 1930, the Federal Reserve responded to the crisis by lowering its prime rate from 6 % to 4 %. In addition, it also repurchased government bonds from the market to maintain liquidity. Then, over the next two years, the Federal Reserve did almost nothing. Secretary of the Treasury Andrew Mellon believed it was necessary to let the market adjust proportions and prices on its own.

At the end of 1930, bank depositors began to withdraw their deposits en masse, which triggered a wave of bankruptcies in the banking sector. This initiated a contraction of the money supply in absolute terms. The second banking panic occurred in the spring of 1931. The entire time between these two events the authorities failed to respond to the economic tsunami on the horizon. From 1930 to 1931, GDP fell by 9.4 and 8.5 %, respectively, while unemployment rose from 3.2 % at the beginning of 1930 to 15.9 % by the end of 1931. In 1932, industrial production fell to 1913 levels, while foreign trade dropped to the level of 1925. In the heat of the crisis during the winter of 1932–1933, one in four Americans of working age had no job (according to other sources, one in three workers were affected).

In 1932, GDP fell by 13.4 %, bringing its overall collapse since 1929 to 31.3 %. In 1932, unemployment reached 23.6 %. More than 13 million Americans lost their jobs in the three years following the start of the crisis. Industrial inventories lost 80 % of their value compared to 1930, and agricultural prices fell by 53 % since 1929.

Waves of bankruptcies in the banking sector undermined public trust in financial institutions, and savings were frantically withdrawn from deposits and converted to cash. The surviving banks avoided issuing new loans, and tended to keep money in its most liquid form. This led to a sharp drop in the bank multiplier, and the lending and deposit activities of banks basically came to a standstill. The desire of both banks and households to keep money in cash sharply aggravated the recession.

Some media and researchers believe that as a staunch supporter of the self-regulating economy, Herbert Hoover “did not raise a finger” to mitigate the effects of this collapse. The timeliness and efficiency of his decisions are of course open to criticism, but for the sake of objectivity, it should also be noted that the presidential plan “to direct the power of the government to rescue the economy” was published back in November 1929. The Federal Farm Board established in 1929 was allocated 600 million in loans. The Reconstruction Finance Corporation created by the U.S. government invested billions of USD to save banks, businesses, railways and farms from bankruptcy. Even before the election of Franklin D. Roosevelt, the government banned the export of gold and closed all banks for a financial inspection, which led to the liquidation of 20 % of all credit institutions. Unfortunately, other government measures to rehabilitate the banking system were blocked by the democratic majority in Congress. In 1930, income taxes for families earning less

than 4 thousand USD were cut by two-thirds. In spring of the same year, 750 million USD were allocated to construction works. During his presidency, Herbert Hoover initiated the construction of more facilities than in the 30 years before combined,³ including a giant dam on the Colorado river and the unique Golden Gate Bridge in San Francisco. In fact, Russians can share with Americans their sense of pride in designing and building this great structure, as one of the main architects of the bridge was L.S. Moiseev, a native of Russia.

In January 1932, U.S. Congress established the Reconstruction Finance Corporation (RFC). The organization was structured to provide financial assistance to railways, financial institutions and corporations. In July, its role was expanded to also assist agriculture and finance federal and local public works.

The Federal Home Loan Bank Act was designed to provide loans to financial institutions involved in mortgage lending. U.S. Congress also passed the first of two Glass–Steagall Acts to liberalize the Federal Reserve System and allow it to lend to member banks. To stimulate consumer demand in the United States, the maximum income tax rate was raised to 63 % to replace the previous rate of 25 %. This was a significant budgetary redistribution of income from the rich to the poor.

Paul Moritz Warburg,⁴ the American financial theorist of the Federal Reserve System and author of the concept that

³ See: Kak SSHA vykhodili iz Velikoy depressii. 27.10.2016. <http://www.cotinvestor.ru/obuchajushhie-materialy/jekonomicheskie-krizisy/kak-ssha-vyxo-dili-iz-velikoj-depressii>

⁴ Paul Moritz Warburg (1868–1932) was an American financier and theorist of the Federal Reserve System. He was a descendant of an old Jewish family of German bankers and the great-grandson of Moses Marcus Warburg (1763–1830), who founded M.M. Warburg & Co in 1798, a Hamburg-based banking

served as a framework for the Federal Reserve Act in 1912, issued a public warning (which for the first time used the term “depression”) containing the key message that if speculation on the stock exchange is not stopped, soon there will be chaos. No one in the United States heeded his warning. The stock market continued to generate huge profits for anyone playing it. 60 new companies were founded from May through September 1929, injecting more than 100 million stocks in the market and further inflating the “investment bubble.” Unrestricted investments were being made frivolously by various industrial corporations and businesses with a blatant disregard for real consumer demand. Large-scale speculation in New York and on stock exchanges in the West played a major role in the global crisis.

Some major players felt the market was “overheated.” That summer, the most far-sighted among them left the game and converted their dollars into gold. Later, Joseph Kennedy Sr. commented on the state of affairs: “you know it’s time to sell when shoeshine boys give you stock tips.”

This moment came on October 24, 1929 (“Black Thursday”), when the Dow Jones⁶ industrial index tanked, causing

house still in operation today. The brothers of Paul Warburg included major financiers Felix and Max Warburg, Jewish religious leader Fritz Warburg, and art historian Aby Warburg. He married Nina Loeb, the daughter of Solomon Loeb, co-founder of Kuhn, Loeb & Co. In 1910, he was appointed Director of Wells Fargo & Company. Later that same year, he attended a secret gathering of leading bankers on Jekyll island, where the concept of the future U.S. Federal Reserve System was developed. It was then presented in 1912 to Congress as a report largely based on Warburg’s ideas, and provided the framework for the Federal Reserve Act. Paul Warburg later served on the Federal Reserve Board.

⁶The Dow Jones is the oldest still existing U.S. market index. It was created to track the industrial component of American stock markets.

The index covers 30 of the largest U.S. companies. The word “industrial” is a tribute to history, as today many of its companies are from other sectors. Initially, the index was calculated as the average of stock prices for its companies. Today, the calculation is based on a scaled average, where the sum of prices is

investors to start dumping their securities. More than 12.9 million stocks were sold in one day, and the Dow Jones fell another 11 %. People's first reactions were of pure disbelief. Winston Churchill, a high-profile visitor from Great Britain, had made major investments on the New York Stock Exchange. Later, he recalled how in the midst of the panic, he saw how hundreds of exchange members wandered the floor offering each other stacks of securities for a third of their old price. That day, Winston Churchill lost a fortune.

The top priority was to stop the panic and restore trust among shareholders as soon as possible. A small group of bankers with a combined wealth exceeding 6 billion USD gathered in the office of Thomas Lamont to decide how to keep the sinking stock market afloat. Without further delay, they formed a fund valued at USD 250 million to prevent the collapse of key stocks from the list they composed. This temporarily changed the course of events for the better and re-suscitated the market. It seemed confidence in the market had been restored. Thomas Lamont met with reporters as calm as ever, and the financial guru's words sounded reassuring: "we have found that there are no houses in difficulty and reports from brokers indicate that margins are being maintained satisfactorily." Thomas Lamont looked like a man walking out on stage of a burning theater and asking the audience to remain calm because there was no need to panic. In the days that followed, U.S. President Herbert Hoover also tried to reassure Americans with the mantra that business, production and commodity flows in the country were in excellent shape. Unfortunately, they all believed the worst was behind them. They were deeply, sincerely wrong.

divided by a divisor, which is adjusted whenever the indexed stocks are split or consolidated. This helps maintain index comparability by taking into account changes in internal stock structure.

On Monday, the market fell even faster than on Thursday. Tuesday morning was marked by a sharp depreciation of stocks, affecting well-known American companies, such as U.S. Steel, Radio Corporation of America (RCA) and General Motors Company (GMC), which epitomized national prosperity. One wave of mass stock dumping crashed down after another. More than 30 million securities were sold during these “Black” days (Friday, October 25; Monday, October 28; Tuesday, October 29)! Following the stock market crash, investors faced losses estimated at USD 30 billion. The volume of sales made it impossible for bankers to change the situation in any way. By Tuesday evening, U.S. stocks were worth an average of 22 % less than at the opening of the exchange on Monday (in one day, stocks plummeted by USD 10 billion). All at once, many different businesses saw their stocks depreciate sharply, and on October 29, 1929, the New York Stock Exchange crashed. The fall of commodity prices below their cost of production caused deflation.⁷

⁷Deflation (from Latin *deflatio*) is the general decline in the price level, or the opposite of inflation. In the 20th century, the most typical example of deflation is the fall in prices witnessed during the Great Depression from 1929 to 1933. Over the last two decades (since the mid 1990s), deflationary processes have been occurring in the Japanese economy (within 1 %). In the West, weakly rising prices are explained by the impact of influential processes and mechanisms that reduce the inflationary impulse from the issue of paper money. Why do people think today that a deflationary trend dominates? Currently, the economy is in the midst of the 5th phase of the Kondratieff Wave. It is downward-oriented and characterized by deflationary and depression-related trends. Inflation is inherently multifaceted. In individual cases, there is the inflation of costs and demand. But we must consider both the issue of paper money and the processes that lead to balancing.

The following processes can be identified as concerns the issue of money: 1. During a crisis, a lot of money just burns up or is frozen. For example, the Great Recession (2008–2009) is also known as the crisis of money oversupply. Without additional issues of money, prices would have fallen and bubbles deflated. In other words, this would have facilitated a real deflation that rehabili-

Numerous factories and plants came to a standstill simultaneously. The situation was particularly hard in the metallurgy, construction, coal mining and automotive industries. The stock market crash and loan defaults in the industrial sector were followed by the U.S. banking sector's collapse. More than 40 % of banks went bankrupt, wiping out the savings of millions of Americans.

The stock market crash had a catastrophic impact on the national economy. The graph presented in *Fig. 1* shows that from 1929–1933, the real GDP of the United States fell by almost a third.

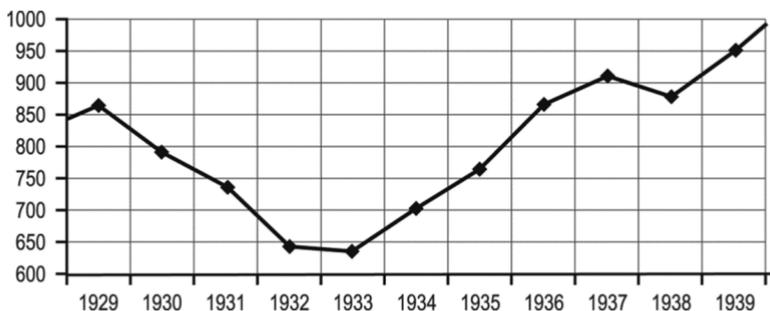


Fig. 1. U.S. GDP in 2000 prices, billion USD.

tated the global economy. 2. The need to maintain world trade. While in the 19th century gold acted as the main currency, trade today is dominated by USD and in part by other currencies. This means a certain amount of money must be injected from elsewhere into the global economy. 3. Withdrawal of money from circulation. Globally, this happens through the accumulation of foreign exchange reserves, which helps consolidate excess funds. Recently, a number of countries have increased their gold and foreign exchange reserves. This can help explain the difference of inflation rates in various countries. 4. Dumping of goods and services in developed countries (for example, tourism, which makes it cheaper and higher quality). 5. Slower money circulation. When world trade slows down, adding extra capital has no effect, and prices continue to fall. Any slowdown in world trade negatively impacts overall economic growth.

Fig. 2 presents the dynamics of the producer price index (1928 = 100) in the midst of the Great Depression (1933).



Source: U.S. Department of Labour: Bureau of Labour Statistics.

Fig. 2. Producer price index (1928 = 100)

Fig. 3 shows that after a sharp fall during the Great Depression, the Dow Jones Index remained at modest levels for many years to come, and only in 1954 did it rise back up to its pre-crisis level of 1929.

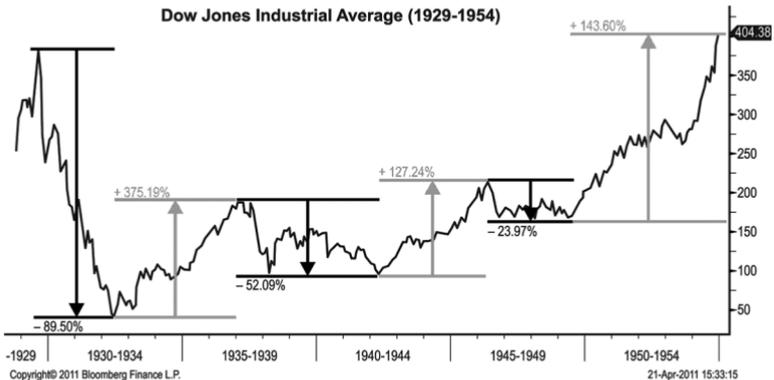


Fig. 3. Dow Jones Index dynamics

Fig. 4 shows changes in the money supply (billion USD) during the Great Depression in the United States (from May 1, 1924 to May 1, 1940). By April 1, 1933, the money supply shrunk by 38 % from 48.16 billion USD on October 1, 1929, to 29.75 billion USD on April 1, 1933.

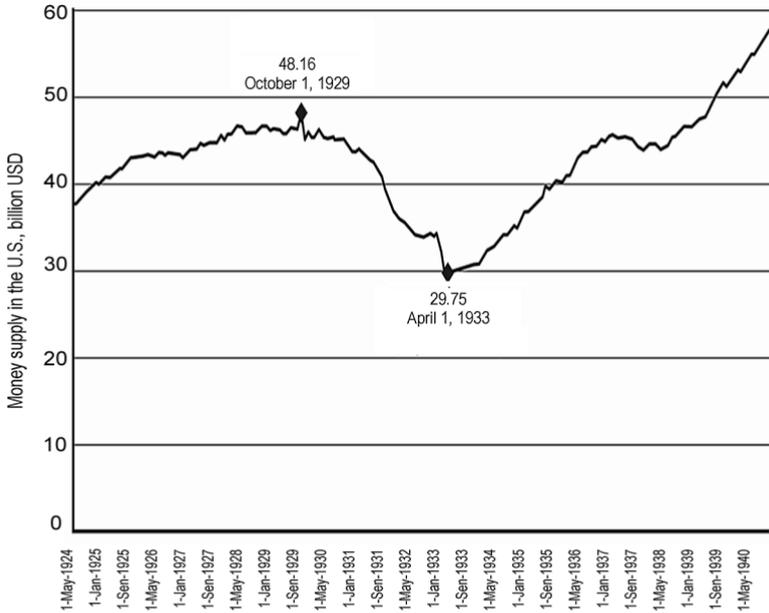


Fig. 4. Money supply dynamics during the Great Depression

During the Great Depression in the United States, the money supply shrunk by 38 %.

Unemployment dynamics in the United States from 1910 to 1960 are shown in Fig. 5. The shaded area indicates peak unemployment (1929–1939).

Table 1 shows the fall of GDP, industrial production and agricultural prices, and the rise of unemployment in the United States in the three years following 1929.

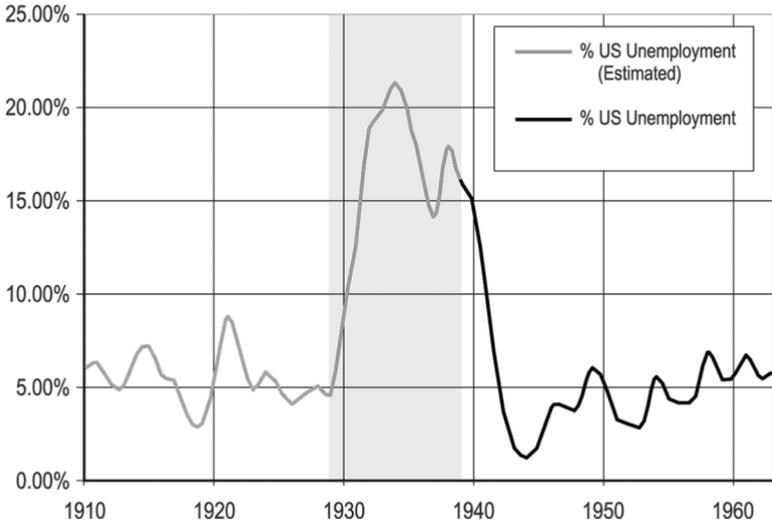


Fig. 5. Unemployment dynamics in the United States

Table 1

Year	GDP, %	Industrial pro- duction, %	Agricultural prices, %	Unemployment, %
1930	-9.4	-19.3	-	3.2
1931	-17.9	-31.9	-	15.9
1932	-31	-46.2	-53	23.6

Once the bank bubble burst, businesses unable to operate without borrowing money started declaring bankruptcy, resulting in a catastrophic surge of unemployment.

Herbert Hoover believed in pure, unrestrained capitalism, and the government remained undecided for some time on whether to take decisive measures to mitigate the effects of

this collapse. The country sunk into poverty. People who lost their homes used wooden boards and cardboard to build a shanty town, which they named Hooverville in a sad, ironic reference to the U.S. President. Many Americans accused him of causing their misery. Paul Warburg, who predicted the Great Depression, exited the market in time and managed to save his bank. However, the comfort this afforded him was sparse. After the stock market collapsed, Paul Warburg never regained his peace of mind again. People started calling him the Cassandra of Wall Street, and he took the unflattering comparison very hard. In Greek mythology, Cassandra predicted the future (she was known as the “messenger of misfortune”), but was also condemned to be mistreated by others. Paul Warburg eventually fell into a depression that led to his premature passing.

“Black October” in 1929 is considered to be the onset of the Great Depression. However, a stock market crash alone clearly couldn't have triggered such a large-scale collapse in the world's most powerful economy. As early as several months before the stock market downturn, the American economy was already sliding into recession. Industrial production declined markedly, which was accompanied by a decline in household income. The overproduction of goods also aggravated the looming crisis. In those years, the Dollar was pegged to gold reserves, which strictly limited the money supply and constrained the consumer demand for goods. The end of World War I also played a significant role. Defense orders had declined, and this caused a recession in the U.S. defense industry. Higher customs duties on imported goods under the Smoot–Hawley Tariff Act were introduced to protect domestic manufacturing and significantly cut the purchasing power of households. The imposition of a 40 % duty on more than 20 thousand imported goods sharply cut

European exports to the United States, which precipitated its own crisis in the Old World.⁸

In the early years of the Great Depression, America's economic growth came to a halt, industrial production fell by almost 50 % and agricultural prices dropped by 53 %. In fact, in the “wild 1990s” as they're known in Russia, the collapse of the post-Soviet economy is seen in strikingly similar figures. During the initial crisis, 130 thousand firms, 19 railway companies, 5760 banks, about 1 million farmers went bankrupt in the United States. By 1933, approximately 17 million people were unemployed (1/3 of the working-age population), who together with their family members totaled 50 % of the entire U.S. population.

In the early 1930s, America experienced two additional banking panics. Depositors rushed en masse to withdraw their savings, and most financial institutions were forced to stop issuing loans. Bank bankruptcies weren't long in coming, which resulted in depositors losing 2 billion USD. Household incomes were falling rapidly amid the appalling state of the national economy. This gave rise to a protest movement, where workers and employees of the Ford plant first took to the streets of Detroit in 1932 to express their discontent. The police and Henry Ford's private security guards opened fire on the protesters, killing and wounding several of the workers on strike.

Franklin Roosevelt beat out his opponent Herbert Hoover in the next election campaign, who failed to lead the United States out of the crisis. From his first days in the White House, the new President had to act without delay to pull America out of its quagmire and keep the whole country from collapsing. Franklin D. Roosevelt used to say, “if I prove

⁸ See: *The Independent*. London, April, 2005.

a bad president, I will also likely to prove the last president.” The New Deal marked the beginning of the United States' transformation into a country run by a socially oriented government.

On March 4, 1933, Democrat Franklin Delano Roosevelt was sworn in as 32nd President of the United States (1933–1945). As early as in March 1933, a special session of U.S. Congress emphasized the need for active government intervention in the economy (in a shift away from the liberal doctrine of Adam Smith).

Doctor of Economic Sciences Nikita Krichevsky rightly noted in his book *Ekonomika vo lzhi. Proshloye, nastoyashcheye i budushcheye rossiyskoy ekonomiki* that the ideas of that great 18th century Scotsman from Glasgow had been distorted. In his fundamental work *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Adam Smith argued that “by preferring the support of domestick to that of foreign industry,” every individual “intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.” By pursuing his own interest, such an individual “frequently promotes that of the society more effectually than when he really intends to promote it.” As you can see, these ideas contain not even a hint of denying the government's role in the economy. They were all about supporting domestic production, which ultimately served the interests of society. “However, this quote of Adam Smith was so distorted that the government was transformed from the creator and preserver of social norms into a pariah, a flawed “night watchman” with the truncated duties of ensuring border security and law and order,” notes Nikita Krichevsky.

At the core of President Franklin D. Roosevelt's New Deal policy were measures to strengthen government regulation of the economy and deficit financing of the budget.⁹

In his inauguration speech, he opined that “the only thing we have to fear is fear itself.” In that speech, he raised the issue of granting him extraordinary powers in the face of the Great Depression. To be fair, we should not forget that by introducing public works, Franklin D. Roosevelt continued the initiative of his predecessor. Moreover, even at the start of the depression during Herbert Hoover's presidency, there was already a proposal to raise the wages of Americans, and interestingly enough, the President's proposal was also supported by business owners. At the time, higher wages were seen as a panacea for all ills. In addition, Herbert Hoover also cut taxes and increased public spending. Unfortunately, these measures only aggravated the situation. With a reduced budget capacity, Herbert Hoover was eventually forced to do the opposite by raising taxes on big businesses to 60 % and cutting social spending. His Tariff Act (1930) sparked an economic war, although more than a thousand businessmen and economists had opposed it during discussions of the draft bill. Instead of “opening the floodgates,” the President imposed self-isolation by signing this act. He relied on protectionism to shelter the economy from competition. However, in reality, this autarchy led to a trade war when Great Britain and Germany were forced to take similar measures. The key economic indicators of these countries from 1929 to 1932 are presented in *Table 2*.¹⁰

⁹ See: “Novyy kurs” Franklina Delano Ruzvel'ta: // Spravka, RIA Novosti, December 09, 2008.

¹⁰ See: http://forexaw.com/TERMs/Society/Shocks_and_disasters/Economic_Crisis/11004

Table 2

Economic indicators, by country	USA, %	Germany, %	Great Britain, %	France, %
Industrial production	-46	-23	-24	-41
Wholesale prices	-32	-33	-34	-29
Foreign trade	-70	-60	-54	-61
Increase in unemployment	+ 607	+ 129	+ 124	+ 232

In 1927, England once again adopted the gold standard (first introduced in England in 1870). It was followed by France and the United States, the world's strongest economies. The "gold standard" opened up the possibility for major financial speculation on the stock exchange. Financial experts warned President Herbert Hoover about the need to create a new financial architecture, but he refused to heed their advice. The number of millionaires plummeted from 513 to 13. This can be seen as the collapse of oligarchic capitalism. Nine million depositors lost their savings. More than one million families lost their mortgaged homes. Wages were halved.

The resuscitation of the American economy (at an extremely slow pace and twice interrupted by recessions) began after the election of Franklin Roosevelt as President in March 1933, who through tremendous efforts managed to turn the depression into a recovery. The new President placed his bet on the government regulation of the collapsed U.S. financial and economic market system.

Before he was elected President, Franklin D. Roosevelt had already created one of the first regional systems of social

security for the unemployed as Governor of New York. He was devoted to the idea that the government should work not just for the rich, but also for the poor, and most importantly, for the middle class. Franklin D. Roosevelt believed the U.S. government should support the poor. According to the President's plan, the New Deal was designed to save the country by reviving its prosperity. Needless to say, Franklin D. Roosevelt clearly understood that neither Communist nor national socialist ideas could ever take root in America. However, it is noteworthy that in the USSR of the 1930s, (i.e. in the midst of the Great Depression), the planned economy was developing rapidly after the devastation caused by the revolution and Civil War. The industrialization of the Soviet Union proceeded on a large-scale at a dynamic pace.

The Great Depression played into the hands of the Soviet Union. In its years of rapid industrialization (the first and second five-year plan periods), the Soviet Union expanded its foreign trade opportunities. American and German firms were eager to sell their latest machines, equipment and most advanced technology to the Soviet Union. The second five-year plan focused on forming a unified industrial complex on the basis of enterprises already in operation, which helped manufacture industrial products in the necessary volumes. Soviet representatives freely traveled around state companies at the time and meticulously selected everything they needed to equip the new plants.

A powerful and high-quality metallurgy complex was formed for mechanical engineering needs, and produced a large volume and wide range of steels and alloys essential for building modern equipment. In 1937, the USSR manufactured 2.5 million tons of rolled high-quality steel, 850 thousand tons of high-quality electric steel (4.8 % of all steel

smelting), and 440 thousand tons of ferroalloys.¹¹ Almost all high-quality rolled products (1.9 million tons) went to mechanical engineering needs. The country's victory in the Great Patriotic War would never have been possible without timely and large-scale industrialization.

The United States was only in a position to implement reforms within the contours of its existing socio-economic paradigm. Big capital had to curb its appetites and agree with the government on intervention in the economy. Loans needed to be provided to the poor, new jobs created and funds raised for social security programs all at breakneck speeds.

Never before had a crisis of such magnitude struck the capitalist economy. Economists even toyed with the idea that the capitalist system could no longer exist in its present form.

The theoretical foundations for restructuring the economy in industrialized countries were provided by eminent British economist John Keynes. He believed the government should regulate economic development and organize the programming of the economy, i.e., an implied transition to state regulation of the economy. The new U.S. President Franklin D. Roosevelt proclaimed a new system of economic rehabilitation.

In those days, each passenger ship leaving the port meant 1 billion USD leaving the country. This money was flooding out of the United States, while most working Americans hadn't received their wages for months. The outflow of capital had to stop. The first decree of the President was to close all banks. They did not operate for more than a week, and

¹¹ See: *Granovsky E.P.* (1949). *Sovetskaya promyshlennost' v Velikoy Otechestvennoy voyne*, Moscow, Gospolitizdat, p. 14.

about 4 thousand of them never opened their doors again. Franklin D. Roosevelt regularly addressed the American nation to discuss what had been done, and what his next steps were. Faith in the President's actions was key to success, and he did everything in his power to gain the full confidence of his people. He guaranteed the public that in the newly opened banks, their money would be safer than at home under their mattress. Americans once again started depositing their money with the newly opened banks. They believed in their President's promises.

Some members of the President's team sympathized with the Soviet Union as it built socialism at the time, while others viewed the Soviet state planning system positively, although their ultimate goal was to improve the American economy without straying from capitalism. They were united by one common notion: they must prevent the decline of wages, raise prices and decrease unemployment. Thus, the money supply needed to be expanded. However, the "gold standard" did not allow for new issues of money. The Secretary of the Treasury was instructed to confiscate gold and gold certificates from individuals, excluding gold held by dentists, jewelers and in collectible coins.

The value of confiscated gold was compensated to owners by paper dollar bills, which would later be devalued relative to gold prices. Once it had bought up all the gold at a fixed price based on the Gold Reserve Act adopted in January 1934, the state devalued its currency and set the official price of gold at 35 USD per ounce. In other words, the U.S. Dollar lost 41 % of its value. In addition, the government increased the price of silver to 1.25 USD per ounce instead of 35 cents.

A popular form of communication between the President and ordinary Americans were his fireside chats. This regular contact with people strengthened public trust in the Presi-

dent. The President's decision to cut wages for himself and all employees of his executive office made a good impression on the public. Franklin D. Roosevelt also began to borrow from abroad and among private institutions on the domestic market. He opted for a deficit budget in order to fully achieve his objectives.

One of his first acts as President was to abolish Prohibition, which had been in effect since 1920. For 12 years, this law had been a source of mass discontent, as almost everyone continued to drink alcohol in those years. Living a healthy lifestyle may be pushed today, but back then, even 11–12 year old children drank beer. Abolishing Prohibition spiked Franklin D. Roosevelt's popularity among Americans and significantly bolstered the budget with new excise duties, i.e., money that was previously going to bootleggers. At the end of his first week in the White House, Franklin D. Roosevelt said a few words that have since gone down in history: "I think this would be a good time for a beer." People rushed into the bars that opened after Prohibition.

The favorable atmosphere this created was even more significant in terms of adopting the most necessary, albeit unpopular measures. Franklin D. Roosevelt often repeated, "today, to be a liberal means to defend the government regulation." In Russia's current economic context, it wouldn't be a bad idea to put this quote on the desks of the neoliberals in office at the Central Bank and federal economic ministries.

The end of the Prohibition was the first shot fired at corruption, as the mafia suddenly lost its main source of income. Another major blow was the law on criminal liability for racketeering, extortion and bribery. Unemployment was the main source of public demoralization. Among other benefits, public works also dealt a direct blow against crime. In some cities, unemployment levels reached 50 %. Never-

theless, the most distressed part of the population were farmers, who were literally starving and abandoning their homes en masse in search of a better life. They made up the main labor reserves for large-scale public works. U.S. agriculture had slid into stagnation as early as 1921. However, for a number of years, the Republican administration underestimated the significance of the issue. In four years, from March 1929 to March 1933, 897 thousand farms (or 14.3 % of all farms in the United States) had been forcibly sold for defaulting on their loans and tax evasion.

To support distressed farmers, the state began to buy up their land and leave it fallow. The government under Franklin D. Roosevelt also encouraged a reduction in agricultural output and livestock by paying cash bonuses to farmers (Agricultural Adjustment Act of 1933). The funds to compensate farmers for the costs of destroying their surpluses were raised by a new tax on products from enterprises involved in the processing of raw agricultural materials.

The first year of Franklin D. Roosevelt's presidency yielded mixed results: GDP stopped its plummet at 2.1 %, but unemployment shot up all the way to 24.9 %.

Franklin D. Roosevelt began strengthening his ties with trade unions in 1935. He organized large-scale public works all throughout the United States and was viewed as a friend of workers. The first working camps run by the Department of Defense opened up in 1933, employing 3 million young men at 30 USD a month to carry out public works projects. The earnings were sent to their families, while they were provided 8 USD to cover small expenses. The Public Works Administration, which provided various types of physical labor to 4 million Americans, was established in 1935. To fight unemployment, the government allocated resources to large-scale infrastructure projects, particularly in agriculture,

which historically had been the poorest. More than a thousand tent camps were also built to accommodate the unemployed. Now these people were being paid and consumed goods available on the market. Construction projects also meant purchasing building materials and construction equipment. All this helped mitigate the crisis without ever producing any new goods. The scale of public works carried out speaks for itself. In fact, they helped build a modern infrastructure in the country over just a few years. One third of all highways currently in operation were built during the Great Depression. The works resulted in more than one million kilometers of new railways and highways, 77 thousand bridges, and 85 airports. There was also large-scale construction of housing, dams, power plants, hospitals, schools, power lines, and other important facilities.

By 1935, the first noticeable positive changes were being witnessed in the American economy. Yet the wealthy elite did not take kindly to the fact that in the context of new reforms, its power was shifting over to the government. They accused Franklin D. Roosevelt of having betrayed his own class and established the American Liberty League, which attempted to stage a coup. The founders of the League believed the reforms were yet another step towards socialism. The American Liberty League allocated 30 million USD for the coup. At the beginning of 1936, it held a meeting in Washington attended by 2 thousand of the most influential people in the country. By 1936, the business climate in the United States was like night and day compared to four years earlier. So why did the business elite hate the President so much? Their qualms were first and foremost about the loss of their personal status. They felt they had been robbed of power. In reality, Franklin D. Roosevelt was trying to prevent the emergence of economic despotism in the country. If Americans

wanted to preserve their freedom, they had to resist the concentration of economic power in the hands of a few rich people whose personal interests pushed the country towards an economic oligarchy.

This all had American oligarchs shaking in their boots. They had no lack of imagination in how they called their president, branding Franklin D. Roosevelt a dictator, a Communist, a fascist, and even “Franklin Stalin.” They spread rumors that the President was in fact a Jew and Freemason, his real name was “Rosenfeld,” not “Roosevelt,” his smile came from plastic surgery, and he had just one goal in mind: to destroy the American way of life.

Similar to the big capitalists of the 1930s, Douglas Casey,¹² a contemporary and admired American economist, believes Franklin D. Roosevelt aggravated the recession rather than ensured economic recovery. In his opinion, the U.S. President was a villain, not a hero. Besides ending Prohibition, he believes the ex-President's economic policy was an utter disaster. According to Douglas Casey, this failure eclipses the success of the United States in World War II in the public memory, which was achieved during the presidency of Franklin D. Roosevelt.

Neoclassical economists are also convinced that the Great Depression in the United States was exacerbated by government mistakes. The great minds of monetarism, including Milton Friedman and Anna Schwartz, believed the Federal Reserve was to blame for the “crisis of confidence,” as the banks had not been provided with timely assistance, resulting in the wave of bankruptcies. They argue that the measures to expand lending to banks similar to what started in 1932 should have been adopted in 1930, or no later than

¹² See: <http://goldenfront.ru/articles/list/author/dag-kejsi>

1931. In 2002, during his speech at the 90th anniversary of Milton Friedman, Ben Bernanke, Member of the Board of Governors of the Federal Reserve and Chairman of the Federal Reserve (2006–2014), said: “Let me end my talk by abusing slightly my status as an official representative of the Federal Reserve. I would like to say to Milton and Anna: regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again.”

According to Great Depression-era economic experts Cole and Ohanian, without the measures taken by Franklin D. Roosevelt's administration to curb competition, the recovery achieved by 1939 could have been reached five years earlier.

In the presidential election of 1936, most U.S. media outlets were represented by William Hearst, a major tycoon who in the past had supported Franklin D. Roosevelt. However, this time around he was leading the army of FDR's opponents. All the newspapers called to vote for Republicans. Morgan, DuPont, Ford and others opposed him. While 25 % of raised funds in the previous election campaign were from big capital, in 1936, donations from bankers failed to top 4 %! Yet in the presidential election held on November 3, 1936, Franklin D. Roosevelt won by a landslide because he was backed by the people. The great Albert Einstein shared his thoughts on those days in 1948: “Nobody would want to deny that the influence of the economic oligarchy upon all branches of our public life is very powerful. This influence, however, should not be overestimated. Franklin Delano Roosevelt was elected president in spite of desperate opposition by these very powerful groups and was reelected three times; and this took place at a time when decisions of great consequence had to be made.”

In World War I, one million American soldiers fought in Europe. During the Great Depression, they demanded their

veteran benefits. But under Herbert Hoover, their movement was brutally suppressed in Washington, leaving some protesters dead. In the summer of 1932, veterans of World War I organized a march on Washington, enraged by the government's failure to pay for their service. Instead, Herbert Hoover's administration had decided to issue them certificates with payment deferred for 20 years, with the option to borrow up to 50 % of the certificate's face value. About 25 thousand veterans demanded compensation and social insurance. Herbert Hoover ordered U.S. troops to disperse the protesters and burn their camp. General Douglas MacArthur carried out this order using tanks, cavalry and tear gas.

During the Great Depression, veteran benefits were a heavy burden on the federal budget, but Franklin D. Roosevelt managed to restore them anyway.

In 1928, as Governor of New York, he established the Temporary Relief Administration to provide unemployment benefits. Now Franklin D. Roosevelt wanted to use this same idea throughout the rest of the country. The decision was made to introduce strict banking, credit and investment transaction control, and put an end to speculation with borrowed money. The new President acted decisively. He guaranteed the safety of bank deposits and introduced a law requiring bankers to conduct their business under strict state control. He also established the U.S. Securities and Exchange Commission and appointed his old friend Joseph Kennedy Sr., who had firsthand knowledge of ethics violations in banking practices, to be its Chairman. "It's like a fox guarding the henhouse," people joked.

The National Recovery Administration was established under the government in accordance with the specially adopted National Industrial Recovery Act. It was headed by a council known as the Brain Trust, including major econo-

mists and industrialists of the United States. The industrial sector was divided into 17 industry groups, each headed by its own authority with its own "code of fair competition." By focusing manufacturing on real market needs, the industry groups established the product range, prices and output, determined their consumers and wage limits for workers. Franklin D. Roosevelt said they were "...constructing... the temple which, when completed, will no longer be a temple of money changers or of beggars." And he wanted the temple to be supported by the "fair competition" imposed by this law.

Under the threat of judicial prosecution, the working week was reduced to 36 hours. This helped artificially expand the number of employed, as two persons could now work a single job for a lower wage. Workers were also allowed to form trade unions. The total cost of unemployment insurance topped almost 9 % of the federal budget.

Ultimately, despite FDR's reforms, the U.S. economy never made it back to its pre-crisis 1929 level before the outbreak of World War II. Moreover, in 1937, the United States plunged into another economic recession, where industrial production fell by 37 %, and unemployment jumped up to 10.5 million. In 1939, the New York Stock Exchange witnessed another sharp decline. But under Franklin D. Roosevelt, the United States continued to lay the foundations of a social state and adopt laws regulating the relationship between labor and capital. The precedent created by Franklin D. Roosevelt was further developed first in European countries, then spread to many other countries around the world.

Unemployment soared during the Great Depression. Back in 1933, after becoming President, Franklin D. Roosevelt said, "our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously."

With unemployment benefits and guaranteed pensions, Americans felt confident about their future. Franklin Delano Roosevelt, the great reformer, brought about a deep social transformation in a country that in the early 1930s was on the verge of revolt.¹³ His “vaccine” saved American capitalism from collapse, preventing mass social unrest and its unpredictable results (revolution, civil turmoil or a fascist coup). Franklin D. Roosevelt's enemies failed to realize the key lesson that the “inoculation of socialism” saved American capitalism. Keynesianism, convergence theory and any works on post-industrial society were all undoubtedly based on, or at least took into account, this unique historical experiment.

The Great Depression from 1929 to 1933 was an extraordinary event in the history of 20th century world capitalism, the causes and effects of which the academic community is still striving to elucidate fully. Among historians and economists, there is no consensus on what got the United States back on its feet: reforms or World War II. But one thing is clear—the administration of Franklin D. Roosevelt proved that state intervention in an economic crisis is necessary and inevitable. In my opinion, there are also no doubts that the United States was the only country to significantly strengthen

¹³ But today, in his paper *Great Myths of the Great Depression* (2008), irreconcilable FDR opponent Lawrence Reed claims that the questionable actions of authorities, in particular those restraining competition, prolonged the crisis for several years. On these grounds, he declares FDR a villain, rather than the savior of the nation. This view is also shared by American economist Doug Casey, as well as other Great Depression researchers, including Cole and Ohanian. However, L. Reed noted in his paper that “one of every four workers was out of a job at the Depression’s nadir, and ugly rumors of revolt simmered for the first time since the Civil War.” It’s no wonder that for ordinary Americans, the social stability, guarantees and benefits acquired from the New Deal meant incomparably more than an accelerated return to pre-crisis life under its old “slavery” terms. Nothing else is weighty enough to explain the re-election of FDR for a second, third and fourth term.

its national economy following World War II. This was facilitated by the mobilization of men to “finish off” unemployment, while multi-billion dollar defense orders filled the government treasury with cash.¹⁴ As a result, by 1945, U.S. GDP had more than doubled compared to its pre-crisis level of October 1929. As for the Dow Jones Index, it only exceeded this level again in 1954. I consider the end of the Great Depression as a synergistic effect of many factors, two of which—the New Deal and results of World War II—played a decisive role¹⁵.

¹⁴ During World War II, the United States re-experienced the same situation it was in during World War I. While military hostilities in Europe made major destructive blows to its economy, the United States entered the war later than other countries, and no fighting ever took place on U.S. soil. Human losses suffered in the United States totaled just six people killed by a bomb sent over from Japan in a balloon.

¹⁵ During World War II, large-scale deliveries of weapons and military equipment contributed to economic recovery and also alleviated unemployment.

Chapter 4

WORLD WAR II

Ripples of the Great Depression were felt all over the world and served as a major cause leading to World War II. This requires a bit more explanation. Germany, Great Britain and France were hit hardest by the crisis starting in America. A few years before Wall Street crashed, London restored the gold standard and imprudently set the pre-war nominal value for the pound. The British currency grew overvalued, which increased prices for English exports and made them uncompetitive. To support the pound, Great Britain thus had no choice but to borrow overseas from the United States. When New York was hit by the Great Depression, the crisis spread to London as well, and from there all over Europe, which had just barely recovered from World War I. The crisis hit Germany especially hard. In the 1920s, confidence in the German mark was low, the banking sector had not yet recovered after the country's defeat in World War I, and the country was experiencing a period of hyperinflation. To improve the situation and prop the German economy back up, local firms and municipalities turned to the United States for short-term loans. The Great Depression, which began in October 1929 in the United States, hurt businesses and the population of Germany, who had no time to reduce their reliance on American loans. The global situation in 1933 led to the following key events in the history of mankind:

- In the United States, the New Deal of President Franklin D. Roosevelt (1933–1945)
- In Germany, the rise to power of the National Socialist Party led by Hitler¹ in January 1933
- In Russia, by the beginning of 1933, thanks to the accomplishments of the Soviet people in conjunction with the import of modern means of production and new technologies, the first five-year plan was already complete (1928–1932) (in four years and three months)
- In France and Spain, the establishment of the Popular Front.²

¹In 1922, the leader of the National Fascist Party Benito Mussolini came to power in Italy. In 1917, after returning from the frontlines, angry and tired soldiers became the base of the new Fascio di Combattimento (Combat Union) party. On November 7, 1921, the Combat Union was reorganized into the National Fascist Party. The high-sounding Italian word “fascio” (meaning “union,” “association”) served as the base for fascism, one of mankind’s most inhumane political movements. Adolf Hitler, the leader of the National Socialist Party of Germany, followed Mussolini in terms of politics, while Mussolini followed Hitler in terms of economics.

²In France, the Popular Front formed amid growing labor strikes. For example, a general strike was organized on February 12, 1934, which went down in history as the first successful public action of workers in France. In July 1934, socialists and communists agreed to stand together against fascism. Later, this union was joined by radicals. After extensive negotiations, the socialists, communists, General Confederation of Labor (CGT), Radical Party and a number of other smaller center-left organizations signed an agreement on July 14, 1935 to establish a political union known as the “People’s Alliance” (which later became widely known as the “Popular Front”) based on a “minimum” social democratic program.

On April 10, 1938, the leader of the Radical Party Édouard Daladier was appointed head of the French government. Officially, Daladier’s government did not refuse to collaborate with the left in the Popular Front, but it began to move away from the social and economic policy of the Popular Front in favor of what it termed the “national course.” In November 1938, the decrees adopted in France eliminated certain social guarantees (in particular, they abolished the 40-hour work week and increased direct and indirect taxes). In August 1939, the government banned all print publications of the French Communist Party (the

What did the series of events look like in the final years of the Great Depression on the eve of America's entry into World War II? To avoid being dragged into the bloody events in the European theater, U.S. Congress was adopting acts on American neutrality one after another. But Roosevelt did not believe in this position. He personally foresaw the inevitability of World War II and the United States' role in its outcome long before any fighting broke out. Yet he also understood the categorical rejection of this prospect by the American people, so the President refrained for a while from publicly expressing his position. A poll from 1937 showed that 95 %

L'Humanité newspaper and others). Finally, in September, they banned all activities of the French Communist Party.

The electoral victory of the Popular Front stopped the rise of fascist organizations to power. The government of the Popular Front implemented a number of significant social reforms. However, the parties making up the Popular Front were often at odds with one another. Industrial circles in the party "reduced to zero" many of the government's social programs. These contradictions led to the Popular Front's collapse at the end of 1938.

The Spanish Popular Front was established by leftist and liberal parties before the 1936 elections. The French Popular Front, which was formed a year earlier and was successful in its opposition of the right, served as an example for the Spaniards.

The Spanish Popular Front was established on January 15, 1936 after the President of Spain dissolved the Parliament and scheduled new parliamentary elections for February 16 of the same year. The Popular Front included moderate Republicans and the Republican Union, socialists from the Spanish Socialist Workers' Party and the Workers' General Union, communists of the Spanish Communist party and left Communists from the Workers' Party of Marxist Unification. In the elections held on February 16, 1936, the Popular Front managed to edge out the National Front, a coalition of right-wing forces, by a small margin.

The new government was made up exclusively of members of both Republican parties, but it relied on support from all members and sympathizers of the Popular Front. This ensured a broad base while limiting the possibility of illegal interference by certain allied parties (their armed units). The socio-political confrontations in Spain, which were greatly aggravated by the Great Depression, led to a military coup in July 1936 that burgeoned into civil war. In less than three years, the army achieved victory. General F. Franco established his dictatorship in Spain in April 1939.

of Americans did not believe in the danger posed by Germany and Japan to the United States, and rejected the very idea of any war preparations. Franklin D. Roosevelt was a very flexible politician, and when push came to shove, he was guided by the rule that “God has given man the ability to speak in order to better conceal his thoughts.”

In 1939, America launched a program for the gradual re-equipment of its armed forces, giving the country's economic development yet another boost. It is hard to imagine that at the time, the U.S. Army numbered less than 200 thousand and was in a deplorable state, ranking 19th in the world in terms of quantitative composition (after Bulgaria and Romania). Military exercises were held using replicas and models, as the armed forces only had 500 machine guns, about 200 artillery guns and two dozen outdated tanks. Readers may get the impression that U.S. leadership got carried away by pacifist ideas and forgot about the need to maintain the country's defenses in those years. But this is absolutely false. The Pacific and Atlantic oceans secured the country, keeping it far away from European and Asian theaters of land warfare. In the 1920s and 1930s, based on its geographic position, the United States focused on aircraft carrier and underwater navy developments. By the outbreak of World War II, the U.S. Navy had more than 300 warships, including 15 battleships, 5 aircraft carriers, 36 cruisers, 181 destroyers, 99 submarines, 7 gunboats and 26 minesweepers. The Navy also had a large number of auxiliary ships for various other purposes. However, many destroyers and submarines were significantly outdated.

During this period, Lexington and Saratoga large high-speed aircraft carriers were manufactured using the shells of unfinished battleships and battle cruisers to facilitate the deployment of sizeable large aircraft detachments on aircraft

carriers. This dramatically increased the capabilities of the allied carrier-based air force.³

On September 1, 1939, Germany invaded Poland. In response, Great Britain and France immediately rose to its defense and entered the war against the aggressor. Franklin D. Roosevelt jumped on the radio that same day and announced the position of the American government: to continue its policy of neutrality. Yet he was clearly aware personally that entry in the war could not be avoided. Americans still viewed a European war as none of their business. In the summer of 1940, Adolf Hitler gained control of France, which was the final stronghold of democracy on the European continent, while England was subjected to constant bombing raids. After winning the elections in November 1940, Franklin D. Roosevelt became the only American president in history elected to a third term.

In March 1941, he finally succeeded in changing the sentiment in Congress to provide assistance to all countries fighting fascism, first and foremost to Great Britain. The Lend-Lease policy was the largest lending operation in human history (about 50 billion USD). To better understand the scale of real assistance under the Lend-Lease policy in today's terms, bear in mind that in 2008 prices, this amount would have exceeded 600 billion USD. Lend-Lease helped

³When the United States entered World War I (April 1917), its air force was substantially inferior compared to other conflict participants from a technical perspective. The United States therefore launched the manufacture of licensed models, and American squadrons flew on airplanes designed in Europe. The only airplane designed in the U.S. was a twin-engine flying boat made by Curtiss, which made a name for itself in combat in 1918. It had excellent flight characteristics and was used for anti-submarine patrols.

But during World War II, the U.S. Air Force already boasted a full fleet of the most advanced combat aircraft. American industry was quick to roll out mass production of top-tier combat aircraft not only for U.S. troops, but for ally needs as well.

the U.S. economy recover through new construction, additional revenues and higher employment. The government also financed the construction of 2500 defense plants. After the war, these enterprises were sold to major corporations for several times lower than the state paid for them. Thus, the war naturally helped accelerate economic development in the United States, and its industrial production more than doubled from 1938 to 1948. Before World War II, the U.S. accounted for 40 % of global output, but by its end, this figure topped 62 %.

After the Germans attacked the USSR, Franklin D. Roosevelt decisively stated that Russia will also receive funds according to the Lend-Lease policy, despite the strong anti-communist sentiment in the U.S. government and Congress. This once again subjected Franklin D. Roosevelt to fierce criticism from American ruling circles.

On the morning of June 22, 1941, Germany violated its Non-Aggression Pact with Moscow and attacked the Soviet Union without declaring war. The aggressor was joined by its allies in Romania, Finland, Hungary, Slovakia, Croatia and Italy. The sudden attack on Soviet airfields destroyed a significant part of the country's air force. The Germans advanced quickly. By the winter of 1941, they occupied the Baltics, Ukraine, Belarus and Moldavia, began the Siege of Leningrad and were approaching Moscow.

The Anglo-Soviet Agreement on joint action in the war against Germany was signed in July 1941, and the Soviet-American Mutual Aid Agreement was signed in June 1942. This was a military-political alliance between the Soviet Union, the United States and Great Britain against its aggressors.

Casualties were extremely high outside Moscow from September 30, 1941 to April 20, 1942. From December 5,

1941 to January 7, 1942, Soviet troops launched a counteroffensive in the Battle of Moscow. Soviet armed forces managed for the first time to stop the Wehrmacht, which was considered invincible, pushing back the Nazi invaders 100–250 km from Moscow. For the Red Army, this was a turning point in the Great Patriotic War.

B.H. Liddell Hart, a well-known English military theorist and historian, emphasized that this victory was won “first of all, by the courage and resilience of Russian soldiers, their ability to endure hardship and continuous battles in conditions that would have finished off any Western army.”⁴ A fair assessment indeed!

In the spring of 1942, the Red Army suffered defeats in the Crimea and near Kharkov. But in the mid-summer, it stopped German troops on the outskirts of Stalingrad and the Caucasus. The battle of Stalingrad, the longest confrontation of World War II, stretched from July 17, 1942 to February 2, 1943. The whole world followed the fighting with bated breath, and by far not everyone believed the Soviet Union could ever come out of the bloodiest confrontation in human history on top.

The Battle of Stalingrad lasted 200 days and nights and was waged over 100 thousand square kilometers with 400–850 km of frontline. At various points in time, it involved the troops of Stalingrad, Southeast, Southwest and Don Fronts, the Voronezh Front left wing, the Volga military fleet and Stalingrad Corps Air Defense. At certain stages, the forces on both sides totaled more than 2 million, with up to 26 thousand canons and mortars, about 2.1 thousand tanks and assault guns, and about 2.6 thousand combat aircraft.

⁴ *Istoriya Vtoroy mirovoy voyny*, Vol. 4, Moscow, Voenizdat, 1975. See: *VON Bock F. Ya stoyal u vorot Moskv. Voyennyye dnevniki 1941–1945*. B.H. Liddell Hart (2003). *Entsiklopediya voyennogo iskusstva. Strategiya nepryamykh deystviy*, Ed. by S. Pereslegin, Moscow, Saint Petersburg, AST, 2003.

From November 19, 1942 to February 2, 1943, Soviet troops pushed ahead with their strategic offensive to encircle and defeat the enemy near Stalingrad. The plan of this operation (Operation Uranus) was designed during the city's defense. A key role in its preparation was played by Soviet Supreme Command members Army General Georgy Zhukov and Colonel-General Aleksandr Vasilevsky. The counteroffensive plan was to defeat the troops protecting the flanks of the enemy's main attack force, and by advancing further, destroy its main forces operating near Stalingrad.

The plan to defeat the main attack force (Operation Ring) was carried out by Don Front troops. In the main strike zone, commanders established a decisive superiority of military forces and equipment (by a factor of three in terms of infantry, 1.2 in terms of tanks, and by more than ten in terms of artillery). The advancing troops were also to be supported by the 16th Air Army.

The northern group of Germans surrendered on February 2, 1943. During their January offensive, Soviet troops of the Don Front captured more than 91,000 soldiers, 2500 officers and 241 generals. Irrecoverable enemy losses amounted to about 140 thousand. The battle of Stalingrad was over.

Germany lost approximately 1.5 million soldiers and officers in Stalingrad, or more than a quarter of all Wehrmacht and its allies' forces on the Eastern Front. In the same period, Soviet troop losses totaled about 1 million, in addition to more than 3 thousand tanks and assault guns, more than 12 thousand canons and mortars, and more than 3 thousand combat and transport aircraft. Soviet troops had now seized the strategic initiative. This Red Army victory was a definitive factor in turning the tables in World War II.

Turkey refused to invade the Soviet Union in the spring of 1943 and Japan called off its Siberian march. The European

allies of Germany now started looking for opportunities to make peace separately with USSR allies.

Speaking at the Tehran conference on November 29, 1943, Winston Churchill said, “Stalingrad has become a symbol of courage, endurance of the Russian people and, at the same time, a symbol of the greatest human suffering. It would be right to leave untouched the terrible ruins of this legendary city... the ruins of Stalingrad, like the ruins of Carthage, would forever remain a monument to human endurance and suffering.”

Franklin D. Roosevelt sent a letter to Stalingrad, stating, “their (defenders of Stalingrad – V.M.) glorious victory stemmed the tide of invasion and marked the turning point in the war of the Allied Nations against the forces of aggression.”⁵

The battle of Kursk (from July 5 to August 23, 1943) was another important step on the path to Soviet victory over Nazi Germany. For a month and a half, huge masses of troops and the most advanced modern military equipment went head to head in a relatively small area. On both sides, the battle of Kursk involved more than 4 million troops, more than 69 thousand canons and mortars, more than 13 thousand tanks and self-propelled guns, and up to 12 thousand combat aircraft. The Wehrmacht sent in more than 100 divisions, or more than 43 % of its manpower on the Eastern front. This greatest tank battle in World War II ended in victory for the Soviet Union. While the battle of Stalingrad foreshadowed the downfall of the Nazi army, the battle of Kursk pushed it to the brink of disaster. Soviet troops defeated 30 divisions, and the Wehrmacht lost about 500 thousand sol-

⁵ *Istoriya Vtoroy mirovoy voyny 1939–1945*, Moscow, Voenizdat, 1974, Vol. 6. *Tippelskirch K.* (2001). *Istoriya Vtoroy mirovoy voyny*, Moscow, AST, pp. 365, 366.

diers and officers, 1.5 thousand tanks, 3 thousand canons and more than 3.7 thousand aircraft.

Military theorist and one of the leading commanders of the Wehrmacht General Heinz Guderian described how events on the Kursk bulge actually unfolded: “after the failure of the Citadel offensive, we suffered a crushing defeat. Panzer troops, which had been reinforced with such tremendous difficulty, were put out of action for a long time due to significant equipment losses... Needless to say, the Russians were quick to capitalize on their success. After that, there were no more quiet days on the Eastern front. The enemy fully seized the initiative.”⁶

From 1944 to 1945, after finishing off the remaining Nazi hordes in the USSR, the Soviet Army set out on its liberation mission across Europe. The Soviet offensive proceeded in three directions: the South (Romania and Bulgaria), Southwest (Hungary and Czechoslovakia), and West (Poland).

Romania and Bulgaria, two German allies, fell without resistance between late August and early September 1944. These two countries were liberated practically without any bloodshed. But Soviet troops met fierce resistance in Hungary from both German and Hungarian armies. In November 1944, Budapest fell following a bloody assault, and the Hungarian population met the Soviet Army with extreme hostility. However, the bloodiest combat took place in Poland. The liberation of Poland, considered by the Wehrmacht the last

⁶ Kurskaya bitva 1943. Velikaya Otechestvennaya vojna 1941–1945: Entsiklopediya, ed. by M.M. Kozlov, Moscow, Sovetskaya entsiklopediya, 1985. pp. 392–394. *Rokossovsky K.K.* (1988). *Soldatskiy dolg*, 5th edition, Moscow, Voenizdat, 367 p. *Zhukov G.K.* (2002). *Vospominaniya i razmyshleniya* in 2 volumes, Moscow, Olma-Press, p. 129. *Guderian H.* (1999). *Vospominaniya soldata*, Smolensk, Rusich. *Shtemenko S.M.* (1989). *General'nyy shtab v gody voyny*, Moscow, Voenizdat. *Stalin J.V.* (1951). *O Velikoy Otechestvennoy voyne Sovetskogo Soyuz*, Moscow, pp. 121, 122.

stronghold protecting Germany, lasted six months, from September 1944 to February 1945. The Soviet Union paid a heavy price (600 thousand Soviet casualties) for liberating Poland from Nazi invaders.

The Second Front opened almost simultaneously with the offensive of the Soviet Army in Europe. On June 6, 1944, United States, British and Canadian troops landed in Normandy (France). From June to August 1944, France was liberated from the Germans, the pro-German Vichy government was overthrown, and General Charles de Gaulle was appointed the head of France.

In late 1944, intense casualty-heavy combat in the Ardennes ended with the defeat of the German army. This marked the beginning of the Anglo-American-French offensive in West Germany. At the same time, Allied aircraft carried out intensive bombing of German cities, turning Germany to rubble.

By early 1945, the fighting shifted to Germany, with the Allies surrounding the country in a ring of frontlines. The Soviet Army entered Prussia, and in February 1945 reached the immediate vicinity of Berlin. At the same time, Western allies invaded the Ruhr and Bavaria.

The Yalta Conference on post-war world order was held in February 1945. During the conference, the heads of three powers secretly agreed that the USSR would enter into war against Japan two or three months after the end of the war in Europe.

In general, the Yalta Conference focused on two central issues. First, there was the need to draw new state borders in Europe, which until recently had been occupied by the Third Reich. At the same time, the allies had to establish informal yet generally recognized demarcation lines between their spheres of influence (a matter first added to the agenda in

Tehran). Secondly, the parties were perfectly aware that after the downfall of their common enemy, a forced alliance between the West and Bolsheviks would no longer make any sense. They needed to put procedures in place to guarantee the continuity of new demarcation lines on the world map.

In February 1945, allied forces launched a new offensive on the Western front with Soviet troops moving towards them from the east. Hungary and Poland were liberated in the spring of 1945. The troops of General Zhukov, Konev, Rokossovsky and others were already on the doorstep of Prague, Vienna, Berlin and Bratislava. On April 25, 1945, the advanced units of Soviet and American troops met at the Elbe River.

Nazi leaders nurtured hopes to turn the tides of war in their favor up until their final days. After abandoning their plans of world domination, they switched gears to forming an alliance with the West to start a joint war against the Soviet Union. Given the danger of a separate alliance between Germany and the Western allies of the USSR, Soviet leaders decided to urgently and independently storm Berlin, no matter the human cost. Western allies suggested not to hurry storming Berlin and refused to participate, as they believed Germany would eventually surrender voluntarily. This forced the Soviet Army to repeatedly postpone its assault.

At noon on April 25, troops of the 1st Ukrainian and 1st Belarusian Fronts had Berlin surrounded. More than 40 thousands canons and rocket mortars began to shell the German capital from all sides. There was not a single building left intact in the city, and the city's defenders were in a state of shock. After the artillery shelling, more than 6 thousand Soviet tanks entered the German capital, crushing everything in their path. Despite the hopes of Nazi leaders, Berlin did not deteriorate into a German Stalingrad and was

taken by the Soviet Army in just 5 days. On April 30, 1945, German Reich Chancellor Adolf Hitler committed suicide. The garrison of Berlin laid down their arms, and on April 30, the Soviet flag was raised over the Reichstag.

On June 24, 1945, Moscow hosted a Victory Parade. 200 military flags and banners of defeated Nazi Germany were thrown on a special platform at the Kremlin wall, the first of which was the personal banner of Adolf Hitler, and the last was the flag of the Vlasov army. Later, all these flags, banners and the platform itself were burned.

Military historians divided The Great Patriotic War into three periods.

1. Initial period (from June 1941 to November 1942). The army and people just need to withstand German aggression!

2. Second period (from November 1942 to the end of 1943). The Red Army seizes the initiative and German troops suffer major defeats in the Soviet Union (the Battle of Stalingrad and Battle of Kursk).

3. Final period (from January 1944 to May 1945). The liberation of the USSR and Eastern Europe from the fascist yoke was a true act of heroism made possible through a collaboration of the Soviet Army with workers on the home front.

Soviet troops had Berlin surrounded and began to storm it, forcing the garrison of the German capital to lay down its arms on April 30. The act of Germany's unconditional surrender was signed on the night from May 8 to May 9, 1945.

A decisive contribution to the victory over fascism was made by workers on the USSR home front, who bore the weight of all the hardships and deprivations of wartime on their shoulders. The war with Germany dramatically altered the objectives of the Soviet economy. The first months of war required a massive relocation of materials, technology, items

of cultural and historical value, equipment and people to the eastern regions of the USSR. Production facilities at these new locations had to act fast to ensure the manufacture of products needed most on the frontlines. The Soviet people were totally focused on a common goal: Everything for the front! Everything for victory! To achieve this, home front workers, including teenagers and women, threw themselves into the war effort and showed unparalleled dedication, courage and heroism on a daily basis. Cities were evacuated quickly, and from July to December 1941, 2593 enterprises were relocated. This included 1523 major plants, of which 1360 (mainly in the defense industry) were re-commissioned within the first three months of the war.

Among evacuated major enterprises, 226 were relocated to the Volga region, 667 to the Urals, 244 to Western Siberia, 78 to Eastern Siberia and 308 to Kazakhstan and Central Asia. More than 10 million people were transported to the rear areas by rail, and more than 2 million by water.

During the war, about 1.5 million rail cars or 30 thousand trains with evacuated cargo were sent away from areas threatened by the enemy onslaught. 2.4 million heads of cattle, 5.1 million heads of sheep and goats, 0.2 million pigs, 0.8 million horses, massive volumes of agricultural machinery, grain and other food products were also transported out of the western regions of the USSR.

From June to December 1941, the gross industrial output of the Soviet Union declined by a factor of 1.9. But in the same month, this drop in industrial production was reversed. By mid-1942, the lost capacity not only had been restored, but exceeded. In 1942, the Soviet Union surpassed fascist Germany in terms of produced tanks and self-propelled guns by a factor of 3.9, combat aircraft by 1.9, and canons of all types and calibers, as well as rifles and

carbines, by 3. Defense sector development peaked in 1944, when the production of tanks and self-propelled guns exceeded figures for 1942 by 20 %, and combat aircraft by a factor of 1.5.

The Soviet mobilization economy witnessed such strong results partially because of the establishment of a solid base for defense manufacturing in the eastern part of the country. During the war, output in the Urals was up by a factor of 3.6, in Siberia by 2.8 and in the Volga region by 2.4. In 1942, the output of defense-related industries in the Urals increased by more than a factor of 5 compared to 1940, in the Volga region by 9, and in regions of Western Siberia by 27.

During the war, the Soviet military economy, especially its defense-related industries, was highly productive. In three years (from May 1942 to May 1945), labor productivity in the industrial sector increased by 43 %, while in defense-related industries this increase was by a factor of 2.2.

Along with labor productivity growth, the USSR also succeeded in significantly reducing production costs for the most important types of armaments. By 1944, costs had been cut for all types of military products by an average factor of two compared to 1940. Overall, the economic effect generated by the reduced cost of military products from 1941 to 1944 amounted to almost half of all Soviet military expenditures in 1942. The war showed that the advantages of a centrally planned economy could stand their own and win even in the most difficult conditions.

From 1941 to 1945, large-scale battles took place between Soviet allies on one side, and Germany, Italy and Japan on the other in the Pacific and Mediterranean theaters of war. The Second Front was opened by the landing operation in Normandy (France) in the summer of 1944, when the outcome of the war was already clear. While still paying tribute

to the efforts and courage of Soviet allies and their contribution to the common victory, Russians will always remember that the greatest sacrifice, destruction and hardships were experienced by the Soviet people and Soviet armed forces. Their indomitable courage, readiness for self-sacrifice and love for their country made a decisive contribution to victory in World War II.

Moving on to the events of the Pacific theater, on December 7, 1941, the Japanese air force made a surprise military strike on Pearl Harbor, the main U.S. naval base in the Pacific. Six hours after the attack, American warships and submarines were ordered to begin combat operations against Japan. The day after the attack, U.S. Congress unanimously supported Franklin D. Roosevelt to declare war on Japan. On December 11, 1941, Adolf Hitler and Benito Mussolini declared war on the United States. In this context, Great Britain, the United States and the Soviet Union formed an anti-Hitler coalition. For the United States, this marked the start of the country's full-scale participation in World War II. America was ready to fight only for itself. Before Pearl Harbor, any involvement in the war was out of question. By entering World War II, the United States for the first time acted as a major player in the global theater of war, and since then has continued to be the leading actor in all events around the world.

In the Pacific, the United States was a fighting force in World War II since December 1941, and from November 1942 it also became involved in the Mediterranean theater of war. The Western front began to take shape in June 1944 in Europe. American troops were operating in France (Normandy), Italy, Tunisia, Algeria, Morocco, Germany, the Netherlands, Belgium and Luxembourg.

United States casualties in World War II amounted to 418 thousand (which is incomparably less than in the Soviet Union). For the American army, its bloodiest battle was the Battle of the Bulge in the Ardennes.⁷ In terms of losses, it is followed by Operation Overlord in Normandy, the Battle of Monte Cassino, the Battle of Iwo Jima and the Battle of Okinawa.

Japanese aircraft started attacking Port Darwin on the Northern coast of Australia at the beginning of 1942. Major naval battles were fought involving aircraft carriers in the Coral Sea on May 8 and near Midway Atoll on June 4, where the Americans scored their first victories against the Japanese. The Battle of Midway was a turning point in the Pacific theater.

On February 9, 1943, U.S. troops captured Guadalcanal,⁸ and from July to August 1943, they captured the southern and central parts of the Solomon Islands. In November, U.S. marines captured the Gilbert Islands (Tarawa Atoll), and in January and February 1944, they landed on the Marshall Islands (Roy, Kwajalein and Majuro islands).

During the summer and autumn of 1944, the Allies liberated most of New Guinea, and the Japanese were surrounded in the central and southwestern parts of the island, where they only surrendered at the end of the war.

On July 9, 1944, the Americans captured the Saipan Island (Mariana Islands), which led to the resignation of General Tojo's government in Japan. During the summer of 1944, the Mariana Islands were completely liberated, and their airfields were used to start bombing Japan proper.

⁷The official report of the U.S. State Department contains the lists of 108,347 victims, including 19,246 killed, 62,489 wounded and 26,612 prisoners and missing.

⁸Guadalcanal is the largest of the Solomon Islands. Its largest city is Honiara, the capital of Solomon Islands.

The largest naval battle on the Pacific front during World War II took place in Leyte Gulf in October 1944.⁹ The Japanese fleet suffered irrecoverable losses, after which the U.S. Navy gained absolute dominance of the sea. The superior U.S. Air Force also inflicted devastating losses to the Japanese air force. In October 1944, under the command of General Douglas MacArthur, Americans landed in the south of the Philippine archipelago. From January to February 1945, they defeated the larger part of Japanese troops in Luzon and liberated Manila on March 3.

On February 19, 1945, U.S. Marines landed on the island of Iwo Jima (originally called Ioto), where the Japanese put up very stiff resistance. The island was captured by March 26, 1945. On April 1, U.S. troops landed next on the island of Okinawa with the support of the US Navy and the British Navy, and captured it by June 22, 1945. Japanese resistance was the fiercest on Iwo Jima and Okinawa during the war, as these islands are a part of Japan proper. Allied ships were frequently attacked by Japanese kamikazes. Battles on both Islands ended in the virtually complete annihilation of Japanese troops.

On August 6, 1945, an American aircraft dropped an atomic bomb on Hiroshima, and on August 9 dropped another on Nagasaki, causing mass destruction and civilian casualties. On August 15, Emperor Hirohito announced Ja-

⁹The Battle of Leyte Gulf in the Philippine Sea is history's largest naval battle. It took place in the seas surrounding the Philippine island of Leyte from October 23 to October 26, 1944, between the U.S. fleet and the Japanese Imperial fleet. The Japanese tried to destroy the allied forces located near Leyte, and for the first time in the war used kamikaze tactics. However, the allied fleet ultimately won a significant victory by sinking, among other vessels, Musashi, one of the two largest battleships in the world, and damaging Yamato, the other. After this battle, the Combined Fleet of Japan never launched another major operation.

pan's unconditional surrender. The Japanese Instrument of Surrender was signed on September 2, 1945 aboard the U.S. Navy battleship Missouri.

On the Mediterranean theater of war, U.S. troops first went on the offensive under the command of General Dwight Eisenhower on November 8, 1942. By November 11, they had liberated Casablanca (Morocco) and the ports of Oran and Algiers. The final allied offensive in North Africa began on April 23–24, 1943. While Germans tended to put up stiff resistance, Italians on the contrary often preferred surrendering to the Allies. On May 7, the Allies captured the port of Bizerta and the city of Tunis (Republic of Tunisia), forcing the German-Italian troops, including most of the Afrika Korps of Erwin Rommel, to surrender on May 13, 1943.

On August 17, 1943, American and British troops entered Messina and liberated Sicily. Italians realized long ago that the war they had been dragged into by their Duce was not in the interests of Italy, and on July 25, 1943, Mussolini was arrested. The new Italian government was headed by Marshal Pietro Badoglio, who held secret talks with General Dwight Eisenhower first in Lisbon and then in Sicily. Most Italian troops surrendered, while Germans suffered losses and some of their units were evacuated to the mainland. On September 8, Badoglio officially announced the unconditional surrender of Italy. The Italian fleet surrendered to the Allies on the island of Malta, after which the Wehrmacht began its occupation of Northern Italy. On September 9, 1943, the United States Fifth Army landed near Salerno south of Naples. Naples was liberated on October 1.

On January 4, 1944, the United States Fifth Army resumed its offensive, and by January 17 had reached Monte Cassino and the German fortifications of the Winter Line. In late January and early February, Americans tried and failed

to seize positions in the Monte Cassino area. Both sides suffered heavy losses. The American II Corps retreated to the southern flank of the Italian front. At Monte Cassino, they were replaced by New Zealand, Indian and British units. On May 18, the Allies captured Monte Cassino and broke through the Winter Line. The Germans began to retreat, and on June 4, 1944, the allies liberated Rome. It wasn't long before they reached the Arno River, near Pisa and Florence.

On August 15, 1944, U.S. troops left Italy and landed in southern France, liberated the cities of Marseille and Toulon and began their advance along the Rhone river valley together with troops of Free France. In September, they joined the Third United States Army of General George S. Patton, which was advancing from Normandy and Brittany. From that moment, their joint combat operations become part of the Western European theater of war. In April 1945, U.S. troops broke through German defense lines at the Po River in Italy, and on May 2, German forces surrendered to the Allies, signifying the liberation of the Apennine Peninsula. A few days before that event, on April 28, 1945, Italian partisans executed Benito Mussolini.

In accordance with the decision of the Tehran Conference, the second front of military operations in Europe commenced on June 6, 1944. Allied forces from the United States, Great Britain and Canada landed in Normandy. The operation ended on August 31 with the liberation of the entire northwest of France. Allied forces liberated Paris on August 25, which by that time had already largely been liberated by the French Resistance. In September, Allied forces advancing from Normandy joined the troops from southern France. That same month, the Allies entered Belgium, crossed the German border, and on October 21, captured the German city of Aachen. In December, American troops liber-

ated the northeast France and reached the Siegfried Line and the French-German border.

On December 16, German forces launched an offensive and advanced 90 km into the Ardennes in Belgium. By December 25, the German offensive was halted near the Belgian city of Celles, and the allies launched a large-scale counteroffensive. On January 29, 1945, they entered the Western part of Germany. In February, the Allies captured virtually all of Germany west of the Rhine. As mentioned earlier, on April 25, the First United States Army met the Soviet troops on the Elbe River. In Czechoslovakia (Plzen), the Third United States Army met the Soviet troops in May. The Seventh United States Army was advancing to the south and south-east and captured a large part of southern Germany and western Austria, crossed Brenner Pass in the Alps and entered the territory of Northern Italy, where on May 4, it met the units of the United States Fifth Army advancing from the Po river valley.

This brief list of military operations involving the United States, Great Britain, and their allies (Australia, India, New Zealand, Canada, etc.) indicates the scale of military operations conducted simultaneously in the Pacific and Mediterranean theaters of war. Germany and Japan undoubtedly had formidable armed forces at the time, and only a few countries could resist them (as was proven in the course of the war). However, in the most difficult years, the Soviet Union, its Armed Forces and civilians stood alone, face-to-face against a brutal and powerful adversary. The Wehrmacht brought all of continental Europe to heel with its developed industrial base, which changed hands to the disposal of Germany. For a long time, the Allies could not (and probably were not in a particular hurry) to open a second front. Franklin D. Roosevelt acknowledged that the Soviet Union was

carrying the brunt of the war as long as there was no second front. In November 1943, at their meeting in Tehran, the leaders of the coalition Joseph Stalin and Franklin D. Roosevelt convinced the reluctant British Prime Minister Winston Churchill that it was necessary to finally open the Second Front.

Operation Overlord in Normandy, which began in the early morning of June 6, 1944 and ended on August 31, 1944, was the largest landing operation in terms of scale. It involved seven thousand ships, 12 thousand aircraft and more than half a million soldiers.

In November 1944, reflecting on the future of the world, Franklin D. Roosevelt wrote to Congress, “For a genuine and lasting peace, a military victory over the enemy is not enough... It is equally important that every person in every country has a decent standard of living. Freedom from fear is always related to freedom from poverty and military security to economic security. People who are hungry, people who are out of a job are what dictatorships are made of.”¹⁰ Today, in the early 21st century, these words of the American President haven't lost their global relevance, including in Russia. In November 1944, Franklin D. Roosevelt was elected president for the 4th time in a row (the first, and most likely last, time in American history). When announcing his bid for another presidential term in the fall of 1944, Franklin D. Roosevelt explained he couldn't leave his post at the time because his soldiers were not supposed to leave the battlefield.

In February 1945, the leaders of the “big three” gathered for their last meeting to discuss the post-war world order. At

¹⁰ Academician Nikolai Shmelev noted “it is estimated that to prevent protest movements, riots, revolutions, etc., the difference in income between the top 10 % and the bottom, poorest 10 % cannot be larger than a factor of 5–6. In Canada, this figure is 2. In Russia (according to unofficial estimates), it is 60.” (In reality, this figure is much higher – *V.M.*)

the meeting, the Soviet Union committed itself to join the war against Japan no later than 3 months after the defeat of Germany. In fact, Soviet leadership made this key decision as early as the end of 1943. In October 1943, the foreign ministers of three Allied powers met for a conference in Moscow. In the evening of October 30, Stalin hosted a reception for its participants in the Catherine Hall of the Kremlin, where he privately told U.S. Secretary of State Cordell Hull that a decision had been made to turn their focus to Japan after the end of war with Nazi Germany. Joseph Stalin asked to convey this official position of the Soviet government to President Franklin D. Roosevelt.¹¹

In accordance with its commitment made in October, the Soviet Union declared war on Japan.

By the end of June 1945, the Manchurian Strategic Offensive Operation had been planned under the direction of Marshal of the Soviet Union Aleksandr Vasilevsky and approved by the Soviet Supreme Command and the State Defense Committee (GKO). On July 30, 1945, the GKO appointed Aleksandr Vasilevsky as Commander-in-Chief of the Soviet troops in the Far East, and on August 9, 1945, the Soviet troops went on the offensive.

This war, known as Operation August Storm in the West, was swift. Highly experienced after fighting against the Wehrmacht, Soviet troops broke through the Japanese defenses with a series of quick and decisive attacks and advanced deep into Manchuria. Despite the adverse weather conditions, tank units successfully crossed the sands of the Gobi desert and ridges of the Khingan Mountains. The Soviet military machine, which was the most seasoned after years of war against a formidable opponent that was previously considered invincible, ran all but flawlessly.

¹¹ See: *Ivanov A.S.* (2017). *Prifrontovaya Moskva*, Moscow, OSLN, p. 55.

As a result, by August 17, the 6th Guards Tank Army advanced several hundred kilometers, which brought it within about one hundred fifty kilometers from Xinjiang, the capital of Manchuria. By that time, the First Far Eastern Front had broken the resistance of the Japanese in the East of Manchuria and captured Mudanjiang, the largest city in the region. On August 17, 1945, at Mukden, Soviet troops took Pu Yi, the Emperor of Manchukuo, prisoner (previously the last Emperor of China).

The Kuril Islands were captured following the Kuril landing operation, which began on August 18.

Soviet troops also liberated the southern part of Sakhalin Island, the Kuril Islands, Manchuria and part of Korea. On the continent, the main military operations continued for 12 days through August 20. However, sporadic fighting broke out periodically through the final day of September 10, when the Kwantung Army fully surrendered and was taken prisoner.

It took just 24 days to defeat the million-strong Kwantung army of Japan. Soviet losses totaled 9800 killed and 24.5 thousand wounded and missing, while 84 thousand Japanese were killed, and 800 thousand wounded, missing or taken prisoner.

The USSR reintegrated territories previously lost by Russia (southern Sakhalin, and temporarily Kwantung with Port Arthur and Dalniy, which were subsequently given to China), as well as the Kuril Islands, the southern part of which is still claimed by Japan. The Japanese Instrument of Surrender was signed on September 2, 1945, aboard the U.S. Navy battleship Missouri in Tokyo Bay.

“The fact that during the war Roosevelt succeeded in doing so much to build confidence between Washington and Moscow, that he was aware of and appreciated the ‘tremen-

dous,' in his words, contribution of the USSR to the battle against fascism, and was not afraid to say it openly, only emphasizes his political realism," Andrei Gromyko recalled in his memoirs many years later.¹²

Franklin D. Roosevelt was not destined to see the end of World War II. Negotiations in Yalta and his return trip to America sapped his last bit of strength, and his health was rapidly deteriorating. On April 12, 1945, Franklin D. Roosevelt was sitting at his desk working on an upcoming speech. Elizabeth Shoumatoff,¹³ a revered portrait artist with Russian roots, was sitting at her easel and painting his portrait, trying not to disturb the silence of his office. Suddenly, the fountain pen tumbled out of the President's hand. He muttered faintly, "I have a terrific pain in the back of my head." A few hours later, he died of cerebral hemorrhage. Franklin D. Roosevelt did not live to see the defeat of Germany less than a month later. He was 63 years old.

The UN Assembly was convened two weeks after victory over Nazi Germany.¹⁴

The world conference to establish the United Nations was scheduled on April 25, 1945. According to Franklin D. Roosevelt, the UN was to be a prototype world government. The leading role in it was given to the Big Four, including the United States, Soviet Union, Great Britain and China. Frank-

¹² *Gromyko A.A.* (2015). *Pamyatnoye. Novyye gorizonty*, Moscow, Tsentrpoligraf, Vol. 1, p. 87.

¹³ Elizabeth Shoumatoff (1888–1980) was an artist who painted about 3 thousand portraits in her career, mostly watercolor. Her customers included members of the American business and political elite, such as DuPont, Mellon and Ford families, and many others. She painted portraits of Rabindranath Tagore, and members of the House of the Duke of Luxembourg. Her most famous work is the watercolor "Unfinished Portrait of Franklin D. Roosevelt" (1945), which she donated to the Roosevelt's Little White House Historic Site.

¹⁴ See: *Chakovsky A.B.* (1984). *Neokonchenny portret*, Moscow.

lin D. Roosevelt was convinced it was possible and necessary to build a working relationship with the USSR and use it to lay the foundations of a new world order.¹⁵ He often recalled a prayer from his distant youth, "Almighty God... Bless our land with honorable ministry, sound learning, and pure manners. Save us from violence, discord, and confusion, from pride and arrogance... Defend our liberties, and fashion into one united people..."

As concerns the historical role played by President Franklin D. Roosevelt in the events of the 1930s and 1940s, Soviet generations in the 20th century and many veterans who still live among us today feel a debt of gratitude to and respect for the personality of that President of the United States.

Unlike the developed countries of the West, the Great Depression had virtually no effect on the Soviet Union. Moreover, since the industry in these countries was in such a dire state, the Soviet Union managed to import machinery and equipment previously not supplied to the USSR because of various restrictions. In its period of accelerated industrialization, the Soviet planned economy, which developed under the strict control of state authorities, was at its most efficient.

Soon after moving into the White House, Franklin D. Roosevelt initiated the restoration of diplomatic relations with the USSR. From 1933 until his death, relations with the Soviet Union developed successfully. It is also difficult to overestimate the contribution made by the United States to the industrialization of the Soviet Union. Many giant industrial facilities were built during these years, including metal-

¹⁵ Franklin D. Roosevelt once said, "I 'got along fine' with Marshal Stalin. He is a man who combines a tremendous, relentless determination with a stalwart good humor. I believe he is truly representative of the heart and soul of Russia; and I believe that we are going to get along very well with him and the Russian people—very well indeed."

lurgical plants in Magnitogorsk, Lipetsk, Chelyabinsk, Novokuznetsk, Norilsk, tractor plants in Stalingrad, Chelyabinsk, Kharkov, giants of heavy and transport engineering such as Uralmash and Uralvagonzavod, GAZ and ZIS (later, ZIL) automobile plants, the Turkistano-Siberian railway, DneproGES hydroelectric station, and others. American engineers, technicians and other specialists participated in the design, installation and commissioning of these facilities. With their collaboration, factories were erected in just 5–6 months. When AMTORG, a Soviet-American joint-stock company in New York, announced it wanted to hire 6 thousand skilled workers to work in the USSR, more than 100 thousand Americans applied for these jobs. During the Great Depression, there were no obstacles restricting American specialists from entering the USSR, or for the export of machinery and equipment. Academician N.P. Shmelev wrote, “In the 1930s, the USSR was purchasing half of its machinery and equipment (produced in the West – *V.M.*) manufactured for export.”

Supplies from the United States to the Soviet Union under the Lend-Lease policy during the Great Patriotic War deserve special mention. They began after the signing of the protocol on October 1, 1941, and continued until the end of the Great Patriotic War (sometimes with pauses, and often with delays). More than 90 % of all deliveries under the policy were transported via Pacific, Trans-Iranian and Arctic routes. The Pacific route, which ensured more than half of all deliveries, was the safest. The range of goods was determined by the Soviet government to help avoid bottlenecks in supplies for the Soviet industry and army. Lend-Lease policy supplies that played a significant role for the Soviet Union included trucks, all-terrain vehicles, explosives, aircraft, tanks, tractors, automatic weapons, gunpowder, detonators, locomo-

tives and freight cars. The U.S. also supplied the Soviet Union with food products (4.5 million tons), non-ferrous metals, petroleum products and much more. The Soviet Union was also issued an interest-free loan of 1 billion USD.

The Chairman of the Soviet State Planning Committee (Gosplan) Nikolai Voznesensky wrote that compared to domestic production in wartime, the share of these supplies did not exceed 4 %.¹⁶ Although the decisive contributions of domestic industry in Allied victory over Nazi Germany are unquestionable, I am not sure whether this figure is accurate. In their memoirs, some Soviet commanders claimed the tanks and aircraft supplied under the Lend-Lease policy were not popular in the Soviet army. However, from my conversations with three-time Hero of the Soviet Union Alexander Pokryshkin, I remember that starting in 1943 he flew an American-made Airacobra and spoke highly of its performance. In its cockpit, he shot down 20 of the total 59 enemy aircraft he downed during the war. As for the air force, we must keep in mind that $\frac{2}{3}$ of aviation gasoline deliveries for combat aircraft were provided under Lend-Lease conditions. The Soviet People's Commissar of Foreign Trade Anastas Mikoyan was in charge of accepting Lend-Lease deliveries to the USSR, and highly appreciated their contribution. He said, "without Lend-Lease, we would probably have had to fight for another year or year and a half."¹⁷

Food products supplied during the war (American canned meat, combined fats, sugar, egg powder, flour and other products) were essential in the provision of high calorie nutrition for both the armed forces and workers on the domestic front. From 1942 to 1945, supplies of medicines to the

¹⁶ See: *Voznesensky N.* (1948). *Voyennaya ekonomika SSSR v period Otechestvennoy voyny*, Moscow, Gospolitizdat. Zhukov G.K. (1969). *Vospominaniya i razmyshleniya*, Moscow, Gospolitizdat.

¹⁷ *Kumanev G.A.* (2005). *Govoryat stalinskiye narkomy*, Smolensk, Rusich.

USSR covered 80 % of the Red Army's needs. The Soviet Union received about 400 thousand first-class trucks, including Studebaker and Ford, as well as Willys cars and amphibious vehicles. All this helped accelerate the pace of the offensive and increased the maneuverability of the Soviet Army. In total, U.S. supplies under the Lend-Lease policy topped 10.8 billion USD. The end of the Lend-Lease program was announced on August 21, 1945 by President Harry Truman.

Franklin D. Roosevelt repeatedly stated that after the war, the United States and the Soviet Union would continue to be allies in the pursuit of peaceful cooperation. However, with the arrival of Harry Truman, these plans were dashed. History knows no “if,” yet I am warmed by the idea that under Franklin D. Roosevelt, Soviet Union–United States relations might have developed in a completely different way.

In a recent survey of current world historians and politicians, Franklin D. Roosevelt was named the greatest U.S. leader of the 20th century. He piloted America through the mid-century's darkest hours: the Great Depression and World War II.

Andrei Gromyko, the Soviet Ambassador to the United States during the Great Patriotic War, made the following assessment of the role played by the American President through these hardships: “If it were not for Roosevelt before the war, when the Soviet Union normalized its relations with the United States, if he was not there in the difficult wartime years, history would look quite different. This also applies to drawing conclusions on the hardest and bloodiest war in history, as the foundations of the post-war order were laid at the Tehran and Yalta Conferences attended by President Roosevelt.”¹⁸

¹⁸ *Gromyko A.A.* (2015). *Pamyatnoye. Novyye gorizonty*, Moscow, Tsentrpoligraf, Vol. 1, p. 89.

The United States became the global superpower it continues to be today under FDR. However, the role of the United States today, and most likely in the future, does not quite look as it was conceived by Franklin D. Roosevelt. He signed into law the U.S. social, political and economic reforms Americans are still benefiting from today. Someone said that only a combination of pragmatism and idealism makes a great politician.

For the peoples of Russia, the name Harry Truman is associated with the Cold War era, which stretched on for almost forty years, with a single easing of tensions known as the *détente*. The Cold War has been showing its face again in recent years, causing concern and anxiety throughout the world. In this context, we need to remember what history has taught us about confrontations between great powers of different socio-political systems. Both the United States and Russia have always maintained a dialog, no matter the scale and severity of disagreements between them. This has undoubtedly prevented the outbreak of World War III many times over.

Chapter 5

THE QUARTER CENTURY FOLLOWING WORLD WAR II

What happened in the Soviet Union during these years?

After its resounding victory over fascism, the USSR began its transition to peacetime construction. According to Soviet statistics, the population of the USSR had fallen by 18 %, and as of January 1, 1946, totaled 162.4 million, including 2,575,694 disabled veterans of the Great Patriotic War.

The scale of material losses was also staggering. 1710 cities and populated areas, more than 70 thousand villages, and about 6 million buildings were totally or partially destroyed, and 25 million people were displaced. More than 7 million horses and 17 million head of cattle were killed, stolen and sent to Germany. The financial damage caused to the USSR during the war totaled 2 trillion 169 billion rubles (in 1941 prices), i.e., one-third of the country's national wealth.¹

The devastation caused to the national economy was so catastrophic that it took many years to overcome its effects.

¹ National wealth is the total sum of economic assets of a country providing for the lives of its citizens, as well as the production of goods and services. This definition is used by the Russian State Statistics Committee. As an economic concept, it describes the economic potential of a country and provides convincing evidence of its long-term development prospects.

In the Soviet Union, population decline (and the associated labor decline); the replacement of working-age personnel at plants by the elderly and teenagers, men by women, and skilled workers by newcomers; and lower capacity for work due to lack of proper nutrition, were accompanied by a deterioration of housing conditions, and the complete absence or wear of machinery and equipment. This led to lower national income,² capital investment and productivity, which could in no way compare to pre-war levels.

Difficulties of the reconstruction period were compounded by the vast destruction of the railway transport system. In formerly occupied territories, it wasn't just bridges that needed rebuilding, but rolling stock and track facilities. The war caused profound changes in people's mindsets and attitudes. People invested all their physical and spiritual strength in coming out victorious, all their savings, and tens of millions of lives in the hope that peace would bring them long-awaited relief. However, post-war poverty became the lot of most Soviet Union citizens.

In addition, the USSR had to dramatically accelerate the pace of creating its own nuclear weapons, and this, of course, required tremendous expenditures.

One positive aspect of the post-war landscape was the establishment of an industrialized base east of the Urals following the evacuation of enterprises from the European part of Russia. But these benefits in no way compensated for the losses suffered by the Soviets during the fascist invasion.

²National income is the total value a country's final output of all new goods and services produced. National income includes wages and salaries, additional payments, rental income of property owners, net interest under consumer loans, corporate profits, and the income of owners. National income differs from GNP by the amount of depreciation and indirect taxes on entrepreneurs. In economic models, national income is the cash flow from firms to households to pay for factors of production.

The situation was especially dire in rural areas. The excessively strict pre-war grain procurement for collective farms was made even more severe during the war, and farms were stripped clean of their harvests. To meet state procurement targets, local authorities often forced collective farmers to give up the grain they had received as payment for their work or grown on private land. Peasants' discontent was steadily rising. Rural areas also suffered a higher loss of life than urban centers, as military service exemptions applied only to very small segments of the rural population.

The financial assistance offered to the Soviet Union under the Marshall Plan³ was rejected by Soviet leaders out of fear the country would become politically dependent on the West. This left only one solution, albeit a painful one, for the Soviet people: raise taxes and leave the wartime agricultural laws in place.

³The Marshall Plan was a program for the recovery and development of Europe proclaimed by U.S. Secretary of State George Marshall on June 5, 1947. Under the Marshall Plan, American aid totaling 17 billion USD was provided to 16 European countries (60 % went to Great Britain, France, Italy and Germany). From 1946 to 1954, the Federal Republic of Germany established in the British, American and French occupation zones received 2.7 billion USD. Defeated Nazi Germany had been laid to waste. After ensuring the minimum cost of living, Germans allocated the majority of funds to developing manufacturing facilities. As a result, every one American dollar helped create value worth 10–20 dollars. The revival of Germany is associated with outstanding German academics, such as Ludwig Erhard, the father of the “economic miracle,” and Karl Jaspers, the spiritual father of the postwar German nation.

The Marshall Plan was rolled out in April 1948, when U.S. Congress passed the Economic Cooperation Act, which provided for a 4-year program of economic assistance to Europe. Total provisions under the Marshall plan (from April 1948 to December 1951) totaled approximately 12.4 billion USD, with most of these funds going to Great Britain (2.8 billion), France (2.5 billion), Italy (1.3 billion), West Germany (1.3 billion) and Holland (1 billion). The USSR was also invited to participate in the Marshall Plan, but the Soviet government refused aid based on political reasons. The Marshall Plan is one of the most successful economic programs in history, having achieved all its stated and secret objectives.

In March 1946, the Supreme Soviet of the USSR adopted its fourth five-year plan for the restoration and development of the national economy from 1946–1950. Its priorities included the restoration and development of heavy industry and railway transport, technical progress in all sectors of the economy (to help “surpass in the near future the scientific achievements outside the USSR”), and improving national defense and equipping the armed forces with the latest weapons and military equipment. This five-year plan helped reach the pre-war level of industrial production as early as 1948, and by the end of the five-year period exceed that level by 48 %.

The balance of power between the West and East required the fourth five-year plan to establish extremely difficult targets for a war-torn country. To avoid lagging behind its Western rivals, the USSR bore the burden of a near impossible workload to restore its national economy.

On September 4, 1945, following the country's transition to peacetime construction, the authorities abolished the State Defense Committee founded during the USSR's state of emergency. The law adopted by the Supreme Soviet of the USSR on March 15, 1946, transformed the Council of People's Commissars and People's Commissariats into the Council of Ministers and Ministries. This law stated that “the old name no longer expresses the scope of competence and responsibility that the Constitution of the USSR confers on the central authorities and persons at the head of individual branches of state administration.” Joseph Stalin was elected Chairman of the Council of Ministers of the USSR and Minister of the Armed Forces.

The allocation of funds and material resources shifted towards peacetime purposes in the spring of 1945. In June 1945, more than 500 enterprises, including defense plants,

were converted to manufacture non-military products. The Ministry of Tank Industry was converted into the Ministry of Transport Engineering, the Ministry of Ammunition into the Ministry of Agricultural Machinery, and the Ministry of Mortar Weapons into the Ministry of Engineering and Instrumentation. The construction organizations operating during the war served as the basis for the ministries of the construction of heavy industry enterprises, fuel enterprises and military facilities. The ministries of ferrous and non-ferrous metallurgy, coal and oil industry were divided and put in charge of western and eastern regions of the USSR, respectively.

Efforts in 1946 to convert the socialist economy quickly produced positive results. The first post-war year was marked by a significant increase in the output of key mechanical engineering products, including turbines, steam locomotives, railroad cars, motor cars, tractors, combines, excavators, etc.

The growth of industrial capacity in the USSR was largely facilitated by the purchase of equipment from German and Japanese enterprises. The power equipment delivered to the Soviet Union by December 1946 helped increase the capacity of existing power plants in the country by 32.5 % (most of the equipment featured modern electrical devices and automated instruments to launch and monitor the operation of units). The equipment in machine-building ministries was also overhauled to a significant degree. Volumes more than doubled in the machine-tool industry, in the automotive industry they increased by 85 %, in the mechanical engineering and instrumentation industry by 83 %, and in heavy engineering industry by 55 %. Equipment volumes in the radar industry tripled (including thanks to purchases from the world-renown institutes and plants of companies such as Telefunken, Siemens, etc.) The equipment from German

plants also helped organize production of synthetic liquid fuel (based on the use of coal for the production of gasoline, lubricating oils, etc.).

More than 6000 industrial plants were restored, built and commissioned during the fourth five-year period, and gross industrial output exceeded pre-war levels by 73 %, while GDP as a whole grew by 160 %. Moreover, the government continued its policy of annual price reduction for food and consumer products initiated before the war. Ration cards were abolished in the Soviet Union as early as in 1947. From 1947 to 1953, prices for certain products, including bread and butter, were halved.⁴

The key construction sites in the five-year period immediately after the war were the Farkhadskaya Hydroelectric Power Plant (HPP) on the Syr Darya River in Uzbekistan (the first phase was commissioned in February 1948), the Nizhneturinskaya HPP in the Urals, and the Shchekinskaya regional hydro-electric power plant in the Moscow region. The development of oil reservoirs in the Caspian Sea (the first offshore well was commissioned in November 1949) held particular significance. Increased oil production boosted Azerbaijan to the top oil producing region in the USSR. Mine construction also intensified in the Donetsk, Moscow, and Pechora coal basins, as well as in the Urals, Kuzbass, Karaganda, Khakassia and Primorye. The development of large gas fields in Saratov oblast and Ukraine also began in the initial post-war years.

The directives of the fifth five-year plan (1951–1955) were prepared in July 1950. It provided for a growth of industrial output by a factor of 1.8 (with a 12 % average annual growth rate of gross industrial output). For the manufacture of the

⁴ See: *Malkevich V.L.* (2016). *Rossiia-2016. Uroki noveyshey istorii*, Moscow, OSLN, p. 59.

means of production (group A), the plan established a growth rate of 18 %, and for the production of consumer goods (group B)—11 %. Capital investments in the industrial sector were expected to double.

Monetary reform and the abolition of ration cards for food and consumer products in December 1947 immensely helped to stabilize the financial system of the Soviet Union. The government originally planned these measures back in 1946, but was prevented by the drought and famine that affected many parts of the USSR.

During the reform, the State Bank of the USSR exchanged old money for new banknotes at a rate of 10-to-1 (metal coins were not subject to exchange and were accepted for payments at face value). Household deposits not exceeding 3 thousand rubles (about 80 % of all depositors) were not subject to revaluation, other deposits not exceeding 10 thousand rubles were revalued at a rate of 3-to-2, and all deposits over 10 thousand rubles were revalued at a rate of 2-to-1. At the same time, all previously issued government bonds were converted into a single 1948 two-percent bond (bonds from previous issues were exchanged for new bonds at a rate of 3-to-1).

Therefore, the Soviet monetary reform of 1947 was carried out entirely at the expense of the people. According to the state, this reform helped right the negative consequences of war as concerns money circulation, as well as large savings accumulated “by certain groups of people as a result of high market prices and speculation.” Public debt on government bonds was significantly reduced, along with the related state budget expenses. The reform was also key to abolishing the ration card system.

After the abolition of ration cards in December 1947, food and consumer products were sold on the open market at uni-

fied state retail prices (instead of commercial and ration prices). For example, prices for bread and cereals were set 10–12 % lower than their corresponding ration prices. For other food products, they were established at the level of ration prices. Prices for consumer products were increased compared to ration prices, but were still lower than commercial prices by a factor of almost three.

For ideological reasons, the Soviet government had no interest in encouraging the affluent social strata that had emerged during wartime years. By reducing state retail prices after the abolition of ration cards, authorities transitioned to an egalitarian policy rather than consolidating social stratification. In his views on this issue, Vyacheslav Molotov states “neither offend, nor spoil anyone: this is the only way to get our house in order. This is where we need the general party line.”

The period from 1951 to the 1960s was the most successful in the development of the Soviet economy. National GDP more than doubled, and industrial output increased by 128 %. The economy made a turn from extensive development, which was observed in the 1930s and 1940s, to intensive. Labor productivity also almost doubled.⁵

The development of the Soviet economy after 1960 can be fully described from the figures of subsequent five-year plan periods. At the time (seventh and eighth five-year plans), the USSR was still developing rapidly. The eighth five-year plan period (1965–1970) was known as the “golden” plan. The economic reform of 1965 is known in Russia as the Kosygin reform, while in the West it is known as the Lieberman reform. Authorities expanded the economic autonomy of enterprises. Top priority was shifted to indicators of economic

⁵ See: *Khanin G.I.* (1991). *Dinamika ekonomicheskogo razvitiya SSSR*, Novosibirsk, p. 184.

efficiency such as profit and profitability. Enterprises used their profits to accumulate various funds, including funds for the development of production, financial incentives, social and cultural development, housing construction, etc. By April 1969, 32 thousand enterprises (ensuring 77 % of total output) were operating under the new system. From 1966 to 1979, national income in the USSR grew at an average annual rate of 6.1 % (in the United States, 3.1 %; in Japan, 7.4 %; in Germany, 3.4 %; in France; 4.4 %; in Great Britain, 2.2 %). The reform improved the use of fixed assets and increased the pace of deliveries.⁶

In September 1953, Nikita Khrushchev was elected First Secretary of the Soviet Communist Party. Life in the Soviet Union became less constrained and more open. This period in USSR history is known as the Khrushchev Thaw. The press began publishing more articles containing criticism, public debates and coverage of serious issues. The Kremlin opened its doors to public visits. A significant number of political prisoners were granted amnesty and returned home. In terms of economics, Nikita Khrushchev gained notoriety in the early years of his leadership by developing virgin lands (Kazakhstan, Southern Siberia, Urals, Volga region and the North Caucasus). Responding to the call of the Communist Party to address acute grain shortages, Komsomol mobilized young people for the “conquest of virgin lands.” For the first couple years, virgin lands produced a decent harvest. But they were soon affected by various negative factors, including periodic droughts, soil depletion, and shortage of grain storage facilities, machinery and fuel. All this severely reduced the initial effect from their development.

⁶ See: *Malkevich V.L.* (2016). *Rossiia-2016. Uroki noveyshey istorii*, Moscow, OSLN, pp. 60–61.

In 1956, at the 20th Congress of the Soviet Communist Party, Nikita Khrushchev presented a report, in which he sharply condemned the cult of personality of Joseph Stalin.⁷ The report was met with a mixed reaction at home and especially abroad. In particular, it strained relations with the communist parties of China, France, Italy and other European countries. The split in the communist movement had a devastating effect on the world's left-wing forces. In some countries, it led to the emergence of two communist parties, including one pro-Soviet and the other pro-Chinese. The ideological confrontation between them caused significant damage to the communist movement in the 1960s and 1970s. Moreover, Nikita Khrushchev's report included some far-fetched accusations that revealed Khrushchev's deep personal dislike of Stalin. This served as a harbinger to the sharp deterioration of relations with China, which later turned into an open confrontation. For many years, it brought the development of political, economic, cultural and other ties with the great Eastern neighbor of the USSR to a standstill and required significant efforts to "clear the air," normalize multilateral ties and restore close good-neighborly relations with China.

Yet the rehabilitation of innocent victims who suffered from Stalin's political repression campaign, restoration of the good name of those illegally convicted and the many thousands who died, helped restore justice and public trust in the Soviet leadership. Nikita Khrushchev's period in office was extremely controversial, as was his own personality.

In 1957, the authorities created Sovnarkhozes to streamline the economic administration system, reduce bureau-

⁷In an informal setting among his close entourage, Alexey Kosygin once allowed himself to say, "yes, there really was a cult of personality around Stalin. But there was also a personality!" He apparently wanted to point out the intellectual contrast between Nikita Khrushchev and his predecessor.

cratic overloads and replace the sectoral ministries. This extremely costly initiative did not yield the expected results. Ministries were replaced by committees in the center, and in the regions this gave rise to powerful bureaucratic entities guided primarily by local interests. The country's unified economic and technical policy weakened, while the number of officials expanded significantly, and the bureaucracy at the center was supplemented by an even greater bureaucracy in the regions.

Agricultural reforms also ended with failure. The elimination of machine tractor stations (MTS) was a considerable mistake. Most collective farms lacked the funds to buy their own equipment and maintain it in working condition. The notorious "corn epic" began in 1956. After Nikita Khrushchev visited the United States, he ordered the mass cultivation of corn in the Soviet Union. However, in many regions, this yielded an extremely poor harvest due to different weather conditions. Unlike in the U.S., the USSR climate zone was not conducive to any large-scale production of feed through the widespread cultivation of corn to help expand the cattle stock, as was Khrushchev's plan.

It should be noted that Khrushchev made major contributions in the social sphere. He increased minimum wage in the public sector by 35 %, doubled pensions for workers and employees, and introduced nationwide pensions for collective farmers.

However, perhaps his greatest achievement in the social sphere was his dramatic improvement of public housing. The Soviet Union saw its housing construction reach an industrial scale. Every city and many other populated areas had new five-storey concrete-paneled buildings designed to be used for up to 50 years built in just a few days (people dubbed them Khrushchyovka houses after the Soviet leader).

They included one, two and three-room apartments with ceilings 2.5 meters high and compact bathrooms and kitchens, but this was an enormous step forward in the social life of the Soviet Union. Millions of Soviet citizens who used to live in communal apartments and basements now had the opportunity to move into their own space. Today, Khrushchev-era buildings are being demolished, and their residents are being moved to more modern and comfortable accommodations. However, without this stage (the transition period with Khrushchyovkas), the housing issue in the country would have remained neglected for many years to come. Housing stock expanded by 80 % in just 10 years.

The cultural sphere also experienced its own thaw. Education reform extended mandatory secondary school by 1 year (to 11 years). Technical institute students also had to undergo mandatory on-the-job training.

In these years, the entire world was experiencing a technological revolution. Some of its greatest achievements were born right in the Soviet Union, including space exploration (the first satellite and flight of Yuri Gagarin), development of nuclear energy for peaceful purposes (the world's first nuclear power plant, and first nuclear icebreaker "Lenin"). In 1988, the successful launch of Buran, a reusable orbiter capable of unmanned flight, was hailed as a world-class technological achievement in space exploration. The flight was fully automated using on-board computers and software. Buran's control system automatically executed all maneuvers, right down to shutting the orbiter off after landing. For the first time in the world, no pilot was needed to guide a spacecraft. Even today (30 years later), no one has been able to repeat this Soviet achievement. In this period, the Soviet Ministry of General Machine Building supervised the production of intercontinental ballistic missiles, engines, control sys-

tems, as well as the implementation of peaceful space exploration programs. From 1983 to 1988, the ministry was headed by Oleg Baklanov, an influential engineer and respected mind guiding the development of the defense industry. From 1988 up to the final days of the Soviet Union, Oleg Baklanov worked as Secretary of the Central Committee of the Soviet Communist Party in charge of the defense sector.

Nikita Khrushchev's poor education and low cultural competence, along with his totalitarian management style (despite his attacks on Stalin's cult of personality, he had no qualms heading both the Communist Party and the government), led to outrageous blunders in his comments on literature, poetry, painting and sculpture. Just take his grossly misinformed and loud accusations against such young poets as Robert Rozhdestvensky and Yevgeny Yevtushenko, as well as the talented sculptor Ernst Neizvestny. Or his persecution of genius poet Boris Pasternak (following the publication of *Doctor Zhivago*, which posed no "threat" to socialism), which no doubt precipitated the author's death. At the same time, the new *Sovremennik* theater opened in Moscow, which raised many issues worrying the public in a dramatic and interesting way. Television also increasingly became a part of everyday life.

In the 1960s, amid rising food prices and slowed economic growth, Nikita Khrushchev's authority began to fade. 1963 was marked by bread shortages following a poor harvest in virgin lands. This required the use of state reserves and large-scale purchases of grain from the United States. However, this failed to address the core issue, and the Soviet Union re-introduced its ration card system.

With the realization that in the United States and Great Britain socialism would not prevail any time soon, Nikita Khrushchev directed his attention to third world countries,

and in the spirit of internationalism energetically helped them on the path towards “socialism.” As a result, Western opposition led to grave conflicts in many countries, which often fomented fierce fighting in various hotspots.

In Chapter 1, we discussed the first steps made after Stalin's death by Soviet leaders and U.S. President Dwight Eisenhower to improve Soviet Union–United States relations. On July 27, 1953, a truce was reached between North and South Korea. In 1955, the Soviet Union and Finland extended their Treaty of Friendship, and Finland simultaneously announced its neutrality in international politics. In the same year, the USSR, Great Britain, USA and France signed a State Treaty with Austria on the cessation of war and permanent neutrality. Soviet troops were withdrawn from Austria, and in the summer of 1955, the Belgrade Declaration was signed between the Soviet Union and Yugoslavia on the normalization of relations. The meeting of the Big Four, including the USA, USSR, Great Britain and France, took place in July 1955 and led to the emergence of what is known as the “spirit of Geneva,” or that great powers were ready to discuss the most acute international issues. Soviet ideologists publicly announced the possibility of a nonviolent transition to socialism in the West. They further speculated that in the current environment, war was not inevitable.

All this laid the groundwork for rapprochement between the West and East, and the normalization of Soviet Union–United States relations as early as during Dwight Eisenhower's presidency. The world had “warmed up” to a certain extent. Nikita Khrushchev's visit to the United States was a great success, and despite the incident with a U.S. spy plane over the Urals, the decision to scrap all the previous hard diplomatic work can be considered hasty. Khrushchev's emotional nature probably prevented the search for a more flexi-

ble solution to the conflict. Soviet interceptor missiles shot down the plane at an altitude previously thought to be out of range. This strengthened Soviet negotiating positions by demonstrating the enhanced capabilities of its missiles. It would have been sufficient to use the entire range of diplomatic tools traditionally used in such cases (notes of protest, an open trial of the pilot, wide media coverage, swap of captured spies, etc.).

Intelligence services have always existed and will continue to exist as long as there are states in the world. The first reconnaissance satellites were already in the air when Khrushchev was in office, and everyone knew the entire territory of any state was open for observation! Many times I visited Lake Baikal together with foreign delegations and stayed in the cottages built specifically for the expected, yet unfortunately canceled visit of the U.S. President to the Soviet Union. There, in spite of myself, I often drifted back to these events and recalled that Dwight Eisenhower had no fears of a possible Soviet attack on the United States (as was clear from correspondence with his brother Milton). As the Supreme Commander of expeditionary forces, Dwight Eisenhower led the Anglo-American troops during the landing in the English Channel (in the French province of Normandy). He was well acquainted with the Soviet commanders and maintained a personal correspondence with Georgy Zhukov. One of Eisenhower's most prominent achievements as President was putting an end to the practice of persecution for leftist beliefs known as McCarthyism, as well as the discrediting of senator McCarthy.⁸ Khrushchev appreciated

⁸In 1953, Joseph McCarthy was appointed head of the U.S. Senate Permanent Subcommittee on Investigations and organized a series of public hearings. Senator McCarthy claimed that communists had infiltrated all spheres of power in the United States, including the Senate and army. His anti-Communist cam-

the integrity of Dwight Eisenhower in his own way. Moreover, he was convinced that Dwight Eisenhower would never allow a major military confrontation between the Soviet Union and the United States. On that issue, he trusted him “as a front-line soldier would trust another front-line soldier.” Who knows, perhaps the world missed its chance to start the *détente* ten years earlier.

We must give credit to the positive aspects of Khrushchev's accomplishments, as he was the one who opened the Soviet Union to the outside world, giving the Soviet people a rush of fresh air.

Newly elected President John F. Kennedy (1961–1963) was the youngest man to ever hold this office in U.S. history. Under the leadership of the most famous representative of the Kennedy clan, U.S. foreign policy was far from being overly pacifist. This period was marked by the escalation of the Vietnam war, and Americans were busy fighting the “communist threat” in the third world.

In July 1961, a two-day meeting between John F. Kennedy and Nikita Khrushchev was held in Vienna. Anatoly Dobrynin, who participated in the meeting, recalled that it centered around discussions of the German question. The Soviet Premier proposed to jointly sign an agreement recognizing the existence of two Germanies (the Federal Republic of

paigned resulted in the execution of Julius and Ethel Rosenberg, among others, a married couple that worked for Soviet intelligence. The turning point in McCarthy's downfall came with the public hearings against the U.S. Army. They were broadcast live on television, and revealed to the public the dirty methods employed by the Senator. On December 2, 1954, the U.S. Senate adopted a decision condemning the conduct of McCarthy. He suffered from alcoholism and died of hepatitis in Bethesda Naval Hospital on May 2, 1957, more than 18 months before the end of his term of office, at the age of 48. McCarthy wasn't the first to investigate Soviet activities in the United States; the House Un-American Activities Committee was long involved in this process before him, but it relied on more civilized methods.

Germany and German Democratic Republic). If the United States was not ready for this step, Nikita Khrushchev would sign a separate agreement with East Germany no later than next December. The rights of occupying Western powers in Berlin and free access to the city “would thus cease to exist.” West Berlin may continue to exist as an independent entity as before, but its communications with the outside world would be controlled by the East Germans. The Soviet Premier made this proposal as an ultimatum, hoping the young and inexperienced U.S. President would most likely give in. However, John F. Kennedy proposed to postpone discussions of the German question. Yet Khrushchev continued to insist on the matter, arguing that the peace treaty with the GDR would be signed no later than next December and no threat from the United States would stop him.

At the Vienna meeting, Khrushchev had a good chance to establish a more constructive relationship with the new U.S. President, but he missed it, along with a real opportunity to improve a fundamental understanding of mutual relations with John F. Kennedy.

In the history of Soviet Union–United States relations, the Cuban Missile Crisis of October 1962 was the most dramatic event marking the second half of the 20th century, when the prospect of a nuclear holocaust posed a direct threat to the existence of all mankind.

However, like his opposing 68-year-old Soviet counterpart, the 45-year-old American President never took that last step and refrained from giving a fatal order. During the Cuban Missile Crisis, John F. Kennedy and Nikita Khrushchev had enough common sense and self-control to resolve the conflict peacefully.

The “hawks” in the inner circle of the U.S. President accused him of colluding with the country's ideological adver-

sary, and called his refusal to invade and bomb Cuba the “worst defeat in the history of the United States.” However, the President considered the peaceful resolution of the Crisis a victory for common sense and his personal success.

For the American political elite, the very existence of communist Cuba so close to the Gulf Coast of the United States was all but unthinkable. The United States used to immediately confront any manifestation of communism, even thousands of miles away (for example, in Vietnam). But in this case, as Soviets joked, it was “communism off the coast of America” (in Russian, “Kuba” forms this acronym, “Kommunizm U Beregov Ameriki”).

It comes as no surprise the American establishment wanted to destroy this pesky little enclave of socialism. But John F. Kennedy demonstrated statesmanship and courage in his prevention of a self-destructive war that could have also been the final war in human history.

The compromise reached at the end of the Cuban Missile Crisis may be one of the reasons for the assassination of John F. Kennedy. Even today, many years later, there is no conclusive answer to this question.

Khrushchev, the second “author” of the compromise, was also soon shooed from the political scene. In October 1964, the Plenum of the Central Committee of the Soviet Communist Party removed him from his post. Nikita Khrushchev was succeeded by Leonid Brezhnev.

Soon afterwards, the Khrushchev Thaw in the Soviet Union came to an end. In 1966, writers Yuli Daniel and Andrei Sinyavsky were put on trial and convicted for anti-Soviet publications. The editorial board of *Novy Mir* magazine headed by Alexander Tvardovsky was disbanded. But the literary works of Alexander Solzhenitsyn, Vasily Aksyonov, Sergei Dovlatov, Vladimir Voinovich, and Vladimir Maksi-

mov were widely published outside the Soviet Union. The poet Joseph Brodsky was awarded the Nobel prize.

Writers including Valentin Rasputin, Viktor Astafyev, Boris Mozhayev, Fyodor Abramov and Vasily Belov occupied a well-deserved and prominent place in Soviet literature. Many readers also found the literary works of Vasily Shukshin appealing. Prominent writers from other republics of the Soviet Union, such as Chinghiz Aitmatov, Vasil Bykov, Nodar Dumbadze, Chabua Amirejibi and Fazil Iskander were likewise popular in Russia. The collective memory of the people on the exasperation of those days was preserved by bards Vladimir Vysotsky, Alexander Galich, Bulat Okudzhava, Yuliy Kim and Viktor Tsoi.

Turning back to the United States, what did the landscape look like in the quarter century after World War II? By the 1950s, the United States had completely overcome the woes of the Great Depression, but the economy was still developing at a slow pace. Average annual growth of production was 2.3 %. Recessions in the 1950s and 1960s never reached a large scale; they were regular (1948–1949, 1953–1954, 1957–1958, 1960–1961) but mild. Scientific and technological progress changed the structure of labor by reducing the number of production workers and increasing jobs in the non-production sector. Agriculture was also becoming increasingly industrialized, which reduced its workforce from 25 million to 21 million (mostly men). In those years, the socially-oriented government formed under Franklin Roosevelt was heavily involved in the regulation of employment, including such issues as collective agreements, working hours, wages and unemployment benefits. The state acted as a regulatory authority in relations between employers and employees within the legal framework and in the interests of social peace.

The consolidation of democracy and scientific and technological progress led to the “managerial revolution.”⁹ Its key idea was that the owners of production facilities (or operators) should step aside for professional employees, directors and managers to act as authorized representatives of the people. Directors would act independently of the shareholders and concentrate all the power in their hands. The government would regulate the socially oriented economy and compel managers to act in the public interest, and as a result capitalism would transform into people's capitalism. The technocratic theory was advanced by American sociologists as early as in the 1920s and 1930s. The theory of people's capitalism and the technocratic theory claim that in advanced democratic countries, public welfare is ensured by the democratization of capital, more equal distribution of income and the dispersion of ownership. The convergence theory gained popularity in the United States in the 1960s. Its authors, including John Kenneth Galbraith and Walt Rostow (USA), and Jan Tinbergen (Netherlands), argued that by developing in parallel, capitalism and socialism would ulti-

⁹The managerial revolution concept was elaborated in the 1930s by Adolf A. Berle and Gardiner C. Means as theories related to “corporate revolution and management control.” Major corporations became the key subject of research as their shares of production and resources gradually grew. Researchers saw the cause of weakened or ruptured ties between ownership and control in the dispersion (scattering) of share capital.

The technocratic theory emerged in the 1920s and gained popularity in the 1960s and 1970s. Its proponents included James Burnham, Daniel Bell and others. According to the technocratic theory, society should be managed by specialists, such as administrators and managers. These are the most qualified people to identify real public needs, the best means of social development, and the necessary funds. As a result, management would grow to be based on science and ensure social progress. Certain ideas from this concept are borrowed and widely applied in other theories explaining the essence of the state and its other aspects.

mately converge at a common denominator and form a new society incorporating the best features of both systems.

The technology revolution, which began in the 1950s, led to a significant increase of industrial output over the next decade. This most notably included the electric power industry, electronics and the chemical industry. All these sectors were based on the latest technological advances, which helped set off the “green revolution” in agriculture. Thus, science transformed into a productive force. Research and development (R&D) became the new driver of progress. The industrial boom continued through 1967, when growth slowed down to 1 % annually.

In the U.S., the 1960s were marked by increased government intervention in the economy and social regulation.

The electoral victory of John F. Kennedy revived the economic reform spirit of the country, leading to a number of steps to stimulate economic growth through inflation and a federal budget deficit. His program was designed to comprehensively “restructure” regions with chronic economic depression, provide assistance to farmers, raise the minimum wage, improve social security and retrain the unemployed. It also featured other measures to increase household purchasing power and provide additional stimuli for economic growth.

Civil rights, national minorities, women and youth were all salient elements of the program. From 1961 to 1962, the U.S. government began to implement a number of social reforms under the New Frontier program, including an increased hourly minimum wage, higher unemployment benefits, and training and retraining of workers. In addition to investment incentives, these social programs also ensured rapid U.S. economic development in the 1960s. The Apollo program proposed by President John F. Kennedy resonated

throughout the world. Its mission was to land a man on the Moon. The program was successfully accomplished in July 1969, when American astronauts Neil Armstrong and Buzz Aldrin set foot on the moon's surface.

On November 22, 1963, John F. Kennedy was assassinated in Dallas, Texas. This tragedy was met with an outpouring of grief and deeply affected not only Americans, but many people in the Soviet Union as well. How can it be explained that the death of John F. Kennedy, who served as U.S. President for less than three years, caused so much public sorrow in the Soviet Union? The most likely reason was the Cuban Missile Crisis, which held the peoples of the USSR and USA in a state of extreme emotional stress. For the first time in history, mankind felt what it would be like to cross that fatal line, beyond which humanity would be doomed to complete destruction. Following the magnitude of this shock, the resolution of the crisis was met with a sigh of general relief. Both Soviets and Americans pinned their hopes for a better future on the U.S. leader who helped avoid the disaster. But suddenly, the young and charismatic John F. Kennedy, whose looks and manners inspired trust, was murdered by an assassin in his path to changing the world for the better soon after the happy resolution of the Cuban Missile Crisis. The blessed memory of John F. Kennedy lives on not only in the collective popular consciousness of two global superpowers, but in many other countries as well, forming an unparalleled example of unanimity with the power to unite.

If we put all emotions aside and objectively consider Kennedy's presidency, we have to admit that similar to his predecessors, he pursued a foreign policy based on global confrontation with the Soviet Union. Ideological conflicts between the great powers continued to be the main obstacle to normalizing bilateral relations.

In terms of foreign policy, the Democrats put forth their Flexible Response strategy. Essentially, it meant responding adequately to Soviet activities in various regions of the world. After the Cuban Missile Crisis of 1962, relations between the two countries began to normalize. On June 16, 1963, John F. Kennedy even said that the United States was “willing and able to engage in peaceful competition with any people on earth.”

After Kennedy, the new U.S. President was Lyndon Johnson (1963–1969). He put forward an ambitious set of programs dubbed the Great Society, envisioning a country without poverty, unemployment, crime and serious diseases, and set the task of eliminating poverty. The program was largely a result of Johnson's personal desire to surpass JFK. The adopted measures (such as raising minimum wage, providing subsidies and loans to farmers, increasing social spending, providing assistance to people living below the poverty line) helped significantly reduce the number of poor in America (from 36.4 million to 25.4 million), but failed to do away with poverty altogether.

On the whole, in the first years of Lyndon B. Johnson's presidency, relations between his administration and Moscow gradually deteriorated mainly due to the Vietnam war. Escalating military operations exacerbated Soviet Union–United States relations even further.

On July 21, 1967, the U.N. held an emergency session of its General Assembly convened at the initiative of the Soviet Union to consider the situation in the Middle East (the agenda included discussion of the immediate withdrawal of Israeli troops from occupied Arab lands behind the armistice line). The Soviet delegation was headed by Alexey Kosygin. On June 23 and June 25, 1967, Kosygin met with Lyndon B. Johnson in Glassboro, a small town in New Jersey. They

discussed the situation in the Middle East, war in Vietnam, the non-proliferation of nuclear weapons, steps to prevent the creation of missile defense systems, as well as bilateral relations. This was the only Soviet Union–United States summit of this period not attended by Leonid Brezhnev. On a side note, Brezhnev was quite reserved about the personal accolades of Alexey Kosygin when it came to diplomacy.

The Vietnam War overshadowed the activities of the U.S. President and forced him to give up on his dreams of forming a Great Society in the United States. It also severely tested the moral and political authority of the USA, even in the eyes of Americans. For the Soviet people, Lyndon B. Johnson was always associated with the American military intervention in Vietnam, and as a political figure has long been forgotten in Russia.

Yet in terms of Soviet Union–United States relations, such an assessment of President Johnson's policies seems unfair. His presidency wasn't marked even by a single military-political crisis or conflict. There was no confrontation regarding Berlin, no arms build-up in Europe, and no demonstration of force or other forms of protest following the events of 1968 in Czechoslovakia. In addition, the two countries signed the international Treaty on the Non-Proliferation of Nuclear Weapons and reached an agreement not to place any objects carrying nuclear weapons in the Earth's orbit. They also signed the Consular Convention between the Soviet Union and the United States, an agreement on direct airline flights between the USSR and the USA, an agreement on the rescue of astronauts, an agreement on cooperation on the nuclear desalination of sea water, an agreement on fisheries, and others.¹⁰ From this it is clear

¹⁰ *Dobrynin A.F.* (1996) Sugubo doveritel'no. Posol v Vashingtone pri shesti prezidentakh SSHA (1962–1986), Moscow, IPO Avtor.

that Lyndon B. Johnson contributed much more to the development of Soviet Union–United States relations than his predecessor. Apparently, “vox populi” does not always mean “vox Dei.”

In his memoirs, President Lyndon B. Johnson quite objectively noted that from 1963 to 1969, more agreements were signed with Moscow than in the 30 years since the establishment of diplomatic relations between the Soviet Union and the United States.

Returning to the economic challenges faced by the United States in postwar years, the demand for labor was increasing in the industrial cities of the North as early as during World War II.

In search of work, many African Americans left the Southern United States, where they were denied the right to vote and faced severe discrimination. In the North, where there was no tradition of racial segregation, they were actively involved in politics. The Democratic Party supported the demands of African Americans and relied on their votes. In the 1950s, Baptist minister Martin Luther King¹¹ became the head of the African-American Civil Rights Movement. He was the recognized leader among the African-American population and used the non-violent tactics of Mahatma Gandhi. These tactics helped raise support from a significant

¹¹Martin Luther King (1929–1968) was a prominent Baptist minister and leader of the civil rights movement in the United States. King is a national icon in the history of American progressivism, the first activist of the African-American Civil Rights Movement and first prominent champion of civil rights in the United States. He fought against discrimination, racism and segregation. He also outwardly opposed U.S. involvement in the Vietnam War. In 1964, King was awarded the Nobel Peace Prize for Civil Rights and Social Justice in American society. He was assassinated in Memphis, Tennessee, allegedly by James Earl Ray. In 2004, King was posthumously awarded the Congressional Gold Medal, the highest civilian award in the United States.

portion of the population in the movement. For example, in 1955, Martin Luther King organized a boycott of a bus company in Alabama with segregated passenger seating. A year later, the U.S. Supreme Court found such segregation unconstitutional. Earlier, the Supreme Court had ruled that segregation in schools was illegal. In the Southern United States, the opposition of whites to these developments was often violent. In 1957, the authorities had to send in the military to enforce the decision of the Supreme Court in Little Rock, Arkansas.

In addition to the civil rights movement, the 1960s were also marked by mass social protests. By that time, the first generation of Americans born after World War II had graduated from high school. This generation (known as “hippies”) grew up in a prosperous country and viewed social security and material prosperity as a given, as they had never known mass unemployment or poverty. Their ideology and hierarchy of values were fundamentally different from the previous generation. As adepts of the new protest movement, these young people (in my opinion, they could be called, and with good reason, the counterculture generation) rejected the values of consumerism, choosing freedom from social conventions and hypocrisy, and above all else preferred a simplicity of morals over established traditions. Rock 'n' roll and jeans were transformed from items of fashion into counterculture symbols. With their keen sense of justice, young people who had been cast in the role of cannon fodder for the Vietnam War, opposed this bloodbath en masse. Disillusioned with the old ideals, they found new ones in the figures of Mao Zedong, Herbert Marcuse¹² and Ernesto Che Guevara. The

¹² Herbert Marcuse (1898–1979) was a German-American philosopher, sociologist and cultural critic associated with the Frankfurt School (Neo-Marxism + Neo-Freudianism + Neo-Hegelianism). Unlike Marx, Marcuse did not believe in

views of these young people were an explosive hodgepodge of communist, anarchist and existentialist ideas, rather than an elaborated philosophical concept.

Without bothering too much about theoretical reflection, they sunk their teeth into Mao's slogan "to rebel is justified." In 1964, the Free Speech Movement erupted at the University of Berkeley in California, and protests were only quashed when the authorities brought in the military. But the movement lived on. The Vietnam War led to mass demonstrations of young people in various U.S. cities, where protesters burned the American flag and rallied against conscription. As often happens in such situations, various extremist groups, as well as organized crime, became more active as the country was facing the mass youth movements. Robert Kennedy, the brother of President John F. Kennedy, was assassinated in 1968 after announcing his candidacy in the upcoming presidential elections. Martin Luther King was shot and killed in the same year, leading to mass racial unrest (part of several Black Riots in 1964–1969). The authorities once again had to bring in the military to restore order.

The 1960s were an important milestone in American history. U.S. leaders had set their sights on new frontiers, and strove to eliminate poverty and build a Great Society. However, the economy forced the United States to focus on other issues as one crisis emerged after another. The country was calling out for change.

the decisive role of the working class, and instead believed consumer society had corrupted humanity. In his well-known book *One-Dimensional Man*, there are no heroes. Everyone is a victim. Everyone has been "zombified," and no one acts of their own free will. The revolutionary role was passed on to the social outcasts and members of the avant-garde art movement (the thesis of counterculture as the heir of proletarian culture). Marcuse was not met favorably in the Soviet Union, despite the fact that many individuals praised by Soviet propaganda, such as Angela Davis, were his disciples. Today, some researchers believe that Marcuse was influenced by the ideas of Dostoevsky.

Chapter 6

TWO DECADES BEFORE THE DISSOLUTION OF THE SOVIET UNION

The 1970s were marked by the end of mass unrest in the United States. The demands put forth by protesting Americans were met to a significant degree, as formal racial discrimination was largely banned, young people had been given the right to vote at the age of 18, American troops were brought home from Vietnam, and the draft had been replaced by voluntary enlistment. The economic recession had changed priorities in the country.

In 1968, the Republican Party won the U.S. presidential election, installing Richard Nixon (1969–1974) as the country's new leader.¹ Once in power, the administration of Rich-

¹ Richard Nixon (1913–1994) was elected to presidential office in 1968 and 1972, (he is the only American politician to be elected for two terms as Vice President, and later for two presidential terms). His presidency was marked by the landing of American astronauts on the Moon and a number of reforms that effectively brought an end to the Bretton Woods system. In this period, American foreign policy was run by Henry Kissinger. Under Richard Nixon, the United States established relations with China (following the sensational personal visit of the U.S. President to China in February 1972), and began its *détente* policy with the USSR.

In May 1972, Richard Nixon visited the Soviet Union with his wife (this was the first visit of the U.S. President to the USSR after Franklin D. Roosevelt's trip in 1945). During this visit, he and Leonid Brezhnev signed the SALT I treaty. He was also the first President to visit all 50 U.S. states.

ard Nixon immediately had a severe crisis thrown on its lap. For the first time since the Great Depression, a declining GDP was accompanied by unemployment topping 6 %. Even worse, inflation wasn't declining, something unheard of in the past, as lower prices had always been a "positive" about economic downturns. But this time prices rose by 5 % in 1969, then by 6 % in 1970, and by the end of Richard Nixon's second presidential term, inflation exceeded 12 %. This was the period of "stagflation," a term coined by Paul E. Samuelson² to describe high inflation amid high unemployment and zero economic growth.

John M. Keynes' theory has been attacked both left and right. Critics always proclaim that the cause of all economic woes in the U.S. is too much government intervention.

The Nixon administration announced its New Economic Policy, which included freezing wages, prices and interest rates for 90 days starting August 15, 1971. Throughout 1972, they were then strictly regulated by three newly established government agencies, including the Cost of Living Council, the Price Commission, and the Pay Board. Many Americans were against such "extreme" measures. But no one proposed any other effective tools to fight inflation other than establishing controls over wages and prices. The New Economic Policy was temporarily successful in decreasing prices, and

In July 1969, the United States began to gradually withdraw its troops from Vietnam, a process that stretched on for more than three years.

²Paul Anthony Samuelson (1915–2009) was an American economist awarded the Nobel Prize in Economics (1970) "for the scientific work through which he has developed static and dynamic economic theory and actively contributed to raising the level of analysis in economic science." He was the author of one of the most popular books on economics, titled *Economics: An Introductory Analysis*, first published in 1948. It is the second American book to explain the principles of Keynesianism. As of today, the book has been published in nineteen different editions and translated in 40 languages, with total worldwide sales reaching 4 million copies.

inflationary pressures somewhat eased up by mid-1972. But then the economy experienced the effect of “deferred price pressure,” which triggered a whole new inflationary wave.

As far as U.S. foreign policy is concerned, President Richard Nixon made the most significant contributions to the normalization of Soviet Union–United States relations. His tough but effective leadership style greatly facilitated the successful implementation of international *détente* policy programs and East–West normalization, despite the difficult U.S. economic and political environment, including opposition from Congress. No President of the United States had ever worked so closely with socialist countries. In America, he was nicknamed the Red President. But as a staunch anti-Communist, he believed that any utopia would ultimately lead to dictatorship. When Nixon was Vice President under Dwight Eisenhower, he had more authority than any of his predecessors. He assumed the functions of President three times (in 1955, 1956 and 1957) during Eisenhower's various illnesses. Richard Nixon sought to learn more about Moscow and the Soviet people even before his election to the highest government post. The older generation of Russians certainly remember Nixon's visit to the Soviet Union in the summer of 1959, where as the U.S. Vice President, he attended the opening of the American National Exhibition in Moscow's Sokolniki Park. This was the time of the well-known Kitchen Debate with Nikita Khrushchev on whether capitalism or socialism would prevail in the future. People in the Soviet capital were more than surprised to see him at a market in Moscow, as it had not been scheduled in his visit program.

As an undisputed military authority, Dwight Eisenhower understood what a disaster war for the United States would be (and any other country, for that matter), no matter who won. He once said that “the only way to win World War III is

to prevent it.” After many years of working with Dwight Eisenhower, Richard Nixon likely took these words to heart. They even clinched their family ties after the daughter of Richard Nixon married the grandson of Dwight Eisenhower. As a side note, the granddaughter of Dwight Eisenhower Susan married Roald Sagdeev, a well-known Soviet scientist academician who for many years headed the Space Research Institute of the Soviet Academy of Sciences. Since 1990, Roald Sagdeev has lived and worked in the United States as a professor and director of the East-West Space Science Center at the University of Maryland.

Even before the 1968 U.S. presidential elections, Soviet leaders who viewed Richard Nixon as a “rabid anti-communist” and “dangerous anti-Soviet element” were very concerned about his prospects of rising to power.

But contrary to their expectations, reality proved the first half of the 1970s especially positive for relations between the two countries. U.S. President Richard Nixon and his wife visited Moscow on May 22–30, 1972. This was the first time the leaders of the two countries met in the Soviet Union after World War II. The President's visit yielded a number of specific agreements on strategic arms limitation. The two sides signed a document on the Basic Principles of Relations Between the United States of America and the Union of Soviet Socialist Republics.

The SALT I agreement was an unprecedented step forward in strategic arms control, as it provided the first legal framework for the *détente*. The Soviet Union and the United States agreed to set specific quantitative limits on strategic offensive nuclear missile capacities and minimize their strategic defensive systems. The fact that the ABM Treaty was signed for an indefinite period underscored its key importance. It is no wonder that opponents of the ABM Treaty in

the United States, who contested the principle of equality and equal security in matters regarding the Soviet Union, immediately launched a campaign against it.

At the 20th Congress of the Soviet Communist Party held in February 1956, the country's ideologists presented a "new doctrine" on the inevitability of long-term coexistence between states with different socio-economic formations (the theory of peaceful coexistence). Since then, this theory and its main conclusion that a war between capitalist and socialist countries was not inevitable, became the fundamental principles of Soviet foreign policy. In the modern world, wars could be prevented. Therefore, there was no fatal inevitability of confrontation between capitalism and socialism "on the battlefield." This fundamental condition was destined to lay a solid, long-term framework for a policy of peace with the West. However, alongside this "fundamental condition," the Soviet Communist Party also proclaimed its (hardly compatible) support for national liberation struggles around the world. Clearly, this was the fly in the ointment that led to unremitting rivalry in the third world. The adoption of these two conflicting ideological principles by Soviet leaders was problematic for the long-term normalization of Soviet Union–United States relations.

The new ideological approach first elaborated at the 20th Congress of the Soviet Communist Party was received with interest in the West and generated a detailed discourse not only in diplomatic circles, but also among other communist parties, as their leaders were traditionally guests of honor at such meetings. The leaders of Communist Party USA, supported by no more than several thousand members, were also always among the honored guests at congresses held by the Soviet Communist Party. In his conversation with Anatoly Dobrynin, Henry Kissinger once said with sarcasm that

half of them were FBI informants on the payroll of the U.S. government, which helped them pay their regular party dues.

Richard Nixon and Henry Kissinger are remembered as major political figures in the history of U.S. foreign policy. In particular, for their “ability to approach issues in a conceptual and comprehensive way, without getting distracted by minor issues and details.” Henry Kissinger was also a master tactician, which was evident from both his direct and behind-the-scenes negotiations.

Both Richard Nixon and Henry Kissinger sought to avoid a real and substantial reduction of arms, which remained at the core of their only slightly disguised policy “from a position of strength.” The President and his closest aide were never quite able to free themselves from the influence of the Truman Doctrine, although they held a fundamentally more constructive position than many proponents of the Cold War among the U.S. political elite.

The end of the Vietnam War had a markedly positive effect on Soviet Union–United States relations.

In early 1973, Henry Kissinger topped the public opinion polls in the United States, followed by the widely revered preacher Billy Graham, with Richard Nixon coming in third.

The Moscow Agreements showed the world Nixon's mixed strategic/pragmatic approach and signified a historic turn in Soviet Union–United States relations. Leonid Brezhnev summed up his impressions with the phrase “You can get things done with Richard Nixon. Now we need to schedule a return visit to the United States.”

In the 1970s, despite the dire state of the U.S. economy, President Nixon boldly pursued a constructive foreign policy of détente and sought to normalize relations with both the USSR and China. In China, he agreed on an exchange of visits by unofficial delegations.

In the 1972 presidential election, 46.7 million Americans voted for Richard Nixon, versus 28.9 million votes for Democrat George McGovern (with 55 % voter turnout at the polls). After taking the White House for another term, Republicans again failed to secure a majority in the Senate and House of Representatives, which later had dramatic implications for the fate of Richard Nixon.

On the eve of the second summit between Leonid Brezhnev and Richard Nixon, an unusual coalition of opposing left and right-wing forces emerged in the United States. Although they pursued different political goals, their combined efforts nonetheless had a destructive effect on the Soviet Union–United States détente. The Zionists and liberals believed it was the right time to openly challenge the Soviet Union on the issue of emigration. But as for conservatives of all stripes, they had always opposed a détente as incompatible with their ideology and its rejection of any contact with the world of socialism.

In June 1973, Leonid Brezhnev visited Washington and signed a new set of agreements, including

- the Agreement on the Prevention of Nuclear War
- Basic Principles of Negotiations on the Further Limitation of Strategic Arms
- Convention on Matters of Taxation
- Scientific and Technical Cooperation Agreement in the Field of Peaceful Uses of Atomic Energy
- Agreements on cooperation in agriculture, transport, and studies of the world's oceans
- General Agreement on Contacts, Exchanges and Cooperation

For Soviet leaders, the main outcome of Brezhnev's visit to the United States was the Agreement on the Prevention of Nuclear War. They viewed this document as a crucial

achievement of the détente, as preventing armed conflict was in fact the guiding force of the Kremlin in its relations with the United States in the post-war period. But the American side did not consider the agreement of any fundamental significance. The U.S. was much more worried that its allies might view the Soviet Union–United States agreement as some sort of separate alliance between two great nuclear powers. They sought to soften the wording and give it a more placid, non-binding character. Nevertheless, at its core, the agreement stated clearly and unambiguously that the two sides “will act in such a manner... as to exclude the outbreak of nuclear war between them and between either of the Parties and other countries.”

This agreement and the 1972 Basic Principles of Relations between the United States of America and the Union of Soviet Socialist Republics both had one major drawback: they were nothing more than a declaration of intent. Neither provided any mechanism for their implementation.³ In their dialogue, Leonid Brezhnev and Richard Nixon referred to this agreement as a historic stage in relations between the two countries.

From February 1972 to February 1973, the US-USSR Commercial Commission was headed by U.S. Secretary of Commerce Peter Peterson, who made a strong favorable impression on his Soviet counterparts with his willingness to search for mutually acceptable solutions. In October 1972, the Soviet Union and United States signed a number of commercial agreements in Washington on trade and reciprocal most favored nation treatment to the products of each country, the settlement of Lend-Lease accounts, including the loan agreement of 1945, and on the provision of long-

³ *Dobrynin A.F.* (1996) Sugubo doveritel'no. Posol v Vashingtone pri shesti prezidentakh SSHA (1962–1986), Moscow, IPO Avtor.

term loans to the Soviet Union through the Export-Import Bank of the United States.

Following their signing, President Nixon announced his decision to extend the law on long-term bank loans to the USSR. This proved to be the most trade and financial agreements entered into between the two countries any time since the end of World War II.

In the spring of 1973, Richard Nixon urged U.S. Congress to grant the Soviet Union most-favored-nation treatment in trade with the United States. For the opponents of détente, this sounded the alarm to rally their forces. Liberals hinged their support for such treatment on the sharp curtailment of restrictions on emigration from the USSR, while conservatives, fundamentally against the détente, opposed the expansion of trade. On March 15, Senator Henry M. Jackson introduced an amendment to the trade bill which found support among 73 senators. In accordance with this amendment, the Soviet Union was not to be granted loans or most-favored-nation treatment in trade as long as it restricted the emigration of its citizens.

After Peter Peterson, the US-USSR Commercial Commission was headed by Secretary of the Treasury George Shultz (1972–1974) on the American side. As the Secretary of the Treasury in Richard Nixon's administration and Secretary of State under President Ronald Reagan (1982–1988), George Shultz repeatedly acted in the interests of normalizing Soviet Union–United States relations. However, he was forced to demonstrate a certain degree of restraint during his first years in the administration of Ronald Reagan among die-hard neocon hawks. In his role as U.S. Secretary of State, George Shultz had the reputation of a foreign policy dove. In 1974, after the resignation of President Richard Nixon, he started working in the private sector, where he headed Bech-

tel Corporation, a major engineering and construction company in the United States headquartered in San Francisco.

In the late 1970s, while I was in Washington with Nikolai Patolichev, we unexpectedly encountered George Shultz in the Congress building on our way to meet a U.S. senator. At first we didn't even recognize him, as he had lost a lot of weight (20–25 kilograms). It turned out that George Shultz was there that day specifically to welcome the Soviet delegation after learning of our stay in Washington. When we joked that he lost weight because he missed us Russians so much, he replied in kind, “Just the opposite! I had to go on a diet to survive after all the stress of negotiating with you guys.” We were happy to see him. George Shultz filled us in on his work in Bechtel Corporation and issues with corruption in the South Korean government (as the head of Bechtel Corporation, he was indirectly affected by this scandal). After the end of Ronald Reagan's presidency, we no longer met with Shultz. I am glad that both he and Peter Peterson, who are now over 90 years old, are (as far as I know), alive and well.

After the Washington summit, the issues of trade and economic relations between the two countries remained unresolved, as along with granting the Soviet Union most-favored-nation treatment in trade, Congress closely linked them with free emigration from the USSR. Richard Nixon explained this in detail to Leonid Brezhnev. On his part, the U.S. President promised to help resolve the issue, but made it clear that Congress had the final say. But his own position was increasingly undermined by the Watergate scandal. This story, which ultimately ended in disgrace for Republicans, began on June 17, 1972, in Washington, D.C. During the election campaign, a group of Republicans broke into the Democratic Party's headquarters at the Watergate hotel in Washington, D.C. and bugged it. They were caught and

arrested. The Democratic Party and the media turned the resulting investigation into a major political fiasco for the Republicans. This dramatic event came to be known as the Watergate scandal. Amid the ongoing economic crisis, the Watergate scandal caused great alarm first among liberals and, later among many Americans. It also undermined domestic political support for the Republican Party, first and foremost for President Richard Nixon. Following the investigation, Richard Nixon was forced to resign in 1974. At the height of the scandal and in connection with it, the U.S. introduced public funding of presidential elections. In the United States, public funding of presidential elections by American taxpayers was first introduced in 1976 following the Watergate scandal.⁴

In the Soviet Union, we underestimated the independent role of U.S. Congress (the legislative branch of power). In combination with the inflexible position of Soviet leaders in the field of human rights, especially on emigration, this made it possible for opponents of détente to turn U.S. Congress into a major anti-Soviet stronghold. Moscow continued to view the issue of emigration from the USSR as “unacceptable interference” in its domestic affairs. This issue remained a constant thorn in the side of relations between the two countries up until the dissolution of the Soviet Union.

The Nixon administration soon began to face other problems related to the purchase of 19 million tons of grain

⁴Public funding of presidential elections is made possible through income tax returns. Taxpayers who want a portion of their taxes to be transferred to the general election fund indicate in a special line of their tax return that they agree to transfer three USD. A candidate nominated for the U.S. presidential elections has access to a little more than 80 million USD from that fund to run their election campaign. The consent of a candidate to receive public funding means they can no longer use other funds for their election campaign. Such funding ensures all candidates operate in equal financial conditions and fair pre-election campaigning on their part.

(i.e., the entire U.S. stock) by the Soviet Union. This reduced the supply of grain on the domestic market and triggered a rise of prices for bread and processed foods.

Richard Nixon continued taking steps to overcome the economic crisis in the U.S., but misfortunes never come alone. The situation sharply deteriorated when the Organization of Petroleum Producers and Exporters (OPEC) proclaimed an oil embargo. In the U.S., this caused a 50 % spike in energy prices and, as a result, sharply increased production costs in all industrial sectors. This was followed by major structural shifts in the American economy. Oil prices rose from 2.59 USD per barrel in 1973 to 12 in 1976, and by 1980 had already exceeded 35. Along with the country's ongoing stagflation, this steered the economy to yet another crisis in 1974.

In domestic politics, U.S. Congress significantly consolidated its authority at the expense of executive power. In 1973, for the first time in U.S. political history, Congress decided to limit the powers of the President on defense matters. This was accompanied by an increasingly vocal anti-Soviet campaign over the free emigration of Jews from the Soviet Union. All these developments could not but affect the pace and depth of further Soviet Union–United States cooperation.

From June 27 to July 3, 1974, Richard Nixon made his second presidential visit to the USSR, resulting in the signing of a number of documents:

- The Treaty on the Limitation of Underground Nuclear Weapon Tests and the Protocol to that Treaty that prohibited tests having a yield exceeding 150 kilotons
- The Protocol to the treaty between the USSR and USA on the limitation of anti-ballistic missile systems (reducing the number of such systems permitted for each country from two to one)

– Joint Statement on the Dangers of the Military Use of Environmental Modification

– Two protocols governing the replacement, dismantling or destruction of strategic arms

Unfortunately, this visit of Richard Nixon was not marked by any significant progress in the area of strategic arms limitation. The main obstacle to reaching an agreement on SALT II was the Watergate scandal. Thus, the two sides decided to continue their negotiations on that matter at a working summit scheduled for the end of 1974. However, that meeting was never destined to take place. At noon on August 9, 1974, the 37th U.S. President Richard Nixon resigned to avoid an embarrassing impeachment.

Overall, the first half of the 1970s can be rightly viewed as a breakthrough in relations between the Soviet and U.S. governments. These years gave rise to a legal framework of *détente* (foundation of peaceful coexistence) based equally on the national interests of both the USSR and USA.

Describing the dramatic situation that befell Richard Nixon, Henry Kissinger said “he has done so much for the United States on a great historical scale, but they have been at his throat for such minor trivial things.”

Arthur Schlesinger, a well-known American historian, believes Richard Nixon was forced to step down because he had become too “strong” as President. It was as if in the course of juggling economic woes, the social crisis caused by the Vietnam War and youth riots, Richard Nixon, an experienced, determined and energetic politician, rose above Congress and broke the traditional balance between the U.S. executive and legislative powers. This is what made that President too “unwieldy” for the Washington elite and led to his resignation. Meanwhile, debate raged on in the media over the effects of the *détente*. Its initiators argued that *détente* was

only beneficial to the Soviet Union. Presumably, it allowed the USSR to gain global political clout and extract substantial economic benefits from the most-favored-nation treatment in trade with the United States.

After leaving office, Nixon and his staunchly loyal wife retired to their house in California, where they led a quiet and inconspicuous life. Thelma gently supported her husband, day and night, during the most difficult period following his resignation. Selflessly dedicated to her husband, she fell seriously ill and died from lung cancer in 1993. Her husband died of a brain hemorrhage a year later, in April 1994. The drama of Richard Nixon was that despite effective foreign and domestic policies enacted amid a socio-economic crisis in the United States, he failed to restore his reputation in the eyes of the American public following the Watergate scandal. Time will pass, and in several generations, much of what used to seem crucial will lose its edge. However, Richard Nixon, who did so much for America and was the first to make such significant contributions to the normalization of Soviet Union–United States relations after World War II, will never know what comes of his legacy. In 1980, Nixon and his wife moved to New York to be closer to their two daughters and grandchildren. He devoted his last years to writing books. In the beginning of the 1990s, he visited the Soviet Union and asked for a protocol meeting with the President of Russia Boris Yeltsin. However, Boris Yeltsin still remembered a negative remark the former president made about him and declined the request. This understandably upset the elderly man, and likewise did nothing to improve the Russian President's reputation either.

Under Richard Nixon, the United States normalized its relations with communist China, and stopped the war and withdrew its troops from Vietnam (in 1975, the communists

won the Civil War in South Vietnam). In the USA, the Vietnam War led to Vietnam Syndrome, or fear of being drawn into a long, bloody conflict overseas with no prospect of victory.

Unfortunately, the Soviet Union did not learn from the American experience in Vietnam, and years later, sent in its troops to Afghanistan (Alexey Kosygin alone spoke out against military intervention in Afghanistan at a meeting of the Communist Party Politburo).

In the United States, prices continued to climb, with the consumer price index shooting up 6.5 % in 1977, 7.5 % in 1978, and 11 % in 1979. The energy program elaborated after the second oil embargo in 1977 yielded no visible results. By 1980, the U.S. economy was suffering from sluggish investment and chronic stagflation, which meant the country was facing another crisis. High consumer spending prevented the economy from sliding into another downturn. People preferred to spend their disposable income rather than save it in banks.

Gerald Ford became the new U.S. President (1974–1976) following the resignation of Richard Nixon. His presidency coincided with the most difficult period after the Vietnam War, marked by economic and political crises, the resulting rise of crime, and the aftermath of the Vietnam War. The compromised authority of the White House following the Watergate scandal, increased intervention of Congress in current foreign policy issues, and organizational unity and active efforts of anti-Soviet forces in the U.S. all prevented Gerald Ford from making any decisive maneuvers that might complicate his position in the context of upcoming presidential elections. With his calm and poised character, Gerald Ford succeeded, to some extent, in restoring confidence in the President's office and reviving hope for the future in the American public.

In the second half of 1975, the domestic and foreign policy of the U.S. administration was increasingly influenced by the upcoming presidential elections. Within the Republican Party, Gerald Ford was openly challenged by the far-right Ronald Reagan, who positioned himself as the second presidential candidate from the Republican party, which was very unusual for the United States.

Nevertheless, in 1975, Soviet Union–United States relations still continued their development under the agreements reached at the summits in 1972–1974, as well as during the meetings between Leonid Brezhnev and Gerald Ford in Vladivostok and Helsinki.

On July 15, 1975, the U.S. State Department in Washington held a live broadcast from the Soviet Union on the launch of a Soyuz spacecraft as part of the joint Apollo–Soyuz Test Project. This event had historical importance for Soviet Union–United States relations. The ceremony was attended by the U.S. President, Secretary of State, other cabinet members, members of Congress, as well as many reporters. In his memoirs, Anatoly Dobrynin wrote, “I had to go through a few tumultuous minutes, as it was the first Soviet launch directly broadcast on television (what if something went wrong?). But everything went well. The spectators were elated. The docking in space was completed on July 17. All this clearly demonstrated the wide opportunities available through cooperation between the Soviet Union and the United States to address complex scientific and technological issues.”⁵

At the end of the year, after difficult negotiations, a new intergovernmental agreement on sea navigation was signed between the Soviet Union and the United States. Following a

⁵ See: *Dobrynin A.F.* (1996) *Sugubo doveritel'no. Posol v Vashingtone pri shesti prezidentakh SSHA (1962–1986)*, Moscow, IPO Avtor.

two-year delay, the Convention signed by the USSR and USA on matters of taxation was also finally ratified.

Henry Kissinger, who always remained a key supporter of détente between the Soviet Union and United States, played a special role in the overall improvement of Soviet Union–United States relations during the presidencies of Richard Nixon and Gerald Ford. The Secretary of State called the period from 1969 to 1974 “a time of great achievements” in Soviet Union–United States relations and the rise of détente.

The decline in relations began in 1974, when U.S. Congress refused to grant the Soviet Union the most-favored-nation treatment in trade because of the issue with emigration from the USSR.

From that time, influential Jewish groups in the United States strongly opposed any steps in the development of Soviet Union–United States ties. This position was largely supported by the American media, where liberal journalists were also influenced by these groups.

Another factor that led to this decline was the significant volume of military supplies from the Soviet Union to North Vietnam, which allowed the latter to launch a large-scale offensive in the South and unite the country. Soviet intervention in Angola was viewed in the United States as another breach of the global balance with America. This served to gear public opinion against détente with the USSR, which was echoed in the U.S. election campaign.

In this context, most political observers and commentators described Gerald Ford as a decent man who lacked the ability to further lead the country in such difficult times.

Yet it would be unfair not to mention that Gerald Ford and Henry Kissinger generally followed the foreign policy which had taken shape under Richard Nixon to make the transition “from the era of confrontation to the era of nego-

tiations.” Personally, Gerald Ford never initiated any anti-Soviet campaigns.

However, when it came to relations with the USSR, Gerald Ford had a mixed political record. For example, he publicly renounced using the word “détente,” and replaced it with the expression “peace through strength.” He did not take any practical steps to prevent discriminatory trade legislation against the Soviet Union, and he actually ended up signing one such law. He was a conservative in terms of beliefs, although he understood the need for political maneuvers, albeit within certain limits.

As expected, the 1976 presidential elections were won by Democrat Jimmy Carter⁶ (1977–1981), the former Governor of Georgia and an expert in nuclear energy.

Carter's presidency was marked by a radical shift in American public opinion. People had become disillusioned with government regulation as a tool to overcome the eco-

⁶Jimmy Carter Jr. (b. 1924) was a Democrat who served as the 39th U.S. President (1977–1981). In 2002, he was awarded the Nobel Peace Prize. Since childhood, he was a member of the Baptist Church (a group of Protestant Christians). In 1970, he was elected Governor of Georgia, and on November 2, 1976, he was elected the President of the United States. In 1978, in Camp David, Jimmy Carter presided over the meeting between Egyptian President Anwar Sadat and Israeli Prime Minister Menachem Begin, when they signed a treaty on peace, mutual recognition and the transfer of the Sinai Peninsula to Egypt. This put an end to a series of four Egyptian-Israeli Wars. During the presidency of Jimmy Carter, the Islamic Revolution broke out in Iran. In 1979, employees of the American Embassy in Tehran were taken hostage. On April 24, 1980, the United States tried a military operation to free them, but it ended in complete failure. On January 20, 1981, a few minutes after the end of Carter's presidential powers and the inauguration of Ronald Reagan, the Iranians released the hostages. There was a sharp deterioration in Soviet Union–United States relations, U.S. Congress refused to ratify the SALT II treaty, and the United States boycotted the 1980 Summer Olympics in Moscow.

Carter's presidency was also marked by a hike in oil prices. In this context, unemployment and inflation reached unprecedented level and, by 1979, the United States found itself on the brink of economic disaster.

conomic crisis. For Democrat Jimmy Carter, this had dramatic implications, as his presidency was perceived as associated with government regulation, despite the fact he tried to implement a strategy of market self-regulation. His efforts included cutting social programs and attempts to balance government spending with budget revenues. This shift in the public mood played into the hands of Republicans. In addition, Carter's failure to free 66 American diplomats taken hostage in Tehran after the 1979 Islamic Revolution was used as a pretext for accusing the administration of being weak. The hostages were only released in 1981, after 444 days in captivity. A new phase of the energy crisis (1979–1980) also added to the country's economic woes.

In the USSR, the presidency of Jimmy Carter was viewed as a failed chapter in the history of Soviet Union–United States relations. U.S. domestic politics were largely defined by the confrontation between Carter's administration and Congress, which insisted on strengthening its role in formulating and even carrying out domestic and foreign policy, and introduced significant adjustments into the President's plans.

Above all else, the President declared his main goal as strengthening relations between the United States and its military and political allies in the North America–Western Europe–Japan triangle, as well as consolidating the military power of NATO.

Under Jimmy Carter, human rights acquired the status of “new moral ground” in U.S. foreign policy, as opposed to the principle of peaceful coexistence between the two systems. From his first days in the White House, Jimmy Carter demonstrated his unwavering commitment to the protection of human rights, which was positioned almost as a prerequisite to discussing any issue of U.S. cooperation with other states.

This had a negative impact on the general atmosphere of Soviet Union–United States relations. Sometimes, Jimmy Carter simply failed to keep in mind the well-known truth that politics is the art of the possible. Soviet leaders followed an unwavering approach to the issue of human rights until Mikhail Gorbachev took office.

The willingness of Carter's administration to cooperate in medicine, environmental protection, science and technology, and space must be considered in the context of this concept. Following in the footsteps of Franklin D. Roosevelt, Jimmy Carter introduced televised Fireside Chats. In these appearances, his attire was expressly casual—a beige knitted jumper over a white shirt with a tie. In terms of media articles about his personality published in the first year of presidency, Jimmy Carter was far ahead of not only Gerald Ford, but Richard Nixon as well. During negotiations when he spoke about “human rights,” Jimmy Carter would say that, for many years he was “committed to the protection of human rights, as required by his conscience and religious beliefs.”

On June 15–18, 1979, Leonid Brezhnev and Jimmy Carter met in Vienna, Austria, to sign the agreements on strategic arms limitation between the Soviet Union and United States known as SALT II. This included a treaty between the USSR and USA on strategic arms limitation and the Protocol thereto, a joint statement of principles and basic guidelines for subsequent negotiations on the limitation of strategic arms, and agreed statements and common understandings in connection with the treaty between the USSR and USA on strategic arms limitation.

SALT II established agreed quantitative levels of arms, restrictions on their replacement and modernization, as well as a fairly detailed verification regime. For the first time, it allowed to break with the traditional Soviet approach, which

outright rejected any inspections other than by national means. The treaty established the total number for all types of strategic nuclear weapons (including MIRV ICBMs) permitted for each side. This number could not exceed 2400 weapons systems. After January 1, 1981, the two sides were to reduce these limits to 2,250 weapons system (the scope of the treaty was through 1985).

The two sides also agreed to limit the number of MIRV ICBMs and SLBMs to 1200 and, in aggregate, no more than 1320 such MIRV systems, including deployed on bombers. The Soviet Union could also retain 308 of its modern heavy ICBMs. The United States had no such missiles.

The new treaty was better than the agreements signed in Vladivostok. However, all these improvements achieved through tremendous efforts in the course of difficult and exceedingly long negotiations beginning back in 1974, were doomed to a predictably sad ending. The treaty was never ratified. The optimal time for the congressional approval of the document was missed. In the meantime, political and public support for the treaty in the United States had given way to widespread opposition of *détente*.

The Vienna talks in June 1979 were the only meeting between the leaders of the Soviet Union and the United States in this period. Unfortunately, this took place only in the middle of the third year of Jimmy Carter's presidency and could not change the prevailing trend towards the worsening of bilateral relations. The Vienna summit only briefly delayed the erosion of *détente* policy.

After the events in Afghanistan, the presidency of Jimmy Carter was marked by a definitive collapse in *détente* development. The breakdown of these relations culminated in the broad sanctions announced by Jimmy Carter on January 4, 1980 in response to the intervention of Soviet troops in Af-

ghanistan. These sanctions included the suspension of discussions on the SALT II treaty in the U.S. Senate, and a termination of agreements in many areas of cooperation. The events in Afghanistan, which prompted protests around the world, provided right-wing forces in the United States with a solid political pretext for the next major round of the arms race and further attacks on the policy of détente.

Before continuing our narrative in chronological order, let's take a step back to the early 1970s when a major set of trade and financial documents was developed (for the first time in the postwar period) as part of the Soviet Union–United States political dialog in the Intergovernmental Commission on Trade. Unfortunately, opponents of détente in Congress blocked it from ever seeing the light of day, thus depriving Soviet Union–United States trade and economic cooperation of a commonly accepted international legal framework for many years to come.

The American side likewise raised issues of copyright protection in the USSR and exemption from double taxation at the Commission's meetings. But first, for a better context, a few clarifying words on Russian history. In the first years of Soviet power, the works of any author could be translated and published freely. This was essential in order to provide the public with access to books in more than a hundred languages, including for various peripheral ethnic groups of the USSR. By the 1970s, the goal of eliminating illiteracy, including in small ethnic minorities, had already long been accomplished in the Soviet Union. In fact, analysis of the issue shows that in the West, interest in Soviet literature, art, movies, music and scientific publications was by no means less than interest in European and American culture in the USSR. Soviet leadership thus concluded that copyright protection was clearly in the interest of the state, and joining the

Universal Copyright Convention (Geneva Convention) would ensure a parity of interests. As a result, the Communist Party Politburo drafted a mandate for negotiations.

Neither taxation, nor copyright protection issues had any direct relation to the activities of the Ministry of Foreign Trade. Yet Minister Nikolai Patolichev, who headed the Intergovernmental Commission on the Soviet side, found it impossible to avoid addressing these issues. The next day, the Minister made his decision: "Both issues are beyond our authority. I instruct V.L. Malkevich to organize the negotiation process to include the participation of representatives responsible for legal and financial issues." It fell on me to quickly put together a group of talented professionals (including G.P. Kalinina, the head of the Ministry of Foreign Trade department and candidate of sciences, M.M. Boguslavsky, professor at the Institute of State and Law of the Soviet Academy of Sciences and doctor of legal sciences, and A.P. Bukin, senior researcher at the Research Institute of the Ministry of Finance of the USSR and candidate of sciences) and grasp all the intricacies of the American taxation and copyright protection systems.

Now for a bit more context on the history of the issue. In the United States, the taxation system is an effective tool for funding the federal budget and state treasuries, and has been evolving and improving for over two centuries. Throughout its history, the authorities have managed to cultivate a highly developed tax-paying culture by instilling in Americans an inherent attitude that views tax evaders as more dangerous than common criminals. A public figure (congressman, governor, mayor, etc.) caught evading their taxes can forget about any future political career. Their reputation would be tarnished beyond repair! Taxes are imposed on individuals and legal entities for all types of income, including wages, fee

earnings, bank interest, bonuses, royalties and lump-sum payments, profits, trading transactions, inheritance, and real estate. The jurisdiction of taxes collected at the federal and state levels is clearly demarcated.

Tax authorities also apply the same strict approach and American-style diligence to foreign persons. Legal entities and individuals can avoid paying taxes in the United States only if their government has entered into an agreement with the U.S. on the avoidance of double taxation on a reciprocal basis. In other words, the parties agreed that the income of their legal entities and individuals generated in another country would only be taxed once and at home. But if the “permanent residence” of foreign persons in another country exceeded 183 days, they automatically became U.S. residents in terms of taxation even without such intergovernmental agreement (i.e., they were taxed by U.S. authorities without hesitation).

In those days, Soviet tax authorities never thought to bother foreigners. Neither individuals nor legal entities were subject to any taxes. Unfortunately, the United States nonetheless taxed Soviet government officials, scientists, journalists, athletes, as well as certain export operations.

So then what was the real interest of the American side prompting it to make concessions on taxation? The situation was soon clarified by the Spokesperson for the United States Department of State when the U.S. Department of State and the Treasury put forth a proposal package. The Americans agreed to sign an agreement with the USSR on the avoidance of double taxation, if the Soviets join the Universal Copyright Convention.

The U.S. was absolutely shocked by “Russian piracy” in the area of copyright law. In the Soviet Union, any melody of a foreign composer could be turned into a local hit, any book

of a foreign author translated and printed in huge runs, foreign films shown in movie theaters, and the use of “other people's” scientific papers was rampant without permission, royalties or any other remuneration to the authors.

In the USSR, the end of the “free” use of foreign copyrights marked the beginning of a new era of civilized behavior in the international community and changes to the rules of conduct for both international and domestic authors. This was the challenge we faced, and suffice it to say, it was unusually complex. The negotiations were held alternately in Moscow and Washington. Sometimes they would run into a deadlock due to incompatible tax systems. It took a highly professional negotiation team, tremendous patience, clear and quick thinking and, at times, a good sense of humor to ensure the meaning of what was going on would be understood and receive approval both at home and abroad.

Essentially, we were trying to create the “model” of a future agreement on taxation between two countries with different socio-economic systems. No similar legal documents existed at the time as a base.

In 1973, the Soviet Union joined the Universal Copyright Convention, which established copyright protection for a minimum of 25 years after the life of the author. Later, the Soviet Union also joined the Berne Convention, where this period was extended to 50 years.

The experience we gained during this project with the United States helped the USSR sign similar documents with Finland and Austria. Nikolai Patolichev later called the Soviet Minister of Finance Vasily Garbuzov and said something along the lines of: “we have created and signed agreements on the avoidance of double taxation with three countries because this issue emerged for the first time in Soviet Union—

United States trade and economic cooperation. We're sending you over all the materials with an official request: please do your job." Since then and up to this day, this issue is still being handled by the Ministry of Finance.

The accession of the Soviet Union to the Universal Copyright Convention resulted in the establishment of a new organization in the USSR in 1973, the All-Union Agency on Copyrights (VAAP). It established relations with the outside world and became the sole copyright representative of Soviet authors.

At this point, it would be appropriate to mention one small but significant detail about the "catch-up development" of the Soviet Union in the area of electronics. In the U.S. Department of the Treasury, after the negotiation process moved from the protocol to the normal working stage, at one point the head of the tax department invited us to his office at the end of the day. On his desk, we saw an IBM personal computer equipped with a floppy drive, hard drive and keyboard. The secretary of the chief tax official in America showed us a variety of operations (editing, correcting errors, deleting text, etc.) performed on this new piece of technology. I must confess that we were greatly impressed. It is commonly believed that personal computers appeared in 1981 (kicking off the global PC revolution), but this dazzling demonstration took place in the early 1970s. Perhaps it was a prototype provided to the Department of the Treasury for testing.

The story of the IBM computer reminds me of another curious episode with then-Chairman of IBM Frank T. Cary. Once during a lunch at IBM headquarters, he told us a story about his family. He had two kids and, one day, they came up to him together for some advice. They both wanted to study foreign languages, but one preferred Russian, while the other

wanted to learn Chinese. “What do you think about this, dad?” they asked. The father answered “I’m not enough of an optimist to study Russian, and not enough of a pessimist to study Chinese.” Today, almost forty years after this conversation, I think his answer might sound a little different. While many people in the West are still interested in learning Russian as an inexhaustible source of unique culture, it looks likely that Americans won’t be alone in their need to study Chinese. China is now the world’s workshop, producing a wide variety of goods, innovative products and services.

In the Soviet Union, we lagged behind in certain cases when it came to introducing scientific and technological innovations and manufacturing the latest products, especially in terms of microelectronics and computer technology. The path from invention to implementation was too long and thorny, and was not guaranteed to always end with the release of an innovative product. Indeed, our economic growth and GDP structure were growing increasingly out of touch with modern requirements. In the economic sphere, the Soviet Union sunk into the Era of Stagnation.

These years were marked by the “curtailment” of Kosygin’s reform in 1965,⁷ more often known as Liberman’s re-

⁷Alexey Kosygin (1904–1980) was a Soviet statesman and party leader. He was twice awarded the honorary title of Hero of Socialist Labor of the USSR, and was a member of the Presidium and Politburo of the Soviet Communist Party. He was also a Deputy of the Supreme Soviet of the USSR. From 1964 to 1980, Alexey Kosygin served as the Chairman of the Council of Ministers of the Soviet Union, holding this position for a record-breaking 16 years. In office, he implemented the economic reform to decentralize national economic planning, elevate the role of integrated economic efficiency indicators (profit, profitability) and increase the autonomy of enterprises. The eighth five-year plan (1966–1970), also known as the “golden” plan, was marked by Kosygin’s reform and became the most successful in Soviet history. In 1979, Kosygin was the only member of the Politburo who did not support the decision to send Soviet troops into Afghanistan.

form in the West.⁸ As mentioned in the previous chapter, the essence of his reform was to expand the economic autonomy of enterprises and provide fiscal stimulus for the manufacturing sector. At the same time, directive plan targets were reduced from 30 to 7. Top priority was shifted to indicators of economic efficiency such as profit and profitability. Enterprises used their profits to accumulate various funds, including to further development production, financial incentives, social and cultural development, housing construction, etc. In agriculture, procurement prices were raised by 1.5–2 times, and the income tax rates for peasants were reduced. The overall goal of reform was to establish optimal proportions between industrial sectors, expand opportunities for the development of new high-tech industries, and make a significant shift towards dramatically improving the quality of industrial products. This included measures designed to ensure higher capital investment efficiency, accelerated commissioning of new facilities, significantly increased output using existing fixed assets, improved geographic location and organization of production, the rational use of national labor resources, and an improved international trade structure.⁹

⁸ Evsei Liberman (1897–1981) was a Soviet economist and author of the concept of economic reform in 1965. From 1947 to the 1950s, while heading a team of academic economists, he launched an extensive research program on machine-building enterprises in Kharkov and Kharkov Oblast. He also established a research laboratory for the economics and planning of machine-building production of the Kharkov Regional Economic Soviet at the Kharkov Institute of Engineering and Economics. Liberman submitted proposals to reform the economic mechanism of socialist industry. He published his article “Plan, Profit, Prize” in the *Pravda* newspaper on September 9, 1962. Evsei Liberman was helped by Vice President of the Soviet Academy of Sciences Alexey Rumyantsev (1905–1993). Soviet economist Dmitry Lvov (1930–2007) was also a student of Evsei Liberman.

⁹ See: *Planovoye khozyaystvo*, 1965, No. 4, p. 1.

The years of Kosygin's reform were marked by the significantly increased role of intensive factors in the development of the Soviet economy, where higher labor productivity and fewer employees in material production became a key indicator of growth. From 1961 to 1965, the average annual growth rate of national income¹⁰ was 6.5 % (from 1966 to 1970: 7.4 %).

However, in the early 1970s, Kosygin's reform was criticized by the authors of the System of Optimal Functioning of the Economy (SOFE), approved by the Politburo of the Central Committee of the Soviet Communist Party. This concept was focused on creating an economic and mathematical model of the socialist economy. Arguing from an ideological perspective, opponents criticized Alexey Kosygin for making unforgivable concessions to the West, undermining the foundations of socialism, etc. This contributed significantly to the deceleration of reform and scaling back transformations. For comparison, from 1975 to 1979, the growth of national income declined to 4.4 %. As a result, while during the seventh five-year plan (1961–1965) national income increased by 37 %, during the “golden” eighth five-year plan (1966–1970) growth was just 45 %. Industrial output increased by 50 %, and agricultural production increased by 20 %. Roughly two thousand new industrial enterprises were built in the country. While during the seventh five-year plan

¹⁰ National income is the remaining part of the aggregate social product created in a country after the consumed means of production are replenished. In value terms, this generalized indicator of national economic development in the context of commodity production represents newly created value over a certain period of time (usually, a year). The national income of a country is equal to its gross national product, excluding amortization (depreciation of fixed assets) and indirect taxes. Yet national income can also be defined as the sum of all annual incomes, or wages, industrial and trade profits, interest on invested capital and land rent.

(before the reform) productivity shot up 31 %, during the eighth five-year plan it reached 39 %. After the refusal to continue the reform during the ninth and tenth five-year plan, these figures fell to 25 % and 14 %, respectively.¹¹ The growth of national income also decreased to 32 % during the ninth five-year plan and 19 % during the tenth five-year plan. Therefore, scaling back economic reforms led to lower growth rates throughout the 1970s and later across all sectors of the Soviet economy.

In reality, although the reforms produced a significant positive effect, their implementation was quite difficult, especially in the agricultural sector. After the 1970s, they were stopped altogether, without ever fully achieving their stated goals. Why did this happen? To my mind, the main reason was the ideological dogmatism of party leaders and increasingly bloated bureaucratization of public administration. Two decades later, these fatal ailments ultimately generated a socio-economic tsunami that destroyed the Soviet Union.

World energy prices, which rose continuously throughout the 1970s, also served to significantly degrade the country's economic performance. In this context, the Soviet government took the path of least resistance and focused on expanding oil and gas production in Western Siberia instead of intensifying the development of existing and building new industrial facilities. From 1965 to 1985, budget revenues of the Soviet Union from oil exports alone spiked by a factor of about 20 and reached almost 13 billion USD in current prices.¹² For the USSR, this meant the issue of finding internal reserves for innovative economic development on the basis of non-commodity industry sectors had lost its urgency.

¹¹ See: <https://dic.academic.ru/dic.nsf/es/79622/КОСЫГИНСКАЯ>

¹² See: <http://library.fa.ru/page.asp?id=173>

This trend became especially evident during the ninth five-year plan (1971–1975) with its shift of economic priorities. Amid the global energy crisis following the sharp rise of tensions in the Middle East and Arab-Israeli war, the Soviet Union was literally “drowning” in petrodollars. This global energy crisis coincided with the discovery and early development of new rich deposits in the north of Western Siberia. While in 1960, the share of oil and oil products in Soviet exports totaled 11–12 %, in 1975, it reached about 25 %, and almost 39 % by 1981. Petrodollars helped address many social issues facing the USSR without any radical economic and political reforms. The inflow of hard currency was also facilitated by diamond exports from kimberlite pipes in Yakutia. Their industrial production began right at the turn of the 1960s and 1970s.

Around this time, international tensions also became aggravated (especially along the Asian borders of the Soviet Union), and the USSR had to join the next round of the arms race, thankfully having the oil and gas export revenues allowing it to do so. As a result, up to 20 % of national income was spent on the defense industry.¹³

However, when the West later developed and started widely implementing energy-saving technologies, the demand for oil declined and caused severe imbalances in the Soviet economy.

The ninth five-year plan focused on the development of territorial industrial complexes, including the Western Siberian complex for oil production and processing, Pavlodar-Ekibastuz complex and Kansk-Achinsk complex for coal mining, Sayano-Shushensky complex and Bratsk-Ust-Ilimsk

¹³ See: <http://www.greatflags.su/ekonomika-sssr/devyataya-pyatiletka-1971-1975.html>

complex for the production of aluminum and non-ferrous metals, etc.

Objectively speaking, the development of regions in Siberia and the Far East required improved transport accessibility. The decision adopted by the Soviet authorities in 1974 to build the 3,200 kilometer-long Baikal-Amur Railway (BAM) (in accordance with Resolution of the Central Committee of the Soviet Communist Party and the Council of Ministers of the USSR No. 561 of July 8, 1974 “On the Construction of the Baikal-Amur Railway”) was specifically related to plans for the large-scale development of the region. The BAM connected the territorial industrial complexes of Eastern Siberia and the Far East with the planned establishment of new manufacturing centers to develop the mineral resources of these regions.

Works to lay the second tracks on the existing railway embankment along the BAM began in 2014. They also include upgrades to the power supply, alarm, centralization, blocking and communication systems. Continuous welded rail will be laid at passing loops, and railroad switches will be equipped with a compressed air system. In the future, all freight traffic will be transferred from the Trans-Siberian Railway to BAM, while the Trans-Siberian Railway will handle passenger and container transportation. The construction of “capillary” branch lines to mineral deposit areas has already started and will continue in the future.

In the Soviet Union, there was also a plan to build a railway line from BAM to the Chukchi Peninsula. A tunnel was even planned to be built under the Bering Strait to connect the railway networks of the Soviet Union and North America.

In Chapter 1, I already mentioned the project to build a transcontinental railway across the Bering Strait to connect Russia with Alaska and later establish a route across the con-

continent, including through South America. This idea was also discussed by another popular U.S. President, William McKinley, who called this grand project the “future of mankind” (although at the time, the plan was to build a bridge across the Bering Strait, not a tunnel). However, the President was assassinated in 1901, and the idea was only revived a hundred years later.

In Russia's “wild nineties,” this project was anathema to Russian neo-liberals, who viewed BAM as the most expensive undertaking of “communist dreamers” that never had a chance of becoming profitable. Today, no one has any doubts about the strategic importance of BAM for the economy of resurgent Russia. In the near future, BAM, along with the Trans-Siberian Railway, will become a significant source of budget revenues.

In the Soviet Union, this project was initiated by the Minister of Railways of the USSR Boris Beshchev, who successfully administered the sector for 30 years. Back in the 1960s, he worked tirelessly to convince Soviet leaders of the need to build BAM. Boris Beshchev succeeded in presenting the project as inevitable and the only way to develop Russia's boundless natural resources, establish major industrial centers and develop the service infrastructure in Eastern Siberia and the Far East.

The rapid growth of industrial manufacturing required further development of the nuclear power industry, which was ensured by the commissioning of new units at the Chernobyl, Beloyarsk, Armenian and Bilibino nuclear power plants (NPP). During the tenth five-year plan (1976–1980), this helped boost power generation at nuclear power plants by a factor of 3.6. Along with its nuclear power industry, the Soviet Union also pursued hydropower production. The Ust-Ilimsk Hydroelectric Power Station on the Angara river be-

came the basis for establishing the Ust-Ilimsk territorial industrial complex. The Unified Energy System combined the cascades of hydroelectric power stations on the Dnieper, Volga, Kama, Angara and Yenisei rivers.

From 1960 to 1985, the share of fuel and raw materials in Soviet exports rose from 16.2 % to 54.4 %. The foreign currency earned from the exports of energy and mineral raw materials helped purchase consumer goods abroad and, to some extent, offset the inadequate development of light industry and the associated social discontent. Decisions about management and sectoral reform were also made in the mid-level administration. For example, the Resolution of the Council of Ministers of the USSR and the Central Committee of the Soviet Communist Party "On certain measures to further improve the management of industry" introduced production associations, as well as research and production associations, which grew into the main administration tier supervising industrial associations at the mid-level. By 1980, four thousand research and production associations including 18 thousand industrial facilities and enterprises manufactured 46 % of all industrial output. Soviet leaders often used these measures to implement the technical chain spanning research, development and production.

Agriculture came next after the industrial sector to establish agricultural and industrial associations. A good example can be seen in Leningrad Oblast, which by the early 1980s managed to fully meet its own needs for chicken meat, milk, dairy products and eggs. Dairy production also ensured a high level of labor productivity comparable to Western standards.

Another valuable example is the reform of vocational education in Leningrad (now St. Petersburg) aimed at establishing a strong relationship between vocational schools and in-

dustrial enterprises. This helped address the issue of manning urban industrial centers with skilled labor. However, the positive experience in Leningrad was never repeated in other Soviet cities.

The initiative of Nikolai Zlobin to implement a new form of labor organization in the construction industry called the “team contract” based on cost accounting was a major success of this period. The idea of the experiment was to allocate all funds directly to the construction worker team. This resulted in considerable savings, increased profits and the commissioning of newly built facilities ahead of the deadline. The experiment resonated throughout the country and was later used in other domestic construction projects. By the end 1970s, about one-third of all construction and installation works in the USSR were carried out using the Zlobin method, and it also found application in other sectors of the economy.

The priority development of the defense industry, energy, agrochemicals and related sectors of energy, transport and agricultural machine-building, as well as the petrochemical industry, ultimately left the civil sectors of the economy with meager rations despite significant state foreign currency revenues. Improved labor productivity in certain sectors and poor performance in others contributed to further disparities between the production of industrial and consumer goods, which led to chronic shortages of consumer goods and increasingly visible signs of economic recession, which was later dubbed the Era of Stagnation.

Towards the end of the 1970s and beginning of the 1980s, the Soviet economy was considered to be at its “late industrial” development stage. In terms of gross economic indicators, the Soviet Union was confidently ranked the No. 2 largest economy in the world after the United States. It had

a highly developed industrial sector accounting for about 20 % of the world's industrial output. The Soviet Union was the world's largest producer of oil, gas, coal, steel and cast iron, rolled iron, etc. It was also the global leader in certain areas of fundamental science, as well as in space exploration and the manufacture of weapons and military equipment.

The Soviet Union had achieved military strategic parity with the United States and NATO, and established the Council for Mutual Economic Assistance (COMECON) economic integration group and Warsaw Pact military political organization.

But alongside these achievements, it faced disproportionate economic development. The bottleneck of the Soviet economy was its agro-industrial sector. It suffered from poor infrastructure and capacities for processing agricultural products; a shortage of storage facilities for harvested crops, repair services and spare parts for agricultural machinery, and also a lack of decent roads in rural areas. Amid falling prices for hydrocarbons, large-scale grain imports (ranging from 20 million to 40 million tons a year) exacerbated the shortage of freely convertible currency. The food and light industry experienced constant shortages of required raw materials.

Here are several facts illustrating the growing crisis in the Soviet Union. Economic growth slowed down to a level of simple reproduction (about 2–3 % annually), the USSR lagged behind many developed countries in terms of key economic indicators, the latest scientific and technological achievements remained virtually unused, and the rapidly growing “shadow economy” spread to all corners of the economy. The significantly reduced availability of new human resources following the decline of birth rates, depletion of labor resources in rural areas, and higher educational level

among the population also played important roles. Most people of working age found jobs in non-industrial sectors (mostly the service sector). The unprecedented decline of energy prices observed since the early 1980s (following the collusion between Ronald Reagan and Saudi Arabia) dramatically reduced the flow of petrodollars to the Soviet Union.¹⁴

Such was the context in which the eleventh five-year plan began. The key objectives for 1981–1985 included more efficient use of production assets and their upgrade and development, and the implementation of advanced technologies and scientific achievements, especially in mechanical engineering. Along with the creation of new production capacities, the light and food industry were expected to expand and re-equip their existing enterprises with the latest technology.

The plan also provided measures to combat declining investments in the social sphere and increase wages based on actual performance. It also addressed shortcomings in the availability of medical and pre-school institutions in rural areas and included reform measures to the policy of financing these rural areas on a residual basis.

However, despite all efforts, no single target set by the eleventh five-year plan was ever achieved. This was primarily the result of the excessive strain due to unsustainable defense spending put on the economy (although this was objectively in response to extreme international tensions) and severe issues in managing the national economy. The degradation of the Soviet economy, which began in the second

¹⁴ Such a sharp and prolonged decline of prices for hydrocarbons was caused by the deliberate policy of Ronald Reagan to undermine the economy of the Soviet Union. Under pressure from the U.S. administration, Saudi Arabia and other OPEC countries flooded the world market with hydrocarbons, and prices for oil and oil products dropped to a historic low. It is well known that gas prices follow oil prices with a short lag.

half of the 1970s and took on a dangerous form in many economic sectors by the 1980s, slowed economic growth to the pace of simple reproduction and paralyzed the system of governance. The USSR significantly lagged behind the West in certain key economic indicators, and this gap was growing.

The biggest strain was felt in Soviet agriculture. The country experienced chronic food shortages, which forced the state to make large-scale purchases abroad through the Ministry of Foreign Trade. A poor culture of modern agrotechnical methods further exacerbated the situation in many collective and state farms, in addition to increasingly frequent crop failures (1969, 1972, 1974, 1975, 1980, 1981 and 1984). Since 1978, when Mikhail Gorbachev was appointed Secretary of the Communist Party's Central Committee on agriculture, grain production fell from 237 million tons annually to 173 million tons in 1984. Agriculture remained more or less stable only in the black earth regions of Russia and Belarus, and at farms near large industrial centers. The shortage of capacities to process and store agricultural products led to significant losses, even when there was a good harvest.

Various forms of corruption became increasingly common amid shortages of consumer goods and food, as well as deficiencies in their centralized distribution. The hallmarks of those years were consignment stores, "sausage" trains (where rural residents travelled to the city for groceries), as well as Beryozka foreign currency shops, which were part of the Vneshposyltorg Association under the Ministry of Foreign Trade. The shadow economy also gave rise to corruption on a dangerous scale. Soviet society had become divided into the elite, who had access to high-quality products, and the masses, who had to be content with domestically produced goods they could only get by standing in long lines. People

were becoming increasingly discontent with chronic everyday issues that had no visible end in sight even decades after the war. They were deeply disenchanted by state policies and stopped believing in a better future. At work, in public and at communist party and trade union meetings, people were careful to be politically correct, but back at home they expressed how they really felt. This moral duality became firmly ingrained in public life and was a form of silent protest by Soviet citizens. Over time, this led to the public acts, rallies and mass movements of the late 1980s and snowballed into an endless series of strikes, demonstrations and other forms of protest forming the hallmark of the “wild 1990s.”

Issues in public life in the USSR were growing, but there was no end to stagnation in sight. There was a complete lack of reasonable proposals supported by the people. All these issues were well known to Soviet leaders, but they hesitated to roll out any radical reforms. Meanwhile, the crisis was growing and spreading to the ruling establishment of the Soviet Union, undermining its foundations and posing a threat to its very existence.

In the 1980s, these trends continued not just in the economic sector, but in the social, political and cultural spheres as well. In the United States, influential groups saw stagnation and clear signs of decay in the Soviet Union as an ideal opportunity to put more pressure on the USSR in every possible way, be it military, political, economic, information or psychological. Their goal was to dramatically slow down the development of the Soviet Union by intensifying the arms race.

Just a few years later, the leadership of Mikhail Gorbachev combined with the efforts of Boris Yeltsin guaranteed the collapse of the USSR. In this regard, American sovietolo-

gist and professor Stephen Cohen wrote that “...Yeltsin alone cannot be blamed for all what went wrong in Russia in the 1990s, as the trend towards population decline had already emerged as early as in 1991, while social and economic problems had been aggravated under Gorbachev in the late 1980s.” As first-hand witnesses of these events, we can reflect on them from the inside and argue that this tragedy has deeper roots and a more complex structure than it appeared to Stephen Cohen. In fact, at the “embryonic” level, the socio-economic processes that led to the dissolution of the Soviet Union first emerged in the mid-1970s, took shape and form in the 1980s, and tragically culminated at the end of 1991. What was the true underlying cause of this geopolitical catastrophe? Was it the result of ill-conceived actions by incompetent leaders, or the outcome of some algorithm triggered in the right place at the right time by the Western masters of human destiny? One day there will be an exhaustive answer to this question. Yevgeny Primakov had the following to say about this event: “...it would be a mistake to believe the tragedy of the 1990s developed point-by-point from some American script. Yet something else is also clear: ...in the United States and Western Europe, many people dreamed about the failure of the Soviet Union.”¹⁵

A more detailed answer to this question was provided by Anatoly Dobrynin: “Some American politicians and commentators, who may idealize Ronald Reagan's policies, claim that his tough political course in combination with the arms race led to the collapse of the Soviet Union and, in their opinion, this was his greatest achievement. I cannot agree with that. Many centuries of Russian (and Soviet) state history clearly demonstrate that any severe threat from the out-

¹⁵ See: *Primakov Ye. M. Mir bez Rossii, Rossiyskaya Gazeta, 2009, p. 13.*

side unites the people of our country to repel the external aggression, regardless of our internal political system. Look no further than the eloquent proof of the Great Patriotic War. These events were purely domestic, and to attribute an almost decisive role here to the policies of individual U.S. presidents would be a tremendous exaggeration and distortion of history.”

Mikhail Gorbachev proved hapless in the face of reform challenges, especially as concerned the new state structure and economic transformations. He tried to address them with some feverishly adopted, spontaneous and ill-conceived measures and inept improvisation for the scale of such a large country. His game with the fates of millions ended in tragedy. If the Soviet Union had rationally preserved all that was positive in the country and adopted a gradual, reasoned focus on righting the major wrongs of the past, it would not only have survived the crisis on its new path of development, but taken its rightful place among the democratic nations of the world.¹⁶

Now we will switch gears to the development of Western economies after World War II, including the last two decades before the collapse of the Soviet Union.

By 1990, industrial output in the United States increased by a factor of 10.1, while the output of other industrially developed countries rose only by a factor of 8.5 compared to the pre-war year of 1938 (World War II began on September 1, 1939 – *V.M.*) However, this by no means indicates that in the post-war period the United States was developing at a faster pace than other Western countries. Unlike European countries and Japan, the United States simply had no gap in

¹⁶ See: *Dobrynin A.F.* (1996) *Sugubo doveritel'no. Posol v Vashingtone pri shesti prezidentakh SSHA (1962–1986)*, Moscow, IPO Avtor.

its development associated with the war. Only in 1948 did Western countries once again reach their pre-war levels of industrial output. From 1970 to 1990, the industrial output of developed countries rose by 76 %, while in the United States this figure was 26 %. By the end of the 1980s, U.S. share in the output of OECD¹⁷ member states was only 35 % compared to 62 % in 1945.

In terms of scale, American corporations significantly exceeded European and Japanese companies. For example, in 1960, the profits of General Motors alone exceeded the combined profits of the thirty largest European companies. Such a high accumulation of financial resources facilitated the allocation of significant funds for the development and production of technological innovations, while other countries simply could not afford similar expenditures.

In the post-war period, the American economy went through nine downturns. However, these post-war recessions were much weaker than in the pre-war period, with production falling by 5–10 %, rather than by 30–50 %, as used to be the norm. This is explained by government regulation of the economy. Of course, intervals between recessions were also marked by the underutilization of production capacities and unemployment. In the 1980s, underutilization in the United States was 20 %, with unemployment of 7 %. Today, general downturns are typically exacerbated by “structural” factors, where individual sectors stagnate in periods of general growth. Most often, these sectors include the coal industry and metallurgy.

¹⁷The Organization for Economic Cooperation and Development (OECD) is an international economic organization of developed countries recognizing the principles of representative democracy and a free market economy. It was established in 1948 as the Organization for European Economic Cooperation (OEEC) to coordinate economic reconstruction projects in Europe under the Marshall Plan.

The state orders so eagerly sought by major companies failed to prevent surges in inflation, unemployment and the rise of public debt. After its run as the largest lender, the United States turned into a debtor country in 1985, when its balance of payments deficit for 1984 exceeded its net assets by almost four times.¹⁸ Nevertheless, the country still remained the undisputed economic leader on the international stage.

Overall, the post-war period was marked by the reorientation of the economy towards civil needs, the restoration and expansion of consumer demand, and the implementation of state regulation programs to combat recessions on the basis of Keynesian views on the role of the state. The 1970s was a decade of dynamic development in mass production focused on the output of standardized goods for mass consumers. The latest technological revolution also flourished during this period. Western Europe and Japan arose as economic competitors to the United States in both international and domestic markets. While remaining the dominant currency in both the stock and commodity markets, the U.S. dollar lost its status as the sole unit of payment. To a certain extent, the ubiquitous U.S. dollar was “squeezed out” by the British pound, German mark and Japanese yen.

In the 1970s and 1980s, the share of the United States in the output of industrialized countries gradually declined in terms of key economic indicators. As early as 1980, the U.S. per capita GDP slipped below similar figures for Germany, Britain and France, and was only 15 % higher than in Japan.¹⁹

¹⁸ See: *Ekonomika SSHA 1970–1980 gg. i ekonomicheskaya programma R. Reygana* at <http://litterus.narod.ru/Bussines/MirEcon/4-g3-2.htm>

¹⁹ *Ekonomika SSHA 1970–1980 gg. i ekonomicheskaya programma R. Reygana* at <http://litterus.narod.ru/Bussines/MirEcon/4-g3-2.htm>

In the same period, state regulation played a prominent role in the U.S. economy. It took various forms, including both public ownership and the targeted financing of individual sectors, where private businesses were not investing because of low or negative returns. The public sector included about a quarter of national wealth (military facilities, roads, schools, hospitals, post offices, etc.).

The main tool of state regulation was the federal budget, which accounted for a third of U.S. GNP. A significant portion of these funds was allocated through the system of government orders to the most promising areas of development. In some industrial sectors, the share of government orders reached 60 %, generating a multiplier effect for the rest of the economy. The state also played a leading role in R&D expenditures, primarily for military purposes. However, these funds were also available to the civil industry, which had access to such developments through a well-established mechanism. The government also financed up to 20 % of all new construction in the United States. Various incentives were likewise used to promote R&D and business expansion. The U.S. Federal Reserve was also involved in regulating the economy by setting its discount rate or, in other words, by making its loans “cheaper” or “more expensive.”

In general, the state methods used to regulate the economy evolved continuously depending on the economic environment and development trends. The New Deal of Franklin D. Roosevelt was no longer a panacea for all economic ills. While in the past, in order to avoid a recession, the state restrained output growth by focusing on market demand, now it focused on stimulating higher output. The motto of modern businesses that “stopping means falling” underscores the need to continuously sustain a certain growth pace, which is inevitable in a highly competitive environment.

The modern economy is often called the “bike economy,” as the end of growth inevitably leads to a fall, like when a bike stops suddenly. In the 1980s, the steady rise in commodity prices stimulated the transition to new, resource-saving technologies. The strategic goal of U.S. leaders was to restore American economic power and strengthen its military and political influence around the world. Monetary policy began to play an increasingly significant role in the regulation of the economy.

In 1981, Ronald Reagan²⁰ (1981–1989) was elected the next President of the United States. For the first time in almost a hundred years, a Democrat President had to leave the White House after just one term. The Democrats also lost their majority in the Senate for the first time in the past

²⁰ Ronald Reagan (1911–2004) was the 40th President of the United States (1981–1989). He served as Governor of California (1967–1975) and was also known as an actor and radio host. Reagan was the then-oldest elected President (69 years old) and the oldest President at the time of leaving office (77 years old). During the eight years of Reagan’s presidency, inflation fell from 12.5 % in 1980 to 4.5 % in 1988. The average unemployment rate was 7.5 %. The President’s policy of “Peace through strength” (also known as “Firm but Fair”) led to a record peace time increase of defense spending by 40 % from 1981 to 1985. In 1987, he appointed Alan Greenspan, a monetarist, as Chairman of the Federal Reserve. Reagan abolished price controls on U.S. produced oil, which had led to the energy crisis in the early 1970s. Later, oil prices fell and there was no shortage of fuel in the 1980s as in the 1970s. Reagan kept his promise from the 1980 election campaign trail and abolished the windfall profit tax in 1988, which in the past had made the United States more dependent on foreign oil. Some economists, such as Nobel Prize winner Milton Friedman and Robert Mandell, believe that Reagan’s tax policy re-energized the American economy and contributed to the economic boom of the 1990s. Others, such as Nobel Prize winner Robert Solow, believe the deficit was the main reason why Reagan’s successor George H.W. Bush had to give up on his electoral promise and raise taxes. Despite the ongoing controversy surrounding his legacy, many conservative and liberal scholars agree that Reagan was the most influential American President since Franklin D. Roosevelt. Reagan left a definitive mark on American politics, diplomacy, culture and economy.

quarter of a century and a number of seats to Republicans in the House of Representatives. Following the elections, the Republicans won a majority of 53 seats in the Senate (for the first time since 1954), while Democrats had just 47 (before the elections, these figures were 41 and 59, respectively).

During his presidential campaign, Ronald Reagan used the word “depression” to describe the state of the American economy. This was criticized by Jimmy Carter, who said that the Republican candidate had incorrectly used the term. Ronald Reagan replied by saying “recession is when your neighbor loses his job. Depression is when you lose yours. And recovery is when Jimmy Carter loses his.”

Anatoly Dobrynin recalls one of his meetings with Richard Nixon, who visited the Soviet Embassy in Washington (back during Leonid Brezhnev's time in office) to discuss Ronald Reagan, as the latter had a less-than-flattering reputation in Moscow. Nixon said that Ronald Reagan held very conservative and anti-Communist views, and supported a “strong America.” But he also described him as a fairly reasonable and, most importantly, pragmatic politician. Richard Nixon asked to communicate this information to the Soviet leader. The Soviet ambassador to the United States stressed that a few years later, he saw just how accurate Nixon's long-term forecast of relations was under the new President.

After his inauguration, Ronald Reagan announced a new economic policy later known as Reaganomics. In reality, this was yet another manifestation of a neoconservative approach adopted by the “hawkish” Republican administration. The economic program of the U.S. President was based on the theory of supply-side economics developed by his economic advisor, professor Arthur Laffer,²¹ who opposed Keynesian-

²¹Economic policy pivoted towards free markets and stimulated supply rather than demand. Therefore, alongside monetarism, the theory of supply-

ism and pushed for tax reform,²² fixed asset depreciation reform,²³ and an anti-inflationary monetary policy. From a conceptual perspective, his economic policy was founded on the protection of such economic principles as the free market, competition, open economy, a balanced budget and tax cuts to encourage business. The government also took concurrent measures to provide fiscal stimulus for investments, suppress inflation and improve U.S. competitiveness in the world market. With economic regulation under the spotlight, employment and welfare issues had to take a back seat. The key goals of President Reagan's economic policy were the structural and technological restructuring of the economy, lower inflation and unemployment, as well as the reduction of public debt.

A concise and convincing account of the essence of Reaganomics can be found in *The History of Economics* textbook published by Candidate of Economic Sciences Maria Zaslavskaya. Production had to be directly influenced

side economics, which viewed supply as the main driver of economic growth, was gaining considerable popularity. The Laffer Curve illustrates that the reduction of tax rates to a certain level can generate more tax revenues.

²²American economist Arthur Laffer addressed the issue of raising more tax revenues from a theoretical perspective. Tax reform began in 1981 with the adoption of the Economic Recovery Tax Act of 1981. The law provided for the reduction of income tax over three years. The changes also affected the taxation of corporate profits. The minimum corporate income tax rate was reduced from 17 % to 16 %, and the tax rate for the next bracket of 25–50 thousand USD was cut from 20 % to 19 %.

²³The fourth round of depreciation policy reform in the United States was implemented during the presidency of Ronald Reagan (1981–1989). It was a part of general tax reform and had the primary aim of providing a fiscal stimulus for investment.

The reform dramatically reduced the tax depreciation periods of fixed assets and their breakdown into asset classes. Only five asset classes were left in effect, instead of 100 in the past. The minimum depreciation period for equipment used for research purposes was reduced from 11 to 3 years and, for the most common types of machines and equipment, this period was reduced to 5 years.

by cutting taxes on corporate profits and individual income to ensure long-term non-inflationary growth.

More specifically, the maximum corporate tax rate was reduced from 46 to 34 %, and taxes on real estate and unearned income were cut from 70 % to 50 %. The lower tax burden on individual income raised the status of the richest Americans and at once helped the middle class improve its finances as well. The reform established a total of two income tax rates, including a 15 % rate on taxable annual income (married filing jointly) below 29,750 USD, and 28 % on any income exceeding that level. In addition, a 33 % tax rate was introduced for high incomes in 1988. After the 1981 tax reform, the United States now had its lowest taxes since 1916.

This tax policy stimulated the introduction of new technology, the creation of new jobs, the inflow of additional investment, and output growth. Thus, despite a reduced tax burden, higher output and employment generated more tax revenues (*Fig. 6*).

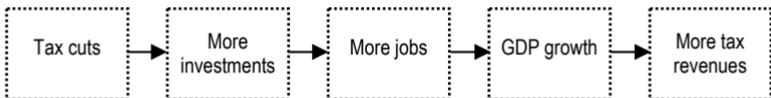


Fig. 6. Calculations show that a 30 % annual depreciation deduction of the original cost of commissioned assets (i.e., complete depreciation within 3 years) and its continuous total allocation to new investments doubles the value of fixed assets in three years and triples it in five years. The replacement of fixed assets thus creates a multiplier effect, provided sufficient profits were generated by the use of the new fixed assets.

To attract investment, the depreciation deductions were increased to 30 % annually. For industrial buildings and

structures, the depreciation period was cut to 10–15 years, for equipment to 5 years, and for research equipment and special technological equipment to 3 years. Depreciation reform was designed not only to ensure the replacement of fixed assets in line with the latest advances in science and technology, but also to stimulate accelerated technological innovation.

Ronald Reagan made budget deficit reduction the main pillar of his budget policy. The key tool for its implementation were government spending cuts. These cuts first and foremost affected social programs, as well as programs designed to support living standards and combat poverty. The budget policy focus on providing fiscal stimulus for manufacturing and investment weakened social guarantees.

The White house decided that the federal government was responsible for financing healthcare for the poor, but all other social programs were delegated to state governments. The administration established a federal fund to finance the implementation of social programs over a 4-year period.

The most significant cuts affected programs designed for the poorest segments of the population, including the cancellation of food stamps and reductions in benefits for single mothers. In terms of programs for the middle class, there were next to no changes in pension and health insurance.

The policy of limiting state intervention in business activities did not envisage the total absence of state economic regulation, but was rather a set of measures designed to change the strategy and priorities of such regulation. The policy of deregulation was intended to ensure greater economic freedom for businesses and reduce bureaucratic pressure on their activities.

Under Ronald Reagan, the main area of monetary policy was the anti-inflationary regulation of the money supply.

The U.S. government supported Federal Reserve measures to reduce the growth of the money supply to help curb inflation.

Reaganomics did not produce any clear-cut results. Significant progress can only be seen in the fight against unemployment and inflation. While in 1980 the inflation rate was 12.5 %, it dropped to 4.5 % in 1988. Over the same period, unemployment fell from 7 % to 5.4 %. More than 17 million new jobs were created in those years. Lower interest rates on retail loans also stimulated the purchase of new homes and cars.²⁴

In 1989, GNP exceeded the pre-crisis maximum level of 1979 by 28 %, while personal consumption surpassed 1979 levels by $\frac{1}{3}$. The achievement of reform goals (accelerated replacement of fixed capital, stabilization of the dollar exchange rate, transition to an open economy and its structural reorganization) ensured annual GDP growth by 3–4 % throughout Ronald Reagan's term in office.

However, contrary to expectations, these significant tax cuts did not lead to investment-based economic growth. The administration was also unable to achieve a deficit-free federal budget. Slashing social programs was not enough to offset high military expenditures during the Reagan presidency. Increased defense spending served to destabilize the budget and limit opportunities for investment in other sectors of the economy. The incomes of the richest Americans grew much faster than those of the middle and poorest segments of the population. The price paid for these achievements was a record-high budget deficit in post-war U.S. history and significant deterioration of the country's foreign trade. From 1981 to 1988, the current account deficit increased by a factor of almost 26 (from 5 billion to 127 billion USD), while per capita GDP declined.

²⁴ See: *Zaslavskaya M.D.* (2013). *Istoriya ekonomiki*, textbook, Moscow.

In their assessment of Ronald Reagan's legacy, both conservative and liberal researchers agree that he was the most influential American President since Franklin D. Roosevelt. He left a definitive mark on American politics, diplomacy, culture and economy.

The decision to send Soviet troops to Afghanistan at the end of 1979 was met with a strong response from U.S. President Ronald Reagan and sharply aggravated global geo-political strain. In the West, it was seen as Soviet intervention in the affairs of a sovereign state and the abandonment of détente. The United States advanced its doctrine of limited nuclear war, which allowed for preemptive strikes against the missile launch sites and control centers of the Soviet Union and its allies. The USSR and USA entered a new round of the arms race.

Entering office in 1982, Yuri Andropov took a fresh look at previous approaches to economic issues. From his first days in power, he declared war on the most dangerous symptoms of stagnation, without ever calling the foundations of the Soviet political system into question. The new leader embarked on a crusade against corruption, speculation and other negative elements of the shadow economy. Several high-profile show trials were held ending with the accused sentenced to capital punishment for embezzlement. Government institutions also began to purge their ranks of corrupt officials. They put into law harsher sanctions for corruption, embezzlement, bribery and nepotism. These measures were designed to diffuse public discontent caused by widespread abuses, primarily in distribution networks.

At the Plenum of the Central Committee of the Communist Party in December 1982, Yuri Andropov outlined his reform program to improve the Soviet planned economy. The adopted decisions focused primarily on improving productiv-

ity by boosting workplace discipline and reducing material and labor costs. Considerable importance was attached to strict control over work hours, including arrival/departure times to/from enterprises. The state imposed severe penalties for drunkenness and other disciplinary offenses in the workplace. In general, these measures strengthened the capacity to manage the economy and were intended to provide a broader reform framework for the near future. They were successful in their specific goal of raising labor productivity by an additional 1 %. In fact, labor productivity grew by more than 3 % just that year! This result was even more significant as an indication that the Soviet Union could and, finally, would respond in a flexible way to measures adopted by its leaders. After awakening from its state of stupor, Soviet society concentrated on achieving its current goal. People believed they could achieve a goal if they knew it was worth fighting for. This was the case in the 1930s during the Great Patriotic War, and during the postwar five-year plans. It is no coincidence that the 1950s and 1960s were the most successful years in the development of the postwar Soviet economy. Economic incentives (based on Kosygin's reform adjusted for the new economic environment) could have potentially steered the country back to stability gradually. The dissolution of the Soviet Union should not be considered a historically inevitable event. It was rather the brainchild of pseudo-reformers and their conservative and dogmatic predecessors who stood at the country's helm for two decades.

In early 1983, Yuri Andropov tasked a group of high-ranking officials from the Central Committee of the Soviet Communist Party headed by Mikhail Gorbachev and Nikolai Ryzhkov with preparing policy proposals for the upcoming economic reform. According to Nikolai Ryzhkov, they exam-

ined issues including cost accounting, enterprise autonomy, concessions and cooperatives, joint ventures and joint-stock companies. A Plenum of the Central Committee on science and technology policy was scheduled for 1984 to prepare the transition to an intensive development model. There were also plans to introduce new cost accounting and economic forms for enterprises to expand their autonomy and labor collective rights. Yuri Andropov's death and the installation of critically ill Konstantin Chernenko in his place froze the implementation of these reforms. Instead of the Plenum on science and technology policy, the Central Committee met to discuss issues of land reclamation.

After yet another change at the helm of the Soviet state, Mikhail Gorbachev, the new General Secretary of the Communist Party and protégé of Yuri Andropov, shot new life into the interrupted economic reforms. The Plenum of the Communist Party's Central Committee in April 1985 acknowledged that the Soviet Union was on the verge of crisis. Plants and factories were poorly equipped, and manual labor reached 60 % in the food industry alone. On average, labor productivity in the USSR was lower by a factor of 2.5–3 than in developed capitalist countries. The situation was particularly strained in agriculture, where about 30 % of all production was lost. 200 million square meters of housing were scheduled for demolition or needed urgent repairs. In cities, water and sewage systems were overloaded, and many of them were in a state of disrepair.

The first two years of perestroika saw the revival of Andropov-era economic reforms with some adjustments made by Mikhail Gorbachev. The April Plenum of the Soviet Communist Party's Central Committee emphasized the technical re-equipment and modernization of production facilities, and prioritised accelerated development of mechanical

engineering to provide the basis for re-equipping the entire national economy.

The “Intensification-90” program adopted in 1986 was designed to develop mechanical engineering faster by a factor of 1.7 compared to other industries. To a certain extent, this program continued the implementation of earlier reforms. But its clearly inflated targets (such as bringing industrial sector equipment to a level on par with the world's leading countries in just five years) were reminiscent of the failed Khrushchev-era reforms.

The early years of perestroika were also marked by a number of hasty decisions. The infamous resolution of the Soviet Communist Party's Central Committee “On Measures for Overcoming Drunkenness and Alcoholism” adopted in 1985 to address social and economic challenges was designed to improve labor productivity, discipline and quality of work. It provided for reduced production of vodka and other alcoholic beverages by 10 % annually, with the production of fruit wines scheduled to end by 1988. Despite some minor success, the economic effect of this reform was negative and reduced state budget revenues by more than 20 billion RUB. Moreover, uncollected revenue flows shifted to the shadow economy, which quickly responded to existing demand by offering alcoholic beverages of dubious quality. This led to hundreds of deaths caused by the use of substandard ingredients and various surrogates. Drug and substance abuse became severe challenges in these years. Some people shifted their habits from hard-to-find alcohol to more dangerous substances. While the mortality rate from cardiovascular disease declined, the number of deaths from drug abuse went up. The anti-alcohol campaign culminated in the foolish crime of razing elite vineyards. Top-down orders hit the plantations of the Magarach Research Institute of Grape and

Wine located in Crimea especially hard. The largest plantation was in Bakhchisarai district, where vineyards were destroyed in the most barbaric and devastating way.²⁵

Other measures to improve product quality also failed. The Law on State Acceptance was designed to improve labor discipline and work quality, but led only to reduced output. The industrial sector was simply unable to meet the new quality standards. This was a partial reflection of the difficulties in putting together a team of reformers to overcome resistance from the conservative majority at the start of perestroika and use of command methods in economic management.

Economic reform policy evened out only after the appointment of Nikolai Ryzhkov as Chairman of the Soviet Council of Ministers in September 1985.

In February 1986, the 27th Congress of the Soviet Communist Party adopted the Main Areas of Economic and Social Development in the USSR for 1986–1990 and until 2000. Targets for the twelfth five-year plan included doubling national income for consumption and accumulation, as well as industrial output. They also provided for doubling payments and benefits to households from public consump-

²⁵ Pavel Golodryga (1920–1986) was a prominent Soviet scientist in the field of grape breeding, genetics and physiology, Doctor of Biological Sciences, and Professor.

From 1968 to 1977, he first served as Head of the Grape Breeding Department, then the Director of the Magarach Research Institute of Grape and Wine in Crimea. Most of Pavel Golodryga's works are on grape breeding and the scientific methodology of the breeding process. He created more than 20 new varieties of grapes, 8 of which are still widely cultivated in various areas of the former Soviet Union, including such widely known varieties as Avrora Magaracha, Danko, Ranni Magaracha, Rubinovy Magaracha and others.

On December 19, 1986, he hung himself in Yalta at the age of 66. According to some sources, the scientist could not bear the destruction of renown Crimean vineyards during the anti-alcohol campaign of the time.

tion funds, as well as an increase of real per capita income by a factor of 1.6–1.8. In addition to the “Intensification-90” program, the plan also included long-term programs, such as “Housing-2000” and others.

However, the Chernobyl disaster on April 26, 1986, and the economic losses caused by this man-made catastrophe substantially reduced capacities to implement such long-term programs. The continued war in Afghanistan also took its toll, as Soviet leaders could not yet bring themselves to withdraw the troops. In addition, falling energy prices and the embargo on exports of Soviet weapons to certain countries significantly reduced the cash flow from oil and arms sales. From 1985 to 1986, budget revenues from oil exports dropped by 30 %.

It comes as no surprise that all the country's good intentions never made it off paper. The whole series of reforms to create a socialist market by introducing cost accounting, partial self-administration and more enterprise autonomy failed.

Transformations were met by fierce opposition at the local level. The reforms were even resisted in Moscow. The Law on Labor Collectives, which allowed workers to elect their executives, regulate wages and even determine the price of products manufactured under the contracts, was ultimately proven ineffective. The economically misguided practice of making company directors dependent on the decisions of labor collectives, and the significant increase in ex-works prices and worker wages under contractual works, destabilized the economy and led to acute shortages of consumer goods and food products, ending with empty store shelves and the renewed need for the ration card system.

However, the imminent decentralization of manufacturing also produced some positive results. In 1986, the Soviet

economy demonstrated slightly better performance, including agricultural growth by 5 %. This was largely the result of growing investments and was accompanied by a higher budget deficit, which in 1985 totaled 17–18 billion RUB, and in 1986 nearly tripled. The deficit was spurred on primarily by falling foreign currency earnings, the ongoing war in Afghanistan, the Chernobyl disaster and losses caused by the anti-alcohol campaign.

In 1987, the Soviet Union adopted its Law on State Enterprise (Association), which redistributed powers from the ministries to enterprises. Once state orders were fulfilled, manufacturers were permitted to sell their products at free prices. The number of ministries and departments was reduced, and cost accounting was introduced in all sectors of the economy. In agriculture, the law recognized equality among five economic management forms, including state farms, collective farms, multi-unit agricultural enterprises, leased farms and individual farms. The Law on Individual Labor Activity adopted on November 19, 1986 and amended on May 26, 1988, legalized more than 30 type of private business activities. Shadow economy funds were now seeping back into circulation. About 7 million people joined in the cooperative movement and other private business activities. In the 1990s, when I used to ask representatives of small businesses when the most favorable conditions for doing business had been created, the answer was always the same: “after the adoption of the Law on Individual Labor Activity under Nikolai Ryzhkov.”

Even more radical reforms were planned for implementation after the 19th Communist Party Conference in 1988. A new government headed by Nikolai Ryzhkov was formed in 1989, and by the spring of 1990, it had already prepared its economic program. However, in September 1990, the Su-

preme Soviet of the Russian Federation presented an opposing radical reform package known as the 500 Days Program (prepared by Grigory Yavlinsky and Stanislav Shatalin). Both programs favored radical reforms and transitioning to a market economy, and both included the recognition of private property and privatization by transferring state property to labor collectives, although fundamental sectors of the economy (defense, energy, fuel, transport, etc.) were to remain in state ownership. But the 500 Days Program proposed transitioning to a market economy as quickly as possible and, instead of price liberalization, planned to stabilize the ruble through the sale of state property, amended budget and credit policy, and the end of financing for inefficient enterprises.

However, during the discussion of draft programs, Mikhail Gorbachev again adopted a centrist position and suggested reformers elaborate a common program. The reform implementation period (5–7 years) proposed by the government under Nikolai Ryzhkov was rejected by the deputies of the Supreme Soviet, who advocated for immediate transformations. In June 1990, the Supreme Soviet of the USSR adopted a resolution “On the Concept of the Transition to a Market Economy,” and in October 1990, the Main Areas for the Stabilization of the National Economy and Transition to a Market Economy. These resolutions provided for the development of private enterprises, and the gradual demonopolization, decentralization and privatization of state-owned property. However, reforms were brought to a virtual halt amid mass strikes resulting from confrontations between the federal center and subjects of the federation. Compromise-based reforms could not serve as the basis for real economic policy. The moderate reforms of Nikolai Ryzhkov were brought to an end in December 1990 after his entire cabinet resigned.

The similarity of the fate suffered by Kosygin's reforms in the 1960s is uncanny! With the firm and consistent support of Brezhnev-era party leaders (which, unfortunately, failed to be seen), this wave of reforms could have become a powerful engine spurring the economy forward on the path of accelerated development towards a civilized market. In essence, the road would have been clear to Chinese-style economic transformations. It is impossible to implement 20 years of reforms in just a couple years. These are the large-scale effects and outcomes of the country's strategic mistakes. Everything else is just Chekhov's Late-Blooming Flowers!

In 1991, the Soviet economy was in a deep recession. Output fell by 11 %, the budget deficit reached 20–30 %, and the country's mammoth external debt ballooned to 103.9 billion USD. The crisis was on the verge of spiraling out of control and soon led to the collapse of the USSR.

What happened in terms of foreign policy in the country's final, fatal decade?

As I already mentioned, in 1981, the new U.S. administration decided to modernize its armed forces and increase military spending by cutting social programs operating in the United States for half a century. In fact, the White House planned to dismantle the public policy established by Roosevelt-era reforms in the 1930s.

Congress and the White House were no longer divided after the Republicans obtained a majority in the Senate and strengthened their positions in the House of Representatives. U.S. Congress provided consistent and firm support to the militaristic policies of the Reagan administration and its approach to Soviet Union–United States relations.

In terms of foreign policy, Ronald Reagan and his inner circle openly abandoned the *détente* and opted for “direct confrontation” with the USSR and compromising the social-

ist system by all available means. Their focus was on military power. All government propaganda was aimed at the informational and ideological indoctrination of the American public in a spirit of hostility towards the Soviet Union.

The strategic arms reduction talks held between 1981 and 1983 did not yield any positive outcomes, and in the autumn of 1983, Soviet leaders decided to end nuclear weapon negotiations in Europe. Unfortunately, this decision worked in favor of Ronald Reagan, as instead of disarmament, he was actually looking for ways to build up his country's nuclear arsenal. Ronald Reagan significantly increased military spending for fiscal year 1984 (280 billion USD), and he asked Congress to allocate between 305 billion and 320 billion dollars in 1985.

Instead of détente and mutual arms limitation, in the first four years of Ronald Reagan's presidency, his administration openly embarked on a path of confrontation to achieve military superiority. Today, Western commentators largely underestimate that during this period, the Soviet Union often acted in response to the U.S. President. Addressing the UN General Assembly in September 1984, Ronald Reagan said "America has repaired its strength... We are ready for constructive negotiations with the Soviet Union."

In 1985, the situation started seeing gradual improvements. The policy of international détente proclaimed by Mikhail Gorbachev contributed to the resumption of negotiations on the limitation of nuclear arms and space weapons. In November 1985, the leaders of the two countries met for the first time in Geneva. This marked a return to the highest level of political dialog in Soviet Union–United States relations. As a result, the two sides began to cooperate in a number of areas of mutual interest for the first time in history. Discussions also included regional conflicts and human

rights. However, given the time constraints, these issues did not feature prominently in the talks. Both sides reaffirmed that “a nuclear war cannot be won and must never be fought” and stressed the need to prevent any armed conflicts between them. This process had a positive impact on relations between the Soviet Union and the West.

The process of *détente* was continued at a new meeting between Mikhail Gorbachev and Ronald Reagan in Reykjavik in October 1986, despite the uncompromising commitment of the U.S. President to the implementation of the U.S. Strategic Defense Initiative (SDI). Credit should be given to Mikhail Gorbachev's perseverance and patience, which spurred discussion on further nuclear arms reduction issues.

Ronald Reagan at times made public statements about his dream of seeing a world without nuclear arms. No one, including his inner circle, believed his sincerity. However, as it later turned out, Reagan was indeed quite serious about this matter. To the great surprise and confusion of his European allies, at the meeting with Mikhail Gorbachev in Reykjavik, he said he was ready on his side to begin the mutual destruction of such missiles. Only his fanatical belief in the need for SDI and Mikhail Gorbachev's stubbornness on the issue prevented a possible agreement on the major reduction of nuclear missile arms. The two sides eventually reached an agreement later.

The continued summits and expanded contact between the ministries of foreign affairs and defense gradually improved relations and facilitated preparation of the Intermediate-Range Nuclear Forces Treaty (INF Treaty) in 1987. In December 1987, at their meeting in Washington, the two heads of state signed this treaty for an indefinite period.

At the time, the Soviet Union had recently replenished its arsenal with more than one hundred new SS-23 missiles,

which had increased precision but a maximum range of no more than 400 kilometers, and therefore not covered by the agreement. When George Shultz suggested including these missiles in the treaty, to the great astonishment of the Soviet delegation, after some hesitation, Mikhail Gorbachev said “done.”

By signing the INF Treaty, the Soviet Union made significant concessions to its opponents for the first time in the Cold War. From that moment on, Soviet positions were surrendered one after another. Back in Washington, Gorbachev easily conceded yet another crucial matter by agreeing to destroy all SS-20 missiles in the European and Asian regions of the USSR, even though in Asia they were integrated in the Soviet defense against American bases in Japan and the Indian ocean and (which was especially imperative in those years) served as a counterbalance to Chinese nuclear weapons.

The freezing and even minor reduction of military spending in the United States helped reinforce positive changes in mutual relations. This led to the negotiations held in Moscow in May–June 1988, where the issue was not the limitation, but the reduction of strategic offensive arms, as well as a number of other agreements of mutual interest.

Gorbachev's concept of “new thinking” was presented in its final form at the UN General Assembly in New York in December 1988. He announced a large-scale program for the unilateral reduction of Soviet armed forces by half a million people.

However, no one considered the need for an equally important program for their rapid reintegration into the civil economy of the Soviet Union. While justified in principle, this policy of reductions was hasty and unprepared in terms of financial resources and explanations to the Soviet public opinion, thus leading to an acute domestic crisis when Soviet

troops began to withdraw en masse from East Germany and other Eastern European countries. Instead of being a productive and useful initiative, the reduction of Soviet troops hoisted a heavy burden on the nation and plunged returning military personnel and their families into distress. Such were the dramatic consequences of hasty decisions.

In 1990, Mikhail Gorbachev's authority in the Soviet Union was falling rapidly, accelerated by a swiftly developing economic crisis. At the same time, his popularity abroad was growing. "Gorby," as he was known in the West with undisguised sympathy, was credited for improving relations with Western countries and his agreement with the United States on the radical reduction of nuclear and conventional weapons. However, Mikhail Gorbachev's diplomacy was marked by voluntarism and haste, with faults including unilateral concessions to the United States and its allies, and an inability to achieve more equitable results for the Soviet Union at the negotiation table.²⁶

On March 31, 1991, The New York Times wrote: "American negotiators admit that they became spoiled in the days when the very forward-leaning Mr. Shevardnadze was Foreign Minister and every dispute seemed to be resolved with the Soviets giving 80 percent and the Americans 20 percent."

On January 20, 1989, George H.W. Bush was inaugurated as the President of the United States after Ronald Reagan. In 1991, at the Soviet Union–United States summit in Moscow, Mikhail Gorbachev and George H.W. Bush signed the Strategic Arms Reduction Treaty (START I). Despite being a fundamentally crucial treaty, it failed to bind either party with any obligation to comply with the ABM Treaty, the long-term goal of Soviet diplomacy.

²⁶ See: *Dobrynin A.F.* (1996) *Sugubo doveritel'no. Posol v Vashingtone pri shesti prezidentakh SSHA (1962–1986)*, Moscow, IPO Avtor.

In general, George H.W. Bush followed the political course of Ronald Reagan throughout his presidency, although he held less radical views than his predecessor. Nevertheless, within two years after the election of George H.W. Bush, socialism weathered a series of dramatic events, the signs of which had been visible under his predecessor, spanning the disintegration of the Warsaw Pact and COMECON, the fall of the Berlin wall, and the collapse of the Soviet Union (1990–1991). The U.S. – led coalition successfully carried out Operation Desert Storm and liberated Kuwait from Iraqi occupation (1991).

During his term in office, George H.W. Bush held seven summits with the leaders of the Soviet Union and Russia Mikhail Gorbachev and Boris Yeltsin. At the same time, George H.W. Bush increased military spending, including for the Star Wars program, and continued to test nuclear weapons.

The President's domestic policy was faced with the difficult legacy of Ronald Reagan. First and foremost, this included significant public debt, a federal budget deficit, and the bankruptcy of many savings banks caused by speculation in the period of inflated prices for houses and land. This legacy had the potential to give the President free reign to act as he saw fit, but George H.W. Bush left the matter untouched because he was not focused on domestic politics and the national economy. All he managed to accomplish was pass a law on labor protection and a law on the disabled. John Bush Sr. was likewise unable to capitalize on his own popularity in the interests of improving the U.S. economy following the victorious Gulf War. Overall, the President's economic policy was his Achilles heel. Public opinion polls showed that 80 % of respondents believed the government was failing to address the pressing economic issues underlying threats to national welfare.

Despite his successful foreign policy, the popularity of George H.W. Bush fell towards the end of his term, primarily as a result of the economic recession and increased taxes, leading to his defeat against Democrat Bill Clinton in the presidential election held on November 3, 1992.

One year earlier, in the USSR, Mikhail Gorbachev announced his resignation as President of the USSR.

His last attempt to stabilize the country was the monetary reform of 1991. Mikhail Gorbachev and the new Chairman of the Cabinet of Ministers Valentin Pavlov sought to replenish the budget and stop inflation and the fall of the ruble. However, the way events actually unfolded followed a completely different scenario, where an uncontrollable rise in prices caused a dramatic decline in living standards. Instead of stabilizing, the country deteriorated to a critical point with the planned reforms ending in economic collapse.

On December 25, 1991, Mikhail Gorbachev signed a decree on his resignation as the Supreme Commander of the Soviet Armed Forces and handed over control of strategic nuclear weapons to the President of Russia Boris Yeltsin. On January 13, 1992, the Foreign Ministry of Russia sent a note to the heads of diplomatic missions in Moscow stating that the Russian Federation continued to exercise the rights and fulfill obligations under all treaties and agreements entered into by the USSR.

Sluggish economic growth over the previous twenty years had quietly led to the country's fall and crash. Ultimately, this ended in the dissolution of the Soviet Union at the end of 1991, a true geopolitical tragedy of the 20th century.

As Russian President Vladimir Putin said about it in one of his trademark sharp remarks: “those who do not regret the collapse of the Soviet Union have no heart, and those who want to restore it in its previous form have no head.”

Chapter 7

INFORMATION WARFARE AGAINST RUSSIA

The dissolution of the USSR is attributed to the simultaneous, prolonged impact of many factors, both domestic and external. The individual contributions of each factor demand center stage in their own separate studies (by economists, political scientists, historians, philosophers and the most skilled IT specialists).

The confrontation between East and West in the 20th century is a vivid example of classic information warfare. The new socio-economic formation first emerging and evolving during World War I came into direct conflict with the surrounding capitalist world. After World War II, the West and countries of the socialist community established their separate military and political blocs: NATO and the Warsaw Pact, which in the course of confrontation sometimes balanced on the brink of war. Information warfare morphed into its most sophisticated forms in the 21st century, after the dissolution of the Soviet Union, when the ideological foundations of confrontation absorbed the latest advances of cognitive, micro, nano, bio and other technologies of the 6th techno-economic paradigm. The end of the Soviet Union was brought about by more than just economic woes. The fact that Communist party leaders lost touch with the needs of the working people and direct trust with the public was the dramatic ideological

failure letting Western values seep into the minds of the Soviet people, thus positioning an alien culture as a domestic model. In the face of Western information aggression, arms race issues, chronic failures in agriculture, low competitiveness of domestically manufactured products and difficulties in everyday life, the public, including many working-age and young people, outright rejected socialist values in the 1990s. The ambitions of elites in former Soviet republics who found the idea of becoming sovereign heads of state appealing also made a considerable contribution to the country's collapse.

At the strategic level, the side that conducts information warfare aims to destroy the values and capacity of their adversary to resist, primarily to replace them with its own values, and control their adversary's resources for use in its own interests.

The significance of Western media and its long-term impact on Russian society should not be underestimated. It led to instability and contributed to the development of domestic political processes that dismantled the existing government system. Information warfare does not inherently involve the direct use of economic and special means of warfare, such as bribery, physical coercion, financing of agents of influence, etc. However, information warfare is often used in combination with the above means when the situation calls for it. Such warfare is sometimes referred to as "psychological," and for good reason: its purpose is to embed specific attitudes in the mind of adversaries.

Throughout history, the main information warfare adversaries of Russia are Western countries, with the USA and UK at the forefront. In recent decades, along with their domestic media and special organizations, these countries have been known to use forces they sponsor from within the Russian Federation (anti-system opposition, Russophobic media),

and also lean on prominent members of society with anti-Russian views, including the media in certain countries of the former Soviet Union.

The main goal of the information war Washington is waging against Russia is to organize a Color Revolution in Russia and replace the country's leaders with someone who obeys orders from the West. Achieving this objective would put Washington in the position to provoke a clash between Russia and China, and create conditions for a civil war followed by the dismemberment of the Russian Federation into separate independent territories. This is where the tragic experience of the USSR in 1991 might come in handy.

A common feature of the offensive tools used in information warfare is targeted influence on the minds of large groups of the population. This includes the mass-scale and one-sided distribution of information released by the attacker, embellishment and whitewashing of such information in the interests of the attacker, and mud slinging. The falsification of World War II history is a striking example of this approach. In this case, references to the decisive contribution of the Soviet Union to victory are suppressed, while the United States and United Kingdom are declared to be the main victors. This version of events has already been successfully embedded in the collective conscience of these countries. It may sound unbelievable, but Americans 25–40 years old often believe that Russia was an ally of Nazi Germany.

Today, it's no longer uncommon to hear about “bad genes” when it comes to Russians, who as it turns out, have a “genetic predisposition” to deception and lies. For example, this is the opinion of former U.S. Director of National Intelligence James Clapper. “If you put that in context with everything else we knew the Russians were doing to interfere with

the election, and just the historical practices of the Russians, who typically, almost genetically driven to co-opt, penetrate, gain favor, whatever, which is a typical Russian technique. So we were concerned,” said the retired American General in an interview with NBC. In an interview with Australian media in June 2017, Republican Senator John McCain tried to scare the world by claiming the Russians were more dangerous than ISIS, an organization banned in Russia.

In an interview with Svobodnaya Pressa, an online publication, Dmitry Zhuravlev, a political scientist and Director General of the Institute of Regional Problems, said that the Americans “...have always had this idea that “God's with us.” That is, there was always this idea that the American nation was chosen by God....they do not use the genetic theory as evidence for this idea... because they are so confident in their superiority they do not see any need to prove it.”¹ We must also recall what is often referred to as “American exceptionalism,” “leadership of the free world” or even the “responsibility to defend.” On June 30, 2017, speaking at the Primakov Readings in Moscow, Henry Kissinger, a guru of American and world politics, said that “the idea of global leadership has become almost part of American foreign policy at the DNA level. America sees itself as the only leader in the world.” In the United States, there is a broad-based consensus allowing the U.S. government to get involved in a number of foreign interventions and receive nothing but support from the American people.

But why was Russia chosen as the target? Russia is the only country in the world capable of inflicting devastating and irreparable military damage on the United States. This is the sole reason why Russia is blamed for everything and can

¹Na Zapade raskryli geneticheskiy kod russkikh i vzdrognuli, Svobodnaya Pressa, May 31, 2017.

never be accepted by U.S. society, even if, as in the 1990s, we start shouting from the rooftops that “America is the best” and “we need to live like they do in America!”²

According to Dmitry Zhuravlev, despite widespread Russophobia in the West, many people manage to stay reasonable. They may not like Russia, but they still need more reasons to turn their dislike into a call for action.

It might seem that U.S. relations with Russia could be restored because Vladimir Putin is a realist and wants to collaborate with Washington. However, this would require an end to the ongoing and contrived vilification of Russia by American media. Current attempts to demonize Russia may still go on for a very long time, as everyone in the West is convinced Moscow truly meddled in the U.S. elections, despite the fact no one has been able to produce a shred of evidence implicating Russia.³

The West's information war is aimed primarily at damaging the reputation of Russian leaders both within and outside the Russian Federation. Russia is obsessively presented as an oppressor of its own people deprived of civil rights and freedoms through propaganda designed not only for those who live in that “backward” and “aggressive” country, but in other parts of the former Soviet Union as well.

The people behind this war are after specific political and economic benefits from embedding pro-Western and Russophobic ideas into the minds of Russian citizens. A relatively recent testimony to this is the example of the dissolution of the USSR, which eliminated the main U.S. geopolitical adversary and brought its allies into Western orbit. Today, the United States believes humankind lives in a unipolar world

² Na Zapade raskryli geneticheskiy kod russkikh i vzdrognuli, Svobodnaya Pressa, May 31, 2017.

³ Svobodnaya Pressa interview with Dmitry Zhuravlev.

dominated by America. Its unfettered ambitions for power prevent the United States from realizing that the emergence of a multipolar world order is an inevitable historical reality.

The dissolution of the Soviet Union in 1991 required the West to use a relatively small volume of financial and human resources, or incomparably less than waging a “hot” war. While the costs of bringing the USSR closer to its collapse were in the hundreds of million USD a year, the benefits generated by the direct looting of the fallen country reached the hundreds of billions. As a result, the plundering of the former USSR delayed the large-scale crisis many analysts expected to hit the United States in the early 1990s by more than a decade.⁴

The military doctrine of Russia released on December 26, 2014 officially defined the task of the state as the organization of strategic and operational counteraction of its adversaries. Informational influence is a real internal and external menace on the population threatening to undermine the historical, spiritual and patriotic traditions of protecting the country, and inciting ethnic and religious strife.⁵

According to Ariel Cohen, the Principal of International Market Analysis Ltd., the U.S. government currently funds, but does not directly control, Radio Liberty, Free Europe, Middle East Broadcasting Network (the Alhurra TV channel and Radio Sawa) and Radio Free Asia. The management and financing of these media channels leaves much to be desired. In 2016, Hillary Clinton, the Democratic U.S. presidential candidate, called the U.S. Broadcasting Board of Governors “practically defunct.”

⁴ See: *Informatsionnaya voyna protiv Rossii*, Russky Ekspert, June 05, 2017.

⁵ See: *Opublikovana novaya voyennaya doktrina Rossii*, Lenta.ru, December 26, 2014.

Today, the radical reform of America's international broadcasting is high on the agenda. In social media cyberspace, the U.S. government only targets al-Qaeda.

The U.S. House of Representatives voted for a bipartisan bill to establish a new U.S. Information Agency and abolish the Broadcasting Board of Governors. Voice of America is positioned to become an instrument of U.S. foreign policy. At the same time, Radio Liberty and its sister companies will have a separate Board of Directors for authoritarian countries.

We are trudging into a new, dangerous era. The establishment of the U.S. Information Agency signifies a new round of international confrontation, including between Moscow and Washington.⁶

A positive sign in this context is that in the 21st century, the Russian public views Western information in a fundamentally different way. There are an ever-growing number of pro-Russian bloggers online and reasonably minded public figures. Many people are experiencing a Russophobia overdose, where they are tired of the humdrum mud-slinging campaigns traditionally orchestrated by the West against Russia. Finally, in the “wild nineties,” the public went through a tumultuous personal experience of its own. After a brief period of blind euphoria, people discovered the manipulation, fact spinning and sophisticated lies in enemy propaganda.

Today, it is impossible to deny the fact Russia is the victim of a large-scale information war, especially after the United States openly announced the launch of new projects to expand the information warfare against Russia.⁷ People of

⁶See: *Cohen A. Rossiya i SSHA: novyy vitok informatsionnoy voyny*, Forbes.ru

⁷See: *SSHA zapustyat novyye proyekty dlya informatsionnoy voyny s Rossiyei*, Lenta.ru, April 14, 2015.

sound mind and ethics (the absolute majority in Russia) would never allow themselves to sink so low as to become directly or indirectly involved in the information warfare on the side of Russia's enemies. Finally, we're playing on our own territory, while our adversary has to operate outside their comfort zone. They have a poor grasp of Russian culture and, as a result, often make obvious mistakes generating distrust among the Russian people (their wartime target). From 2007 to 2015, the number of Russians who do not trust foreign media increased by a factor of seven up to 50 %.⁸

It is already an inarguable fact that in 2014, the information war reached a turning point. However, Russian success is so far limited mostly to the domestic front. In the West, the media continues to use tried-and-true methods of propaganda and provocation to form a negative image of Russia. However, there are also success stories. The Russia Today TV channel, Sputnik news agency and other foreign-language Russian media help Western audiences regularly learn about the Russian point of view on key world events. Now it is crucial to ensure these Russian channels are believed not only by Russians, but also capture the interest and trust of American-born U.S. citizens.

We must also analyze and elaborate measures to counter mass culture, which is the most influential information product in its reach of various population segments. The Western version pushed on today's youth is based on a U.S. monopoly and corrupts the younger generation of Russians (more than any other segment) by getting them hooked on its "values." Resistance will be a hard fought battle, but it is at once inevitable and critical. We cannot afford to lose, as clearly demonstrated by the sad experience of the 1990s.

⁸See: Boleye poloviny rossiyan perestali doveryat' zarubezhnym SMI, Lenta.ru, May 07, 2015.

Russians must mass produce and spread videos promoting values inherent to the Russian people and broadcast them daily on TV and online. The time has come for those willing to promote the Russian expansion of the internet as a whole.⁹ It cannot be done without the serious efforts of creative minds, high and innovative artistry similar to what was seen domestically in the 19th–20th centuries, as well as an elaborate financing program at the federal level. Intellectuals and culture enthusiasts all over the world should have the opportunity to appreciate Russian ballet (even more than it is appreciated now), listen to Russian opera (modern, not just classical), watch Russian movies, read contemporary Russian writers, analyze the philosophy of outstanding modern Russian thinkers, etc.

Russia Today and its initial success makes it the best bet for serving as the basis of a global Russian television network in at least a dozen world languages, including Chinese and Japanese. It should initiate dialogue on complex contemporary issues and go on the offensive, rather than “finding excuses” for the Russian Federation in the face of various accusations. It is time to show the West the Russian interpretation of the world and national history by producing respectable movies and TV series adapted for Western audiences and their tastes and preferences. To accelerate the achievement of this objective, this may initially involve the remake of old Soviet movies still so popular today. It is of pivotal importance to organize the mass production of movies on Russian scientists, military commanders, art patrons, artists and politicians. As a prime example, I can't hesitate to mention a film series on Soviet statesmen on Channel One Russia. True and objective information about Lenin and Sta-

⁹See: *Tretyakov V. Informatsionnaya voyna—tozhe voyna*, RIA Novosti, March 21, 2016.

lin, their colleagues and successors, military commanders and wars waged and won by Russia and with Russian weapons and military equipment, undoubtedly contribute to boosting the prestige of the Russian Federation and shaping a patriotic worldview among Russian citizens.

This approach requires the development of a national information program designed to produce a globally based pro-Russian communication package. The information war against Russia is unrelenting and waged on an ever-growing scale. Our response, or even better, proactive measures, should be of the same nature. Victory can only be ensured by state support for response measures, including financial and ideological resources, rather than just banning anti-Russian propaganda outlets. Forbidden fruit is always the sweetest. A veto on alternative products will only generate more interest in them. Alternative products also help maintain a certain creative tone and stimulate new ideas in those involved in the information and creative production field.

At a meeting of the Russian Security Council on July 3, 2015, Russian President Vladimir Putin set the task of updating the national security strategy: “we must hurry to analyze the whole range of potential challenges and risks, including political, economic, information, and other risks, and adjust the national security strategy of Russia on this basis.” These changes must involve the concept of foreign policy. Priority should be given to defending Russia's national interests based on our values and cultural and historical identity. If the circumstances require it, this foreign policy should be tough. Russia also needs to stay consistent and tough when it comes to restoring its economic sovereignty.

The Secretary of the Russian Security Council Nikolai Patrushev rightly notes that the Russian Federation's economy remains vulnerable. Yet most damage is caused by the

orientation of the national economy towards the export of hydrocarbons and significant dependence on technology imports, not by Western sanctions. Eurasian integration, especially with China, India and other Asian and Latin American countries, is of paramount importance. This is not an opportunistic view in the context of strained Russia–United States relations, but a strategic line for multilateral cooperation in the 21st century.

Keeping in mind the national security of Russia as a generalized concept, we must ensure the security of Russian civilization and our cultural and historical identity as its central component.

The West is waging its net-centric warfare, while Russia at the moment has no answer to this challenge. Few people in Russia understand what this means, although the Russian sphere of influence continues to shrink. This gives rise to the need for a review of approaches used to contain Western aggression.

The turn of the 1990s was marked by the emergence of a new type of society termed Network Society by Manuel Castells, a Spanish sociologist.¹⁰ Its impact is especially visible in the media, information communications, as well as fast-moving consumer goods. The main universal network of today is of course the internet, but it is not the only one. There

¹⁰ Manuel Castells (1942) is a Spanish post-Marxist sociologist and one of the founders of the New Urban Sociology theory.

He is considered one of the leading sociologists of our time in the theory of information (post-industrial) society. Since 1979, he has been a Professor at the University of California, Berkeley. From 1988 to 1994, he was also Director of the Institute of Sociology of New Technologies at the Autonomous University of Madrid.

He also lectures at the world's leading universities as a visiting professor. From 1996 to 1998, he published *Information Age: Economy, Society and Culture*, a fundamental three-volume monograph summarizing his years of research on the modern world.

are also information, broadcasting, retail chain, spy and religious networks. There are also political, cult and terrorist networks all operating under fundamentally different principles than in earlier societies. Today, we cannot ignore their presence as a global phenomenon. Network society is making its presence increasingly felt. Gradually, we become integrated (in one way or another) elements in these networks.

The network is an information space where key strategic operations unfold, both military and intelligence related, as well as their media, economic, diplomatic and technical support. The information and economic support of operations, academic science, technical innovations, shaping of public opinion, diplomatic measures, intelligence and counterintelligence, social processes, religious and collective psychology, etc. are all interrelated elements of a common network in constant need of information exchange.

This new theory is quickly becoming a part of U.S. warfare, and net-centric approaches are tested during exercises or played out in simulators. Its developers are convinced that in the near future, "it will substantially and irreversibly change the theory of war in a fundamental way, if not completely replace it." During George W. Bush's term in office, the concept of network society was further developed in reports of the U.S. Defense Department and National Security Council prepared with the participation of neoconservatives.

Just like today's new economic models based on information and high technology prove their superiority over traditional industrial era models, the theory of net-centric warfare aims for the same fundamental superiority over earlier strategic concepts dating back to the previous era. Military reform in the information age means the creation of a pervasive network to replace and integrate earlier military strategy concepts in a unified system. At the technological level, this

is accompanied by the re-equipment of the armed forces with high-precision weapons and weapons based on new physical principles to be deployed not only on land or sea, but also in space, along with the protection of national infrastructure from similar weapons of the enemy.

The regular army, all types of intelligence agencies, technical discoveries and high technology, journalism and diplomacy, economic processes and social transformations are all integrated in a unified network where information circulates. The heart of military reform in the U.S. armed forces beats with the creation of this network. Therefore, information warfare is an important element of net-centric warfare envisioned by the Pentagon to fundamentally alter traditional war theory.¹¹

The time is upon us to conduct in-depth studies on the methodology of “color revolutions” and use these studies for a course taught in military universities on how to counter similar threats. Vladimir Putin was right when he proposed to start elaborating a theoretical framework for modern defense. Only then would it be possible to start implementing our counter-measures in practice.

¹¹See: Setevyye voyny, analytical report by Alexander Dugin with Valery Korovin and Alexander Bovdunov, dynacon.ru

Chapter 8

RUSSIA'S POST-SOVIET DEPRESSION

For more than 70 years, the planned economy was the economic foundation of the Soviet Union. Now, Russia has lived by the laws of the market economy for more than a quarter of a century. This is long enough to assess the outcome of market reforms implemented since the end of the USSR. Before our detailed analysis, I would like to state the general conclusion that the post-Soviet market economy is in the midst of some difficult times.

The past clearly shows that despite all the hopes of liberal economists, the market failed to solve the complex problems facing the Russian economy on its own. This was conclusively demonstrated by the “wild nineties” and recessions of 1998, 2008 and 2015. Fundamental issues, including the definition of economic development priorities, industrial policy, and finally, the identification of growth areas we still have available, are the exclusive domain of state regulation and cannot be left at the mercy of market forces. No transition of the Russian economy to innovative development is feasible without state regulation.¹ Our analysis of the course of these events is based on the experience of reforms and, unfortunately, missed opportunities.

¹ See: *Primakov Ye.M.* (2015). *Rossiia. Nadezhdy i trevogi*, Moscow, Tsentrpoligraf, p. 55.

As a necessary caveat, I should note that comparing any two periods in Russian development using a single indicator is problematic. The issue is that the structure of today's GDP of the Russian Federation and the GDP of the socialist period have substantial differences. In the USSR, this indicator primarily reflected the situation and results in the real sector of the economy (industrial, agriculture, transport, construction, trade, health care, education, tourism, etc.). Moreover, its calculation was based on the prices of goods and services set by the state and remained relatively stable and little affected by inflation. Today, prices are in large part determined by supply and demand. The post-Soviet period was also marked by an incomparably higher share of the service sector in contrast to the decline in manufacturing industries. In addition, as the financial market now dominates the pricing mechanism, speculation plays a crucial role. This means that prices and GDP are hardly comparable, even though they are expressed in the same national currency.

Despite all its shortcomings, the concept of GDP, which first emerged in 1934 and became the main tool of macroeconomic analysis, is still a mainstay in cross-country comparisons. However, our case involves the same country compared in different periods of economic development, which are historically not so far apart. Other comparison options would be more appropriate, for example, physical volumes of output, number of enterprises, physical volumes of exports and imports, the share of the country in the global output of industrial and agricultural products, etc. Based on these indicators, the position of the Russian Federation is modest indeed, if not depressingly bad.

During the period under review, the Russian economy weathered several serious crises. The transition from a planned to a market economy was agonizing and protracted.

It all started with shock therapy and privatization. The authors of these policies proclaimed privatization would help create a class of “effective owners.” Soviet state management of the national economy was notable for its low productivity, resistance to innovation, high energy consumption and high manufacturing costs in the industrial sector. I must admit that the criticism expressed during Gorbachev's perestroika by well-known economists (Nikolai Shmelev, Gavriil Popov, Vasily Selyunin) was, in general, both justified and fair. Indeed, the ever-growing output in traditional industries (metallurgy, large-scale chemical industry, mechanical engineering) consumed huge volumes of resources regardless of economic needs without either meeting demand or raising living standards. Alexander Yakovlev, a prominent Soviet aeronautical engineer and General Designer of new aircraft, once said that “the more we create unnecessary things, the poorer we become.”

It was a curse to “accelerate” everywhere and in everything, as the political slogans of the time exhorted. Higher output for the sake of output without any real benefit for mass consumers or social issues in the USSR was not only unnecessary, but beyond harmful. However, the ideas promoted at the time and blind belief the market would regulate everything itself without state intervention proved to be unfounded. The then-existing planned economy system has been dismantled, but no visible positive results have been achieved thus far. Growth has decelerated (often dipping into the negatives), science is in decline, the energy-output ratio is still higher than in OECD countries by a factor of 2–3, and labor productivity in the industrial sector, despite some growth in recent years, remains lower than in the U.S. by a factor of 5–6. The wear of production assets has reached 70–80 %.

While the West is clearly transitioning to the sixth techno-economic paradigm,² the majority of Russia's production ca-

²The term “techno-economic paradigm” is the equivalent of such concepts as “waves and innovations” and “technical mode of production.” It was first proposed in 1986 by Soviet economists Dmitry Lvov and Sergey Glazyev in their article on Theoretical and Applied Aspects of Managing the Scientific and Technical Progress. The techno-economic paradigm is a closed-cycle formation starting with the extraction of primary resources, and ending with the output of final products corresponding to types of public consumption. Half a century before the emergence of this scientific concept, Nikolai Kondratiev (1892–1938), a prominent Soviet economist, came up with the theory of economic cycles better known as Kondratiev waves. In 1925, he published the book *Long Wave Cycle*, in which he substantiated a trend that the long-term dynamics of certain economic indicators demonstrate a cyclical regularity. He proved that the phases of their growth are followed by phases of relative decline. The period of these long-term fluctuations is about 50 years, with deviations of ± 10 years.

The ideas of Nikolai Kondratiev were popularized primarily by Joseph Schumpeter in 1939, who linked Kondratiev waves with production and employment cycles (7–10 years). Currently, the concept of Kondratiev cycles is used in the studies of Askar Akayev, Stanislav Menshikov, Vadim Krivorotov, Dmitry Lvov and Sergey Glazyev. Seen as a whole, this theory (combination of Kondratiev waves and techno-economic paradigms) is as follows:

1st Cycle: The first industrial revolution, Richard Arkwright's spinning machine (1772). The textile industry and initial mechanization are at the core of the techno-economic paradigm. Leaders: Great Britain, France, Belgium.

2nd Cycle: The age of steam power (1825). Steam locomotives, construction of the Stockton to Darlington railway. Core of the techno-economic paradigm: steam engines, steam locomotives, steamboats, shipping, railways, coal mining. Leaders: Great Britain, France, Belgium, USA.

3rd Cycle: The Era of Steel (Second Industrial Revolution, 1875). The Bessemer process and plant in Pittsburgh (based on the Bessemer converter). Core of the techno-economic paradigm: ferrous metallurgy, shipbuilding, explosives, railways, shipping, electric power industry, electric motor. Leaders: Germany, USA, UK, France, Belgium, Switzerland, Netherlands.

4th Cycle: The Age of Oil (1908). The first assembly line at Ford plants, the internal combustion engine, telephone, assembly line. Core of the techno-economic paradigm: automotive manufacturing, aircraft manufacturing, petrochemical industry. Leaders: USA, Western Europe, USSR.

5th Cycle: The era of computers and telecommunications (Science and Technology Revolution, 1971). The invention of the Intel4004 microprocessor, Silicon Valley. Core of the techno-economic paradigm: electronic industry, in-

pacities are stuck in the third and fourth paradigms. According to academician Ivan Ivanov and his significant contributions to economics, including on the international economic relations of the Soviet Union and Russia, the share of the fifth techno-economic paradigm in Russian mechanical engineering is no more than 20 %.³ So far, Russia's "effective owners" have been mostly engaged in the predatory exploitation of what they obtained during privatization, rather than developing modern and knowledge-intensive production facilities.

Privatization was envisioned as a way to significantly replenish the state budget. However, it did no such thing. From 1992 to 1998, privatization as a whole generated budget revenues only in the amount of 1 % of GDP. Overall, from 1992 to 2009, Russia received about 750 billion RUB from privatization, which represented only a small fraction of the value of privatized enterprises.⁴ Everything else was simply snatched up, giving rise to a small group of oligarchs. In response to the flood of questions about the plundering of the state, privatization ideologists emphasized that above all else, the goal was to resolve a political issue by facilitating

formation technology, gas production and processing, internet, satellite communications. The key factor is microelectronic components.

6th Cycle: The emergence of new technologies (2010). Core of the techno-economic paradigm: nanoelectronics and other nanotechnologies (photonics, biotechnologies, structured coatings, information technology, cognitive sciences, cellular technologies, convergence of nano, bio, info and cognitive technologies). Key feature: dramatic reduction of the energy-output ratio.

For example, in 2010, the share of various techno-economic paradigms in the United States and Russia was 0 %–30 % for the 3rd paradigm, 20 %–50 % for the 4th paradigm, 60 %–10 % for the 5th paradigm, and 5 %–0 % for the 6th paradigm, respectively.

³ See: *Ivanov I.D. (2011). Rossiyskiye predpriyatiya v otkrytoy rynochnoy ekonomike*, Moscow, OSLN, 2011, p. 31.

⁴ See: *Ibid.*, p. 21.

the prompt, large-scale transfer of state property to private ownership to prevent any possible restoration of communism in Russia. This “political cover” aided the redistribution of undervalued state property among the inner circle cronies of a select few individuals. Some large enterprises, especially in the extractive industries, continued to operate successfully even after privatization. But many of them were resold after skimming the most valuable assets off the top, abandoning them to face complete shutdown. New owners took control, but for the most part they were more interested in destruction than creation, and were by no means more effective managers than the state.

By 1998, Russia's GDP was only slightly more than half of its level in 1990. Ten years later, Yevgeny Primakov wrote the following on Russia's default on August 17, 1998: “What happened after the collapse of the Soviet Union really knocked Russia out of its position as a world-class power. The culmination was default, a unilateral moratorium on debt payments under government securities. By September, the processes that pushed the country into its abyss were in full swing. GDP fell sharply, there was an unprecedented drop in the industrial output, the banking system ceased to function, and bank payments virtually stopped all together. The country faced the threat of hyperinflation. The uncontrolled devaluation of the ruble led to an explosive rise of consumer prices. As a result, real household incomes fell by 25 % in September 1998 (by a full quarter!) compared to 1997. Ruble-denominated savings lost their value, and many people lost their savings altogether in bankrupt banks. Imports of food and medicines dropped sharply, resulting in an acute shortage of essential goods for domestic consumers.”⁵

⁵ *Primakov Ye. M. Mir bez Rossii, Rossiyskaya Gazeta, 2009, pp. 14–15.*

Yevgeny Primakov stressed that Russia's default⁶ was a natural outcome of the economic course initiated in 1992. The "young reformers" who had taken charge of Russia's economic policy had the complete support of the West. But in fact, they plotted the country's new course with goals in mind that had nothing to do with a liberal approach. They widely resorted to state intervention for their own selfish purposes. The government selectively supported individual enterprises by setting exclusive export quotas, (especially for oil) and exempting them from customs duties, while also granting tax benefits and targeted loans.

The presidencies of Boris Yeltsin and Bill Clinton overlapped for almost their entire time in office. They maintained a very close, even friendly relationship, which President Clinton often capitalized on in the national interests of the United States. In his memoirs, former Deputy Secretary of State Strobe Talbott⁷ noted: "When it came to really important issues, Clinton almost always managed to manipulate the Russian President." In one-on-one meetings with Yeltsin, his "friend Bill" usually ended up getting concessions from Boris. In this context, it is puzzling why the Russian President and his young reformers never asked what was at the heart of the economic reforms so successfully implemented by the Clinton administration. In contrast to Russia's monetarist economic model promoted by the IMF and leading American advisors (followers of Milton Friedman), Clinton's team was advised by Joseph Stiglitz, a Keynes adherent, Nobel prize winner and Professor of Columbia University, who

⁶Default is the failure to fulfill loan agreements, or the failure to make timely payments on interest or principal under debt obligations or in accordance with the terms of the bond issue agreement. Default can be declared by companies, individuals or states (sovereign default) unable to meet all or part of their obligations.

⁷Talbott, *Strobe* (2003). *The Russia Hand: A Memoir of Presidential Diplomacy*, New York, Random House.

refused to demonize government regulation and blindly believe in omnipotent market forces. We must also keep in mind that by 1992, the budget deficit in Russia had ballooned to 15.3 % (5 % in 1981), and investment activity over the same period dropped by almost a factor of two. The ultimate sad irony of Reaganomics (in large part a successful reform) was that its main goal was none other than to ensure the significant recovery of investment activity. By abandoning the manipulation of tax rates inspired by Arthur Laffer's supply-side economic theory and shifting the focus of its tax strategy to target-oriented tax cuts and tax credit-based incentives for investment activity, the Clinton administration achieved impressive success.

In the 1990s, these measures helped the United States accelerate investment growth by a factor of four compared to the previous decade (from 2.2 % to 8.7 %) and use it as a basis to boost GDP growth from 2.9 % to 3.7 %.

The end of confrontation with the Soviet Union played a significant role in the economic rebound of the United States in the 1990's. Pentagon defense contracts were cut by 65 %, and many highly-qualified specialists transitioned to jobs in non-defense sectors. Numerous dual-use innovations and technologies were now made available and implemented in civil sectors. About 100 large military bases were left understaffed, and 40 of them shut their doors by 1997. Today, the defense industry is concentrated in a limited number of major corporations (Lockheed Martin, Northrop Grumman, Boeing, Raytheon, General Electric), where modern weapons are manufactured with better economic efficiency.

According to Joseph Stiglitz, Ronald Reagan's decision to cut taxes at the suggestion of Professor Arthur Laffer was a mistake leading to the country's huge budget deficit.⁸ Bill

⁸ Studies on Russian Economic Development, 2003, No. 2.

Clinton most likely well understood the economic situation in impoverished Russia during its years of reform in accordance with American monetarist recipes, while the United States reformed its own economy following the recipes of government regulation proposed by Keynes and his follower Stiglitz. I am certain that he, like many of his colleagues, is satisfied with the economic failure of Russia in the 1990s and highly commends the work of American advisors and their obedient Russian “young reformers.”

But what about Boris Yeltsin? American Sovietologist Stephen Cohen noted that the collapse of “Yeltsin's reforms” did not cause concern among those U.S. “masters of human destiny” for the suffering of the Russian people. Instead, they were alarmed by the “Kremlin's default on Western loans and media reports that Russian oligarchs and officials were laundering their millions in American banks.”

In mid-2000, when Vladimir Putin launched his offensive against oligarchs in response to the attempted redistribution of property, tax evasion and the illegal export of capital abroad (according to opinion polls, 75 % of Russians approved of this policy), *The Washington Post* and *The Wall Street Journal* strongly advised him not to “reverse privatization deals” and avoid “confrontation” with the oligarchs. Editors of American newspapers and potential investors have always advocated for the “rule of law” in Russia, but in this case, they were actually asking to grant full immunity from prosecution for the greatest kleptocrats of 20th century.⁹

John Bush, who in 2001 succeeded Bill Clinton as President of the United States, carried the torch of Ronald Reagan's tax policy based on the ideas of Arthur Laffer. He lowered the individual income tax and repealed the gift and

⁹Cohen, Stephen (2001). *Proval krestovogo pokhoda. SSHA i tragediya postkommunisticheskoy Rossii*, Moscow, AIRO-XX.

estate taxes to provide a stimulus for investment, making the U.S. tax system more lenient to the rich than the middle class. His plan was based on the expectation that a higher demand for stocks would increase their prices, spurring on the wealthy to use their additional income to boost investment activity. However, contrary to these expectations, the additional income was largely spent on luxury items and speculative operations in the stock market, rather than expanding material production.

From 2001 to 2007, the U.S. economy grew by 0.5 % a year (during Bill Clinton's presidency, this figure was 2.4 %). In the 20th century, the American economy only fared worse under Herbert Hoover during the Great Depression of the 1930s. The number of Americans living below the poverty line rose to 12.5 % in 2007 (11.3 % in 2000), growing substantially from 31.6 million to 37.3 million. Federal debt also increased from 57.3 % of GDP (2000) to 65.5 % (2007), and the U.S. trade deficit spiked to reach 5.1 % of GDP in 2007 (3.9 % in 2000).

2000–2008 was also marked by a substantial rise of labor productivity by 21.9 %, compared to 15.9 % from 1992 to 2000.

Most experts and ordinary Americans (as shown by public opinion polls) believe George W. Bush was one of the worst presidents in the country's history.¹⁰

Following Russia's default (1998), government measures under Yevgeny Primakov and Yuri Maslyukov accelerated growth in the industrial sector. In combination with rising oil prices, this ensured growth of Russia's GDP in comparable prices, and only after 2008 did it resume its decline, as seen in *Fig. 7*¹¹

¹⁰ Bush's Economic Legacy, Washington ProFile, 2008, No. 42 (652).

¹¹ See: <https://sdelanounas.ru/blogs/72043>

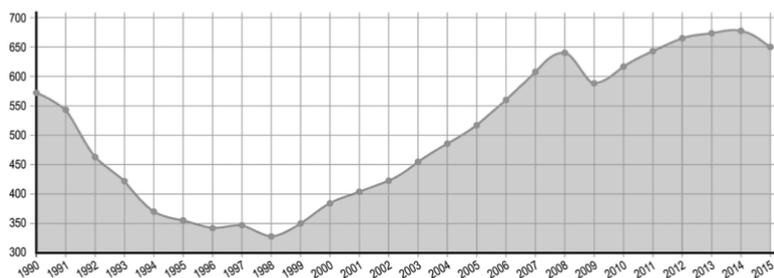


Fig. 7. Russia's GDP by year in constant 1990 prices

Low hydrocarbon prices and a general economic slowdown were observed both in developed capitalist countries and BRICS. As concerns Russia, its economy is negatively affected by discriminatory sanctions. However, Western sanctions are not its most serious challenge. At the end of 2014, the Russian Ministry of Economic Development predicted GDP would decline by 0.8 % in 2015 (Bank of Russia forecasted a 4.8 % decline) if the average annual price per barrel of oil was 60 USD.

In fact, GDP fell by 3.5 % in H1 2015 alone. Decline totaled 3.7 % for the year.¹² Moreover, according to the Russian State Statistics Committee, in Q1 2015, the recession primarily affected non-industrial sectors, including trade (7.6 %), financial (3.9 %), real estate, business services (3.3 %) and personal services (6.9 %), while in Q2, the total decline of GDP was aggravated by the fall of industrial output. In 2016, Russia's GDP declined by another 0.2 %¹³ (although accord-

¹² See: Rosbalt Business, Rosstat podtverdil otsenku padeniya VVP Rossii v 2015 g., February 02, 2016.

¹³ VVP Rossii v 2016 godu sokratilsya na 0,2 %, Lenta.ru, February 01, 2017.

ing to the U.S. Central intelligence Agency, it actually fell by 0.8 %).¹⁴

Speculation on the foreign exchange market only made matters worse. Uncertain of the Russian economy's future, both Russian and foreign investors continued to funnel their capital abroad. Thus the Russian Federation became one of the main exporters of capital, or in other words, a donor for foreign economies, primarily the United States. According to Tax Justice Networks, 800 billion USD were withdrawn from Russia to offshore jurisdictions between 1990 and 2010. Doctor of Economic Sciences and Professor Valentin Katasonov estimates that by 2015, this figure reached more than 1 trillion USD.¹⁵ His table on the Russian balance of payments shows a quantitative assessment of the damage done to the country.

Table 3 includes data on the balance of international capital flows of the Russian Federation. The balance is equal to the difference between exports and imports of private capital in various forms (direct investments, portfolio investments, and other investments in the form of borrowings and loans). Capital exports are measured with a minus sign, and capital imports with a plus sign. A negative balance means net capital outflow, while a positive balance means net capital inflow.

Table 3 shows that an average of more than 60 billion USD were funneled out of the Russian Federation annually between 2006 and 2015. Clearly, this money from Russia went to finance the development of Western countries. In addition, the flow (in our case, net outflow) of capital is also associated with the flow of investment income in the form of

¹⁴ See: <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.htm>

¹⁵ See: *Katasonov V. Yu.* Raspad SSSR kak ekonomicheskaya katastrofa, Imperiya online information and analysis portal, November 26, 2016.

interest, dividends and other income on invested capital. This data for 2006–2015 is presented in *Table 4*.

Table 3

The balance of international capital flows in Russia in the past decade (2006–2015; billion USD)

Year	Balance of international capital flows*	Change in foreign exchange reserves**	Total balance (net capital outflow)
2006	+43.7	-107.5	-63.8
2007	+87.8	-148.9	-61.1
2008	-133.6	+38.9	-94.7
2009	-57.5	-3.4	-60.9
2010	-30.8	-36.8	-67.6
2011	-81.4	-12.6	-94.0
2012	-53.9	-30.0	-83.9
2013	-61.0	+22.1	-38.9
2014	-173.1	+107.5	-65.6
2015	-71.1	-1.7	-72.8
Total for 2006–2015	-435.0	-172.4	-607.4

* Balance of capital transactions and financial instrument transactions, excluding transactions with international reserves. A plus sign means net capital inflow, while a minus sign means net capital outflow.

** A plus sign means a decrease in international reserves, while a minus sign means their increase.

Table 4

**The international balance of investment income
of the Russian Federation (billion USD)**

Year	Income receivable	Income payable	Balance
2006	27.9	-52.5	-24.6
2007	43.0	-54.5	-21.5
2008	58.0	-90.2	-32.1
2009	29.9	-60.9	-31.0
2010	34.3	-73.0	-38.7
2011	38.6	-89.7	-51.0
2012	42.8	-99.6	-56.8
2013	37.9	-105.1	-67.2
2014	42.8	-100.8	-58.0
2015	33.8	-65.6	-31.8
Total for 2006–2015	389.0	-791.9	-402.9

According to *Table 4*, the balance of international capital flows remained negative during this period, with an average annual figure of -40 billion USD. Summing up the totals from both tables, we can see the annual average losses of the Russian economy were about 100 billion USD, totaling more than 1 trillion over the entire period. Yet in most cases, so-called “Western investors” were actually involved in purely speculative transactions on the financial market, not invest-

ments in the real economy. There was not a single year in the period under review where net capital outflow was lower than 5 % of GDP, and in some years almost reached 10 % of GDP.¹⁶ At the same time, we must not forget that the balance of payments compiled by the Bank of Russia considers only legal transactions in international capital flows. If we take into account the illegal export of capital (some estimates suggest its volumes are comparable), then the real figures of the outflow of financial resources from the Russian economy are in fact much higher.

The outflow of foreign capital also destabilizes the national currency and undermines the Russian securities market. Moreover, volatility (as concerns both the inflow and outflow of foreign capital) significantly increases amid macroeconomic instability in emerging markets. The high share of foreign capital in investments poses a huge risk of aggravating the economic downturn in the context of capital outflow.

The ongoing decline in industrial output and erosion of its structure is the most serious threat. This is all the more significant because along with agriculture, transport and other services, this sector is what creates national wealth.

The situation that emerged is unlike any other. The new Russian capitalism is substantially different from the traditional sources of its formation both in terms of origin and structure. Russian capital was formed from the top, or in the reverse order. As a new political superstructure, the state did not emerge at the final stage of creating the new mode of production, but was in fact the initiator and principal coordinator of public property privatization. An extremely nar-

¹⁶ See: *Katsonov V. Yu.* Raspad SSSR kak ekonomicheskaya katastrofa, Imperiya online information and analysis portal, November 26, 2016.

row group of people were actually involved in privatization, including primarily the proxies of new Russian leaders and criminal entities. The new group of “effective owners” was formed quickly and without any real serious effort on the part of bidders (in other words, personal efforts to create new production facilities). The cast of New Russians snatched up the fruits of privatization and appropriated most of the funds earned by the country from the exports of energy and other raw materials, as well as low-added value products (for example, aluminum produced under tolling agreements¹⁷).

Events unfolded aggressively fast and led to the emergence of a “capitalist” formation based on the skyscraper model.¹⁸ The classic configuration is a cone resting on a foundation provided by large-scale capitalist production and the small-scale economic sector emerging over centuries. In Russia, new capital was like a narrow skyscraper without any solid foundation provided by major modern private capitalist companies. The building it formed thus turned out to be unstable. An effective economy failed to materialize in Russia. Despite all the external glitz and inclusion of individual Russian businessmen in the Forbes rankings, Russia was divided by enormous income inequality and the decline of industrial output and overall GDP.

According to economist Vladislav Zhukovsky, Russia is currently in the stage of initial capital accumulation, with an

¹⁷The processing of foreign raw materials with the subsequent export of finished products. Generally, the tolling mechanism represents the processing of foreign raw materials in compliance with the customs regime for the Processing of Goods in the Customs Territory. This customs regime is designed to import raw materials and export finished products duty-free.

¹⁸The word “capitalism” is in quotes here because Russia continued to preserve elements of a socialist economy and distribution system due to the very short transition period to capitalism without any theoretical substantiation.

offshore-based oligarchic form of socially unjust and inefficiently managed property. The Russian recession of 2015–2016 was a crisis of socio-economic formation, where 1 % of the population controls 80 % of all property.¹⁹

At first, participants in this process drawn into the production relations of modern Russian capitalism were enthusiastic about its initial outward results: relatively high incomes. However, as privatized enterprises became increasingly integrated in the world economy and exposed to all its realities (competition, inflation, discriminatory restrictions, technical barriers, etc.), new owners found themselves unable to adapt to the new environment.

Today, the Russian economy is increasingly based on the trade in energy and commodities (nickel, titanium, wood, aluminum, etc.), which recently are known to experience significant volatility. The Russian Federation (1/9 of the Earth's land area) contains about one-third of the world's mineral reserves, fresh water reserves incomparable in volume to other countries, and about 50 % of fertile black soils. Russia has tremendous potential for the expansion of renewable resources and energy, yet only a small fraction of what is available is currently part of the economy.

Russia's energy sector currently accounts for a quarter of GDP, with energy exports totaling more than 60 % of foreign trade. In 2016, proceeds from the sale of oil and gas amounted to about 40 % of state budget revenues. This is the lowest share of oil and gas in state budget revenues since 2009 (the decline is primarily associated with lower oil prices). The share of other income sources, especially high-level processing industries, is small. All of these factors exacerbate the economic recession and its resulting effects.

¹⁹ See: Interview with Vladislav Zhukovsky, Business Online, an online Tatarstan business newspaper, January 11, 2016.

Entire sectors of the economy that were once the pride of the country have either disappeared, or now languish in miserable conditions. The 1990s were marked by a deindustrialization of Russia. Thousands of enterprises were shut down or repurposed to suit opportunistic interests. Manufacturing of the means of production, including high-tech equipment, ceased almost entirely and was replaced by imports. Russia has forgotten how to make value-added products and lives by redistributing the resource rent generated from exporting raw materials.

The management of the economy by the state during this period was unprofessional and based on ill-considered and arbitrary decisions. There was no theoretical basis for the economic transition from socialism to capitalism (in fact, there still isn't any today). Instead, the state relied primarily on the advice of neoliberal experts from abroad, whose intentions were often far from pure, in combination with Russia's "popular" and time-tested method of trial and error. In the 1990s, public debt to foreign creditors and the financial pyramid of government short-term liabilities (short-term government bonds better known by their acronym GKO) grew wildly out of proportion. This happened simultaneously with degradation in the real sector, the insolvency of a huge number of enterprises and a significant drop in prices for Russia's main exports, bringing Russia to the brink of default and ending in the 1998 financial crisis. As Yevgeny Primakov believes, "the policy of pseudo-liberals was a complete failure. They were behind the default in 1998 and the ensuing economic crisis that nearly plunged Russia into the abyss for good."²⁰

²⁰ See: *Primakov Ye.M.* (2015). *Rossiya. Nadezhdy i trevogi*, Moscow, Tsentrpoligraf, p. 41.

To save Russia in the aftermath of default, circumstances forced Boris Yeltsin to appoint a government including proponents of a strong state (Yevgeny Primakov and Yuri Maslyukov), and in just eight months they succeeded in creating a margin of safety to ensure growth in the 2000s. Indeed, the government that “came to life in ruins and inherited a catastrophic situation” managed to achieve, in a little more than eight months, economic success unheard of in previous years of reforms. The following are some figures provided by former First Deputy Prime Minister Yuri Maslyukov in one of his articles.²¹

By September 1998, GDP had fallen by 10 % since January, while industrial output had dropped even more (by 14.5 %). Russia was on the brink of hyperinflation. The paralysis of the banking system brought payments to an almost complete halt, and the transport of goods by rail was suspended. Real household incomes fell to the level of January 1992.

The situation was dire. In the span of almost a single day, the GKO pyramid crash was followed by a collapse of the financial and banking system, along with the much vaunted stability provided by the “currency corridor” and ever-growing external and internal debt. In the blink of an eye, Russia realized it had neither a middle class nor viable government.

However, the government under Yevgeny Primakov succeeded in quickly stabilizing the situation even without forcing the drastic measures as outlined by pre-crisis politicians. The state adopted a range of urgent measures to normalize the financial standing of enterprises, rehabilitate the banking system, strengthen currency and financial controls, and

²¹ See: *Maslyukov Yu. D.* Pravda-internet, May 13, 1999.

decriminalize major companies. In addition, the ruble exchange rate stabilized and even began gaining traction. The annual decline of GDP shrank to 5 % (5.4 % for industrial output). It is appropriate here to quote the former Head of the Accounts Chamber of Russia Tatyana Golikova, who stated that if the current government found itself in the same position as in 1998, “it probably wouldn't have the strength or will to handle a situation that required such quick and tough decision making skills.”²²

What has been done to prevent capital outflows from Russia? As early as in 1999, the state and efficiency of the Russian currency market have been largely determined by crisis mitigation measures. Despite the position of the IMF, the government and Central Bank of Russia have strengthened their control over the return of foreign exchange earnings by exporters, the circulation of foreign currency and justification of international settlements in foreign trade transactions to block illegal capital outflow channels. This was facilitated by a departure from the pseudo-liberal monetarist policies of market development financing, which at their core oversimplified the role of the state or even denied it completely.

The key measures to strengthen currency controls and limit capital flight and the speculative pressure of the dollar on the ruble exchange rate included the introduction of control over transactions under suspicious contracts requiring greater scrutiny. As the purchase and transfer of foreign currency abroad masquerading as 100 % advance payments for import contracts reached an average of 1 billion USD a month at the beginning of 1999, the government introduced a procedure for mandatory ruble-denominated guarantee

²² Vedomosti, February 03, 2016.

deposits by Russian legal entities with authorized banks in the amount equal to 100 % of all funds transferred abroad. Restrictions were also imposed on the purchase of foreign currency by banks at the special trading sessions of inter-bank currency exchanges, and the conversion of ruble-denominated funds by non-residents in the correspondent accounts of foreign banks was made illegal.

Alongside legal methods of foreign currency outflow from Russia, the Russian economy also suffered significant losses from natural resource smuggling, including marine resources, especially in the Far East. For example, in 1997, Japanese customs officials reported imports of Russian fish worth more than 1 billion USD. At the same time, official Russian statistics indicated exports to Japan in the amount of only 355 million. Strict measures, including the installation of special sensors on fishing vessels to track their location, helped significantly reduce the scale of smuggling.

In the first half of 1999, these measures helped reduce the monthly unauthorized outflow of capital by a factor of 2.5 compared to 1998. As a result, the demand for foreign currency has declined and the structure of payments for imported goods improved. The share of advance payments dropped to 20 % (instead of the previous 50 %), which was in line with international trade practices. The state succeeded not only in stabilizing the exchange rate, but also in finding resources for the full and timely servicing of the external debt. It limited the one-time sum of foreign money permitted for withdraw from the country by individuals to the equivalent of 10 thousand USD.²³ This rule is still in place today. Foreign currency transfers to offshore havens witnessed a significant decline.

²³ At the proposal of Primakov's government, the State Duma adopted this legislative decision in July 1999.

However, after the resignation of Primakov's government, some currency controls were canceled in H2 1999 under IMF pressure. As a result, in August, the speculative demand for currency unrelated to the real sector of the economy, reached 4 billion USD, compared to 0.7 billion in June. These examples clearly show that currency controls were an effective and desperately needed tool to counter the outflow of Russian capital and replenish the foreign currency available to the federal budget.

State and Central Bank efforts resulted in a crucial development: the increased monetization of settlements. Along with the newly consolidated tax administration, this provided the necessary funds to the budget and mitigated the budget crisis. Indeed, while in January 1992 the money supply was 66.4 % of GDP, by June 1, 1998, this figure had declined to 13.7 %. To put it simply, Russia was cash-strapped. State efforts helped increase real household incomes by 10.6 % in Q1 1999, but this figure still remained significantly lower than in the same period in 1998.

The investment climate was abysmal, especially as concerned investments in the fixed capital of enterprises. In this regard, the state considered the development budget of the Russian Federation of particular importance, along with its inclusion in the federal budget for 1999. The resulting budget was the toughest yet in the 1990s. "Our main challenge was to avoid more spending. We cut all populist initiatives and included only the expenditures we could really afford. But even then the resulting budget had revenues exceeding expenses. For the first time ever, we established a primary two percent surplus to make debt payments."²⁴ It should be noted that in this period, world prices for raw materials and

²⁴ *Primakov Ye. M.* (2001). *Vosem' mesyatsev plyus...*, Moscow, Mysl, p. 71.

energy went up only slightly compared to subsequent years (the uptick began only in March), yet the budget for 1999 was fully implemented.

However, for Yuri Maslyukov, the most crucial step was the gradual yet deep reorganization of the public administration as a key factor in economic competitiveness. Moreover, the federal government and Prime Minister believed this could be achieved “mostly by strengthening the economic role of the state, which would by no means imply any curtailment of market processes.”²⁵ Without well-conceived government intervention, the market was powerless to wrench the country out of its deep crisis on its own. “State intervention was needed first and foremost to get things in order and facilitate growth in the real sector of the economy.”²⁶ Serious measures were also taken to support Russian manufacturers and exporters, including the reduction of tariffs for railway transportation, customs duties on major “critical import” products, etc.

The medium-term program elaborated by Primakov's government was specific and target-oriented. Yevgeny Primakov once said, “I'm actually not a big fan of a lot of the concepts that have become so fashionable in Russia lately. Only here, not in other countries. A system of approaches that define policy principles, that's what we need. Specific programs, too. But not a set of provisions artificially compiled in a pseudo-scientific document which, in my opinion, is of little help in practical matters...”²⁷

According to official data from the Russian State Statistics Committee, from October 1998 to March 1999, industrial output grew by 23.8 %. This occurred amid rapidly declining

²⁵ Ibid., p. 42.

²⁶ Ibid., p. 43.

²⁷ *Primakov Ye. M.* (2001). *Vosem' mesyatsev plyus...*, Moscow, Mysl, p. 40.

inflation (from 38 % to 3 %), and can be explained primarily by the formation of a favorable macroeconomic environment for industrial growth. The adoption and, most importantly, implementation of the set of emergency measures described above helped stabilize the domestic situation and international position of Russia in late 1998 and early 1999. Even foreign “critics” recognized the effectiveness of the state's policies. This was the main factor that in negotiations with foreign creditors allowed the country to divide up the repayment schedule of debt to private banks and foreign governments, thereby avoiding severe financial sanctions from abroad. The state also believed that while continuing to support the commodity sector, it should focus on the development of manufacturing industries. Proponents of a strong state in office at the time made their bet on manufacturing growth to mitigate the price volatility inherent in the commodity sector.

In the 2000s, Russian leaders skillfully capitalized on a favorable hydrocarbon market to ensure the early repayment of external debts and establish the Stabilization Fund and National Wealth Fund. Moreover, from 2000 to 2008, annual GDP growth averaged 7%! Household incomes grew steadily, and the retail turnover increased by 12–13 % annually, which was significantly higher than GDP growth.

The achievements of the Russian economy at the time were evidenced by data published in early 2016 by the U.S. Central Intelligence Agency.²⁸ In 2013, Russia's GDP was the fifth in the world and the largest in Europe in terms of purchasing power parity (PPP).²⁹ In 2015, after the fall in

²⁸ <http://www.cia.gov/library/publications/the-world-factbook/>

²⁹ Purchasing power parity is the ratio between two different currencies as regards their purchasing power for a certain group of goods and services.

oil prices and depreciation of the ruble, Russia slipped to sixth place behind Germany. As concerns Russia's ranking in terms of GDP, it had fallen to 12th place in 2016. Its comparative GDP per capita also leaves much to be desired. According to the IMF, Russia has fallen by 20 positions in this ranking over the past four years. Currently, Russia is ranked 71 out of 187, although in 2012, it was 51 out of 189.³⁰ Russia is not only below highly developed countries, but also Estonia, Lithuania, Latvia, Romania, Poland, and even Venezuela, which in 2016 had to deal with food riots.

For Russia, the post-Soviet period has been marked by the absence of a national economic growth strategy, continued economic reliance of on the production of raw materials, and a declining real sector. This is why the effects of the 1998 and 2008 crises were even more severe in Russia than anywhere else. The latest recession in 2015 had an additional negative impact.

The reforms implemented in post-Soviet Russia were designed with liberalization and integration in the world economy in mind. The unhindered cross-border movement of capital allowed Western corporations and banks to aggressively establish themselves in the Russian economy. However, the main goal of transnational corporations was not the development of Russia's economic potential, but rather quick profits and the withdrawal of capital from Russia through

Comparable prices are the conventionally accepted constant prices tied to prices for a certain period of the year. They are used in economic analysis to compare output and consumption, and revenues and expenditures in different years in order to avoid the price factor impact.

Current prices are the actual prices of final sales at a certain period of time. This can be basic prices (including subsidies for products and excluding industry taxes) and market prices (including taxes, but excluding subsidies).

³⁰ See: Rossiya poteryala 20 pozitsiy v global'nom reytinge MVF, http://www.ng.ru/economics/2016-11-29/4_6872_mvf.html

large-scale operations on the stock exchange. The foreign exchange reserves of the Russian Federation created by the positive foreign trade balance were placed in U.S. Treasury bonds.

In other words, instead of mass investments in the real sector, the Russian Federation was engaged in preferential lending to leading Western countries, who in fact sought to curb Russia's economic development. "To begin with, in the global financial market, a quarter of all government debt securities today have negative rates. In this context, the policy of building more international reserves can only generate net losses. An alternative to increasing international reserves is lending to the national economy by the central bank," argues Valentin Katasonov.³¹

This can be explained to a large extent by the fact that the Bank of Russia's priorities have traditionally included measures against inflation, and management of the national economy by stabilizing the financial system and financial market, while its claims to pursue efforts to stimulate national industrial production and develop transport and other real sector industries often stay on paper. The money supply is deliberately limited and, as a result, money is kept abroad. Policies of this nature rob the national market of liquidity, especially for the long-term investments needed to build fixed rather than working capital. Considering the methods employed by the Russian government to manage the economy, we see that they primarily seek to balance the budget through tax policy, including tax hikes. This budget policy is not focused on the priority growth of the real sector or the improvement of its effectiveness. All the while, the aim of the

³¹ See: *Katasonov V. Yu.* Raspad SSSR kak ekonomicheskaya katastrofa, Imperiya online information and analysis portal, November 26, 2016.

budget process in today's Russia is to allocate and spend funds, rather than obtain results.³²

In October 2015, the Stolypin Club published a report on the Russian economy asserting that Russia could no longer afford to continue its current economic policies. Stolypin Club meetings addressed many issues, but in my opinion, the most important topic was their criticism of the Bank of Russia for continuing its extremely tight monetary policy. In its efforts to further fight inflation and curb it to 4 %, the Bank of Russia declared it would take no further actions until it reached its target. As a result, Bank of Russia holds its interest rate tight at a level leaving businesses without a single hope for development. The fact that the Bank of Russia cut its rate to 9.0 % in June 2017 and 8.5 % in September is unlikely to fundamentally change the situation. Boris Titov, Russian Presidential Commissioner for Entrepreneurs' Rights, commented that "first we need to change the mandate of the Bank of Russia. Today, the bank opposes this in every possible way, yet its main statutory task is to fight inflation and stabilize Russia's macroeconomic situation. It completely fails to make headway in providing an impetus for demand and contributing to economic growth."

At the 2016 International Economic Forum in Moscow, members of the business community sharply criticized the current economic model. For example, Konstantin Babkin, President of New Commonwealth LLC and Rosagromash Association, said "we have a misguided economic ideology. We need to abandon our unreserved belief in the power wielded by the invisible hand of the market, which is supposed to regulate everything on its own. We must adopt an active economic policy that stimulates production in the industrial sec-

³² Vedomosti, November 01, 2010.

tor and agriculture, provides the economy with cheap resources and low taxes, supports exports, and seeks access to foreign markets.”

As mentioned earlier, the fall in world oil prices and anti-Russian sanctions are not the only sources of economic woes for the Russian Federation. Most of them are associated with the management of the national economy. No matter what changes come about in the global economic or political environment, the only alternative for quantitative and qualitative economic growth is the predominant reliance on domestic reserves. Of course, no one is arguing the equal significance of Russia participating in the international division of labor and using the best international practices.

Other countries understand this as well. For example, after the 2008 downturn, Chinese leaders focused their efforts on developing the domestic market by raising household demand. In the same period, the U.S. Federal Reserve stopped its monetary squeeze by issuing more money and buying up what they termed toxic assets.

In terms of the capital accumulation required for the development of manufacturing industries, monetarism deprives the Russian financial market of the necessary liquidity. This applies first and foremost to long-term loans, which could be used to build the fixed capital of enterprises.

Russia's economic growth requires cheap lending and a significant inflow of money, but this is impossible without restrictions on the conversion and movement (outflow) of capital. The Russian ruble has become a derivative of the dollar and is increasingly losing its autonomy.

Today, Russia has the lowest money supply to GDP ratio among BRICS and other emerging markets. In 2012, this ratio was 188 % in China and 91 % in Vietnam. The world's average figure for the monetization of economy is 125 %. Ac-

ording to various estimates, in Russia this figure ranges from 32 % to 70 %. The dynamics of this indicator are clearly demonstrated in *Fig. 8*.³³ It shows that since 2000, the monetization factor in the Russian economy has never exceeded 50 %.

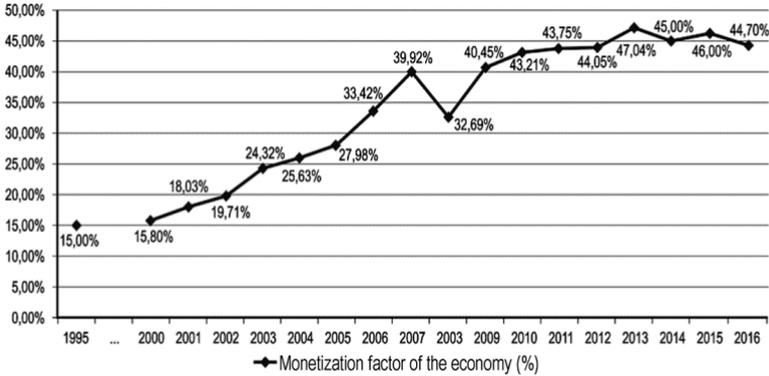


Fig. 8. Money supply M2 (monetization factor of the economy)

How to issue rubles and use ruble emissions to finance investment and infrastructure projects is within the authority of the Bank of Russia. Addressing this matter is the most crucial aspect of the art of financial management. Unfortunately, in Russia, it is not utilized in the interests of economic growth.

As early as in January 2013, when the monetization rate was at its peak of 47 % throughout the 2000s, Oleg Deripaska, the head of Rusal, lamented that, “like a bad horse doctor, the Bank of Russia let out all the blood from the economy.” Since then, the Russian Ministry of Finance has

³³ See: <http://finik.me/post/222/#sthash.mvXiwu9q.dpuf>

even further tightened its policy, while Western sanctions have almost completely blocked access to the foreign financial markets of Russian businesses. The result is that the real sector of the Russian economy has nowhere to turn for cheap liquidity.

These trends clearly exacerbate the recession, rather than help overcome it. Russia needs to boost the monetization of its economy up to the level of developed countries, in other words, to 100 % and more. This level must be reached in the next 3–4 years. Achieving this goal is possible if the money supply increases by at least 10–15 % or more annually during the economic downturn. Even Milton Friedman believed that optimal growth of the money supply in an economy should be 4–5 % a year.

The Central Bank of Russia is destroying the Russian economy with its policy and subjugating it to foreign interests. In his 2015 address to the Federal Assembly of the Russian Federation, President Vladimir Putin set the task of ensuring annual GDP growth of at least 5–6 %. He stressed that the key objective is to regain leadership in traditionally advanced industrial sectors and develop small and medium-sized businesses. In my opinion, this can be accomplished, but only by changing the model of Russia's economic development.

Unfortunately, under the influence of neoliberals in the government and expert community, and with a reference to the global general economic slowdown, Vladimir Putin lessened these requirements to a certain degree in his speech at the St. Petersburg International Economic Forum on June 18, 2016,³⁴ stating that an acceptable growth rate for the Russian economy is no less 4 % by 2018. However, now the

³⁴ See: Transcript of the speech by Russian President Vladimir Putin at SPIEF on June 18, 2016.

target of 4 % economic growth does not seem feasible by the deadline.

In May 2017, Prime Minister Dmitry Medvedev submitted to the President the action plan of the government for 2017–2025. He said that the plan would help achieve economic growth above the world average or at least 3 % annually. “If it is any lower, our country risks being thrown out of the global economy,” he stated. However, he did not disclose any details of the plan. Given the Prime Minister’s address to the State Duma on April 19, 2017, this is unlikely to happen. He again proposed the same measures that had been repeatedly announced and tested, leaving the public with hardly any expectations of breakthrough success.

In his 2017 Address to the Federal Assembly, Vladimir Putin described the reasons for Russia’s economic failures: “... the main reasons for our economic slowdown are to be found above all in our internal problems, and above all in the lack of investment resources, modern technology, professional human resources, insufficient competition, and shortcomings in our business climate. The real sector of the economy has stopped falling now and we have seen a small increase in industrial production. Last year, our GDP fell by around- 3.7 percent, but I think that this year, the figure will be small.”³⁵ In other words, earlier forecasts failed to materialize and, instead of the expected growth, Russia experienced a “lost decade.”³⁶ It comes as no surprise that this was mentioned in the Commentary on State and Business, a bulletin published by such free market proponents as researchers of

³⁵ Address of the President of the Russian Federation Vladimir Putin to the Federal Assembly, Kremlin, Moscow, December 01, 2016.

³⁶ The phrase “lost decade” describes the economic situation in Japan from the early 1990s to the early 2000s, when after a protracted financial bubble, the economy experienced a decade-long stagnation.

the Higher School of Economics.³⁷ Their opinion is shared by the President of The Russian Union of Industrialists and Entrepreneurs (RSPP) Alexander Shokhin. He believes that the current economy is unstable, and the restoration of economic growth at a level of 0 %–2 % sets a long-term trend preventing the resolution of any social issues or the implementation of any reforms.

Building a truly strong Russia requires elaborate, effective state regulation complete with clear and defined awareness of real goals and methods for their achievement by the public and state institutions.

But now to get back to the crisis of 2015–2016. Despite all the talk on the need to diversify and overcome our reliance on oil exports, the non-commodity real sector of the Russian economy is growing very slowly, and the financial reserves expected to provide a “lifeline” during the recession will soon be depleted. A country that does not produce a sufficiently broad range of industrial products is unable to achieve long-term stability and will always be affected by negative developments in the world economy, wherever they occur. This idea was outlined by Yevgeny Primakov at the meeting of the Mercury Club on January 13, 2015: “...regardless of the customary general assignments of ministries and other state agencies, there is no reason to believe the executive branch can propose a reasonable project based on specific plans to put the country on track towards the diversification of the economy and its further growth on this basis... In any event, the only alternative for Russia is to rely primarily on our domestic reserves and capabilities for quantitative and qualitative economic growth.”³⁸ Money is available for implement-

³⁷ <http://tass.ru/ekonomika/3592357>

³⁸ See: *Primakov Ye. M.* Speech at the meeting of the Mercury Club, January 13, 2015.

ing these programs. Even without the National Wealth Fund and Reserve Fund, which may be completely depleted in the coming years, there is also the positive balance of foreign trade. This includes Russia's wealth of natural resources, which are in reality far from being a "resource curse"³⁹ or cause for an excessive reliance on commodity exports, although these views are common among experts and in the media. This is national wealth that can be utilized for sustainable economic growth in the interests of public prosperity through a state-centric approach and budget redistribution. Norway and the Middle East provide excellent examples of this theory in practice.

It is far more dangerous for Russia to exacerbate its addiction to the dollar. This has drawn Russia into a devaluation trap, where many corporations borrowed cheap money from the West without considering the risks posed to continued financing in the event of ruble depreciation and geopolitical instability. In the end, the strategic task that will determine Russia's place and role in the 21st century global economy is the revival of its manufacturing sector, which can only be achieved through new industrialization based on modernization (the introduction of new technologies) and re-industrialization (equipping traditional industries with modern technologies).

This is far from an easy matter, but there are ways to accomplish it. For instance, a financial policy that provides relevant incentives, limited currency controls and sound

³⁹ The term "resource curse" was first introduced in academic literature in the mid-1990s by Jeffrey Sachs and Andrew Warner (Sachs, Jeffrey and Warner, Andrew. *Natural Resource Abundance and Economic Growth*, Cambridge (Ma.): NBER Working Paper 5398, Dec. 1995) and means low economic growth in countries with an abundance of natural resources. When sources of income are easily available, this objectively slows down economic development by not encouraging the search for better alternatives.

economic planning. In essence, this requires an amended Bank of Russia policy. The Bank of Russia needs to abandon its restrictions designed to limit the money supply, and transition to providing fiscal stimulus for the manufacturing sector and thoroughly planned money emissions. The latter should not be used to address social issues (public sector wages, pensions), but rather for targeted investment in the real sector, and its long-term lending at a low interest rate not exceeding 4 %–5 %, or perhaps even less. Targeted, long-term lending will increase employment, reduce costs and improve productivity. “If you want to see economic growth, you need to increase the money supply,” said Sergey Glazyev, economic advisor to the Russian President, in an interview with *Gazeta.ru* in September 2016, and I couldn’t agree more.

The federal budget should also be focused on providing fiscal stimulus to the real sector by redistributing revenues for the benefit of key industries and agriculture.

A similar practice exists in many Western countries. Economic downturns are accompanied by enhanced fiscal stimulus, including by additional monetary and exchange-rate measures. In the United States, the peak of the Great Recession of 2008–09 (which lasted 18 months) coincided with the election of Barack Obama. The country’s economic troubles were the result of George W. Bush’s policies. With only a few months till the 2008 elections, the looming economic crisis in the United States morphed into a rapid phase of development that affected the U.S. finance and stock market, and ultimately, all economic activity in the country. Unlike the Great Depression of the 1930s, this crisis is known as the Great Recession given its rather protracted nature, although the slump in GDP never exceeded 3 %. A unique contour of the recession was a sharp fall in real estate prices, and sub-

sequently stock prices. Therefore, experts and observers have good reason to consider it the deepest, most painful downturn in U.S. post-war history.⁴⁰ The economic issues that finally came to a head spun out of control and led to a stock market collapse, disruptions or a complete suspension of operations in large industrial companies, a wave of bankruptcies, rising unemployment and a decline in living standards for most Americans. In this context, the new administration was expected to take decisive and, most importantly, sound steps to stop the uncontrolled spiral of the U.S. economy and lay the foundation for future recovery.

On the campaign trail, Barak Obama proposed his own plan to mitigate the financial crisis. It should be noted that Americans were divided almost down the middle in their opinion about this plan. Nevertheless, it was approved by U.S. Congress and signed by the President on February 17, 2009. The new law was called the American Recovery and Reinvestment Act of 2009, or ARRA. It provided for the allocation of nearly USD 800 billion by the government in three main areas of spending, including aid to low income workers and the unemployed, Keynesian stimulation of consumption through public investment programs, and the establishment of a reserve for post-crisis recovery. The first major win for the new U.S. President was the fact his anti-crisis plan was adopted extremely quickly. His administration worked almost around the clock to help prevent further aggravation of the crisis, even to the detriment of a more detailed elaboration of the plan. In the end, Barak Obama personally assumed all responsibility. His administration demonstrated its skills and savvy, achieving clear economic success. In his eight years in office, Barak Obama not only brought the

⁴⁰ See: *D.S. Evstafiev*. Glavnyye ekonomicheskiye itogi deyatel'nosti administratsii prezidenta Baraka Obamy, UDC 338.242; 338.24.021.8 LBC 65.6.

United States out of the crisis, but also ensured seven years of continuous GDP growth with an annual inflation rate of 0–3 %. Obama and the Chairman of the Federal Reserve Ben Bernanke took unconventional, bold steps to rehabilitate the economy. The U.S. Federal Reserve implemented a phased quantitative easing (QE), which involved purchasing⁴¹ securities from corporations and individuals. As of early 2017, the country was the holder of bonds, stocks, etc. worth USD 4.2 trillion compared to 0.5 trillion at the end of 2008. This means an additional USD 3.7 trillion has been injected into the economy. Following the crisis, the U.S. budget deficit approached 10 % in 2009. Over the next several years, budget spending gradually declined and revenues grew along with the economy. Finally, in 2014, the budget deficit dropped lower than 3 % of GDP (in other words, returned to normal). The Obama presidency was marked by new tax deductions for the middle class and low-income people, as well as temporary rules for benefits in the calculation of the minimum tax rate. Starting in 2009 and in subsequent years, these tax breaks have been used by about 95 % of Americans. The measures also included tax credits for college tuition and

⁴¹ QE, or quantitative easing, is a monetary policy used by central banks to stimulate national economies when traditional methods become inefficient or ineffective. Quantitative easing means a central bank purchases or secures financial assets to inject a certain amount of money into the economy. Monetary policy in general and quantitative easing can be implemented if the central bank has control over the currency used.

If the nominal interest rate is very close to zero, the central bank cannot lower it any further. This situation is known as a liquidity trap, – and can occur in periods of deflation or very low inflation. In such cases, the central bank can implement quantitative easing by purchasing a certain volume of bonds or other assets from financial institutions, regardless of the interest rate. The purpose of this monetary policy is to increase the money supply, rather than reduce the interest rate, which cannot be lowered any further. It is often seen as a last resort for providing stimulus to the economy. In the United States, a quantitative easing program was implemented from September 2012 to October 2014.

auto loans. Nearly USD 20 billion have been allocated for food stamp programs. Significant resources were transferred to states for the targeted funding of schools and hospitals.

Like the Keynesian New Deal of Franklin D. Roosevelt, Obama's anti-crisis program provided for the public financing budget of infrastructure projects, including the development of transport and energy-saving infrastructure, telecommunications and data security systems, and repairs of government buildings. Only American-made materials were eligible for use in such works. Another important area of financing was the development of renewable energy and the improvement of energy efficiency. During the Obama presidency, green energy (wind and sun) electric output increased to 210 million megawatt hours, or by a factor of four in eight years.

The most obvious overall advantage of the anti-crisis program was the fact that it identified and substantiated the sources of money used to finance its planned measures. This was facilitated by a mutual understanding between Barak Obama and the Federal Reserve, which supported the anti-crisis measures of the U.S. President with sound actions in the area of credit and monetary policy coordinated with the U.S. administration. At its core, the policy to stimulate lending was based on low (almost zero) interest rates and quantitative easing for the controlled increase of public debt. As a result, since 2010, U.S. GDP began to grow by about 2 % annually (in 2009, it fell by 2.8 %).

After balancing the federal budget, Barack Obama included the costs of the Medicare health insurance program in it. In 2002, the U.S. Dollar Index⁴² reached 120 points, but

⁴²The USDIX is an index showing the value of the U.S. dollar relative to a basket of six major currencies, including Euro (EUR), Japanese Yen (JPY),

later (until 2008) it declined continuously. By 2014, after the budget was almost fully balanced, the index recovered to 100 points and stayed at this level for two years. At the end of 2016, the U.S. dollar began a new round of appreciation. The main stimulus measures stayed in use until 2014, although the crisis had officially ended five years earlier. The consequences of the 2008–2009 crisis were considered completely resolved when unemployment in the United States fell below 5 %.

Barack Obama then switched gears to make a decisive step towards U.S. energy independence. In addition to the development of renewable energy, the production of shale oil allowed the United States to double its output of hydrocarbons in eight years, thereby reducing oil imports from 11.1 million barrels a day in 2008 to 4.7 million in 2015. Overall, energy imports dropped by almost a factor of three from 2007 to 2014 (from 28.6 % to 10.3 %)!⁴³

Therefore, when it comes to key macroeconomic indicators, the presidency of Barack Obama earns well-deserved praise. Its main achievements include the stabilization of the national financial sector and creation of millions of jobs, including in key sectors (automotive, energy, electronics and construction industries), and almost halving the unemployment rate.

The implementation of anti-crisis program measures required tremendous expenditures, which almost doubled the U.S. public debt during Obama's time in office to USD 19.6 trillion in fiscal year 2016, or 106 % of national GDP (when Obama moved into the White House, debt was 10.6 trillion). His reforms included long-term programs, which for the

Pound Sterling (GBP), Canadian Dollar (CAD), Swedish Krona (SEK), and Swiss Franc (CHF).

⁴³ See: *Mikhaylov, Alexey*. Neblagodarnaya Amerika, Profil, 2017, No. 1.

most part were designed to impact the American economy only in the future. Although Obama laid the foundations for further development, many Americans, including the average middle class voter, have not seen the increase in real incomes they expected. As a result, despite leading the American economy out of the recession (faster than in Europe and Russia), the Democrats lost the political battle and had to give up power to the Republicans. Nevertheless, President Barack Obama once again confirmed the fact that during economic downturns, Keynesian ideas on the need for government regulation are indispensable for success. Although they may be only one of many important factors in periods of sustainable development, government intervention in the economy becomes an absolute necessity during a recession.

But let's get back to the Russian budget of 2017. Did it prioritize stimulating economic development in high-tech manufacturing?

Certain State Duma deputies believe this budget is “a budget of degradation and national shame.” When drafting the budget for 2017, the Russian government returned to the three-year budget cycle and described it in the explanatory note as a conservative mobilization document. However, it ultimately served as a mobilization budget only in terms of searching for revenues and not in terms of economic development, as it was a “budget of cuts” as concerns expenditures. Moreover, the budget deficit was planned at a level of 20 % of GDP as early as 2019. This approach was criticized by most experts. However, the Russian Ministry of Finance insisted that in the present context, a restrictive budget would provide the required foundation for consistently low inflation and a stable exchange rate.⁴⁴

⁴⁴ <http://www.rbc.ru/economics/18/11/2016/582ecfec9a79475a466fee02>

The Presidium of the Stolypin Club also sharply criticized the draft three-year budget submitted by the Russian government from 2017 onwards. According to the Russian business ombudsman Boris Titov, it was a budget of “stagnation.” Russian economist Abel Aganbegyan was even more blunt. He said that the government budget will lead to a recession rather than stagnation, and trigger a 3–6 % fall in GDP over three years. He also estimated the required investments in fixed assets and human capital at RUB 20 trillion annually⁴⁵ to be obtained through public-private partnerships. Meanwhile, we are observing quite the opposite, as spending on economic development grows tighter.

Deputy Chairman of the Executive Board of Alfa-Bank Vladimir Senin, Co-Chairman of the Business Russia Association Anton Danilov-Danilyants, and a number of other experts have criticized the Bank of Russia policy for leading to the high cost of credit and underfunding of the economy, particularly the real sector. While in Russia the ratio of loans to GDP is 41 %, in China this figure is 126 %, in Germany 200 %, and in the United States 300 %. In the U.S., lending to the real sector is 42 %, in Germany 31 %, in China 23 %, but in Russia it is only 12 %.⁴⁶

Tax policy should also focus on support for the real sector and technical modernization. This may include tax credits for a significant portion of purchased equipment costs and accelerated depreciation. In addition, in accordance with international practice, all research and development (R&D) should be exempt from taxation. Another important role could be played by the transfer of advanced technical solu-

⁴⁵ See: Byudzhet “zastoya” ili byudzhet rosta?, The Stolypin Club, November 17, 2016.

⁴⁶ *Ibid.*,

tions from the defense sector to civilian industries on preferential terms.

As concerns the introduction of foreign currency controls, we must admit that in today's environment, the speculative financial market and its orientation towards immediate profits undermines opportunities to finance the real sector. Highly liberalized rules for foreign exchange transactions are typical only for advanced economies, and Russia has not been among their ranks for as long as a quarter century.

In recent years, the United States has orchestrated an open confrontation between the West and Russia going far beyond the traditional information warfare waged against Moscow. This is a large-scale hybrid war against the Russian Federation involving trade and financial sanctions, dumping wars on the commodity market, and finally, the currency war.⁴⁷ In fact, in terms of its destructive effects, the latter should be at the top of the list.⁴⁸

To enable the real sector to borrow from commercial banks at least at 5 % p.a., the discount rate should be set at no more than 3–4 %, or below average profitability. Of course, this figure varies by industry, but it is accurate for the manufacturing and transportation sectors. Russia hasn't seen such rates for 25 years, which explains the current state of its productive force.

So what is the current state of the Russian economy?

Today, we see a slowing pace of global economic growth and, as a result, less consumption of commodities. It is highly likely this will result in a series of bankruptcies among

⁴⁷ See: *Katasonov V. Yu.* Valyutnaya vojna Zapada protiv Rossii i valyutnyy kontrol', *Economy*, April 19, 2016.

⁴⁸ Valentin Katasonov interprets the term "currency war" as a set of measures used to collapse the exchange rate of a national currency to ensure the overall economic destabilization of the country.

leading corporations and even states. Prime candidates are countries with commodity-based economies, as they will suffer from both the collapse of commodity prices and the crash of the entire debt market.

Thus, despite the restrained optimism of government officials responsible for the economy and Bank of Russia executives, the situation is only getting worse. The Russian government is already tapping into its Reserve Fund. According to the former head of the Accounts Chamber of Russia Tatyana Golikova, it will be completely depleted by the end of 2017.⁴⁹ She also mentioned a number of other unsettling factors, in particular the increase of domestic borrowings up to 1.9 trillion rubles annually (in her words, this was 680 billion rubles more than in 2016).

The Russian Minister of Finance stated that over the past two recession years, Russia used 4.7 trillion rubles from its Reserve Fund. At the end of 2016, the Fund was left with 1.1 trillion rubles to help finance the budget deficit, and then the government would have to tap into the National Wealth Fund. By the end of a three-year period (2017–2019), it will only have 500 billion rubles left (it contained 4.542 trillion rubles as of January 01, 2017).

While the entire world economy is gradually accelerating, Russia either continues to fall or hangs in an unstable equilibrium. According to the most optimistic estimates, industrial manufacturing is starting to slowly get back on its feet. Yet with the budget figures for 2017, we should not expect any serious positive changes or high growth. The government's greatest success was slowing inflation to 3.29 % YoY in August 2017, after 12.9 % reported in 2015.

⁴⁹Golikova ob'yavila o polnom ischerpanii Rezervnogo fonda v 2017, Lenta.ru, December 12, 2016.

However, the capital that could and should have been used to develop the real sector continues to “flee” Russia en masse, which signals that something is wrong with the Russian government's economic policy and its facilitation of long-term stagnation. With this policy in place, Russia's share in the world's gross national product (GNP) is constantly shrinking. Alexey Kudrin predicts that by 2020 it will drop to 2.6 % (in 2016, 3.2 %),⁵⁰ while in the processing industries it is already negligible. Destructive reforms are turning Russia into an economic dwarf in knowledge-intensive and innovative areas. In terms of funding for science, Russia lags behind Germany by a factor of 2, Japan by a factor of 4, China by a factor of 6, and the United States by a factor of 11!⁵¹ A country which only 30–35 years ago had been at the cutting edge of science, is now an outsider looking in. In fact, scientific and technological progress in the USSR was accompanied by an unprecedented increase in spending on science from the state budget and other sources. For example, in 1940, these expenditures (in comparable prices) amounted to 0.3 billion rubles, 6 billion in 1965, and 17.4 billion in 1975. Compared to 1940, in 1975, the annual number of inventions and rationalization proposals increased from 591 thousand to 5113 thousand, including an increase in the number of implemented inventions and proposals from 202 thousand to 3977 thousand.⁵²

It should be emphasized that despite the current difficulties in the oil market, no oil-producing country (except Venezuela) is experiencing such protracted issues. But data published by Rosstat clearly shows that as early as in 2011 when

⁵⁰ https://www.dp.ru/a/2015/09/02/Kudrin_predskazal_rekordn

⁵¹ See: *Glazyev S. Yu.* Ob istochnikakh i mekhanizmakh rosta rossiyskoy ekonomiki, February 19, 2014.

⁵² See: *Nauka v SSSR. Spravochnyye dannyye na 1976 g.*

oil prices rose by 35 %, Russia's pace of economic growth fell, especially in the real sector, which started showing negative growth in 2013. The Russian economy has stalled out, and commodity exports have ceased to stimulate high growth. According to Rosstat, in more than half of the aggregate sectors of the manufacturing industry, the downturn has reached 15–20 %, and in a number of other sectors (engineering tools, machines and equipment, engines, etc.) it is even 40–79 %. Production is even falling in the extractive industry, which should have flourished along with the lower ruble exchange rate.⁵³

The situation has also been bleak for small and medium-sized enterprises, an important component of the economy in any modern state, virtually throughout the entire post-Soviet period. In developed countries, small businesses provide employment and a wide range of services highly sought after by people in both urban and rural areas. Medium-sized enterprises are a source and conduit of economic growth in the most advanced areas, as they are the instrument of transition to innovative development. In a recession, small and medium-sized enterprises have one serious advantage thanks to their mobility, allowing them to quickly adapt to changes in the external environment. Yet these businesses also have weaker economic protection and are the first to suffer in economic downturns, which can be observed in all post-Soviet crises in Russia.

In the Russian Federation, the small and medium-sized enterprises segment is significantly underdeveloped compared to leading countries. Yet it must be considered that in the USSR, SMEs played next to no role at all. Today, Russia

⁵³ See: *Zhukovsky V.S.* Rossiya vkhodit v ideal'nyy shtorm, published online at vlad-zhukovsky.livejournal.com/45142.html on August 24, 2015.

has over 5.5 million SMEs, two-thirds of which are sole proprietors, and only one-third are registered as legal entities. Overall, this includes every fourth worker in Russia. Of course, this achievement is a clear success. But the share of SMEs in the Russian Gross National Product is only slightly more than 20 %, which is much less than abroad, where in some countries it reaches more than 60 % of GDP. Vladimir Putin mentioned this fact when he said that "...small and medium-sized enterprises are still developing slowly. They primarily include sole proprietors and micro-enterprises, and their contribution to the country's GDP does not exceed 21 percent."⁵⁴

Unfortunately, after their growth spurt in the 1990s, Russian SMEs have not experienced dynamic development in recent years. Throughout the post-Soviet period, the state has made certain organizational and financial efforts to develop small and medium-sized enterprises. This includes the relevant infrastructure (business incubators, business development centers, etc.), and decisions to expand SME access to public procurement. From 2013 to 2014, more than RUB 135 billion have been allocated from the federal budget to support SMEs. Yet other government measures served instead to impede their development. For example, increased social insurance payments, the abolition of benefits on the property of organizations for payers under special tax regimes, the introduction of retail trade fees and more, not to mention endless inspections by supervisory authorities. SME development is significantly hampered by high interest rates on bank loans. In other words, the state proclaims the need to develop these enterprises, but at once restricts such development. As a result, only three out of every one hundred small

⁵⁴ Meeting of the State Council on issues of developing small and medium-sized enterprises, April 7, 2015, Kremlin, Moscow.

businesses survive on the market for more than three years. Most of them fail to make it beyond the initial stage before they go bankrupt. This information is presented in the Global Entrepreneurship Monitoring research conducted by the Graduate School of Management of St. Petersburg State University.⁵⁵ These are some of the worst figures in the world.

Generally speaking, small businesses play a significant social role along with their economic function. This is especially the case in scarcely populated regions with a relatively low level of economic development. In this regard, the policy of regional and local authorities is crucial for the success of SMEs, as well as the stability of the fiscal and regulatory environment at the federal level.

In the Russian Federation, SMEs are mainly concentrated in trade, intermediary services and the retail service sector. Today, more than ever before, Russia needs to focus on developing SMEs in the manufacturing sector. This will create conditions to develop the competitive environment and improve the efficiency of such enterprises. Small and medium-sized enterprises in the manufacturing sector can play a substantial role in providing large-scale enterprises with high quality components, industrializing rural areas, decentralizing the industrial sector and developing it in small towns, and increase the use of local labor and material resources.

For many years, economists have indicated that under the appropriate conditions, SMEs play an important role in the economic growth of regions and, most importantly, in the development of innovative businesses. Their mobility has helped increasingly drive economic growth in the 21st century. Of course, this is mostly the case in medium-sized en-

⁵⁵ <http://www.mosgarantfund.ru/news/novosti-predprinimatelstva/globalnyy-monitoring-predprinimatelstva-global-ent/>

terprises, which unlike small businesses, can operate beyond a single regional market. Such enterprises create jobs in rural areas and small towns, thereby ensuring balanced industrial growth throughout the country.

However, unlike their counterparts abroad, Russian entrepreneurs today find themselves at a disadvantage from the very start due to high interest and lease rates, as well as the insignificant involvement of SMEs in innovation and manufacturing. In the Russian Federation, the share of manufacturing companies in the SME segment does not exceed 10 % (for innovative companies, this figure is 6 %), while internationally such share reaches 25–30 %.⁵⁶ This issue is even more exacerbated because medium-sized enterprises are the link between large corporations and small companies. Globally, small and medium-sized enterprises account for 25–35 % of exports in the manufacturing sector, and about 20 % of foreign direct investment.

The increased use of venture financing⁵⁷ by both state-owned and commercial banks can have a positive impact. These are long-term (no less than three years), high-risk investments in the share capital of small and medium-sized high-tech startups. The risk typically comes from the uncertainty of the final outcome, and most importantly, its commercial success. But if the company takes off, the resulting profits can far exceed expenditures.

To properly assess prospects for the expansion of small and medium-sized enterprises in Russia, we must compare the figures for individual countries (*Table 5*).⁵⁸

⁵⁶ [http://forexaw.com/TERMs/Economic_terms_and_concepts/Business/1489 B9_Medium_business](http://forexaw.com/TERMs/Economic_terms_and_concepts/Business/1489_B9_Medium_business).

⁵⁷ Venture financing is a type of financing with its own conditions and rules; its main difference from traditional funding sources is a high degree of risk.

⁵⁸ [http://forexaw.com/TERMs/Economic_terms_and_concepts/Business/1489 B9_Medium_business](http://forexaw.com/TERMs/Economic_terms_and_concepts/Business/1489_B9_Medium_business).

Table 5

Indicators of small and medium-sized enterprises (SMEs), by country (2015), %

Indicator Country	Share of SMEs in GDP	Share of SMEs in total employment	Share of SMEs among all enterprises
Russia	11.4	25.0	34.0
USA	52.0	50.1	97.6
Canada	43.0	58.0	99.8
Japan	51.1	70.9	99.2
Germany	57.0	45.2	97.9
France	49.8	52.1	99.2
Italy	55.0	73.0	99.7
UK	52.0	55.5	99.1
China	60.0	20.1	99.6
India	19.6	5.5	90.6

Currently, the share of SMEs in the industrial exports of the Russian Federation is less than 5 %, or several times less than in developed countries. Since SMEs are essentially mobile and capable of quickly responding to market needs, they can and should play an even more significant role in import substitution. In general terms of Russia's economic development, SMEs can drive GDP growth, create new jobs, introduce new or import-substitution products to the market, help meet consumer demand, and contribute to the formation of a middle class.

To facilitate the development of medium-sized enterprises, the Russian government adopted Resolution No. 702 on July 13, 2015 to increase the upper limit of their VAT-exempt annual sales revenue from RUB 1 billion to 2 billion.

This decision followed the discussion of SME-related issues at the meeting of the Russia's State Council on SME development held in Moscow on April 7, 2015, and was perhaps one of the few achievements in this field. State authorities, the Chamber of Commerce and Industry of Russia, and the Russian Union of Industrialists and Entrepreneurs regularly make statements in support of SMEs, but the pace of their development remains extremely low. This is the case even despite the words of the Russian President that "the state and all levels of authority should do everything possible to make business attractive, accessible and prestigious. We have to create equal conditions for all businesspeople, make sure the rules and laws are stable and clear, ensure honest and open competition, and make sure nobody stands in their way.... We have to do everything necessary to make sure our businesspeople can fully demonstrate their potential. It is of vital importance for the country, for all of its regions that Russian companies occupy their rightful place both on the home market and at world markets."⁵⁹

I would like to emphasize once again that in the current economic environment, accelerated SME development is a good alternative to the restrictive sanctions imposed by the West, and offers a real path for Russia's innovative development. It is time to move beyond endless talks on supporting SMEs and take real steps to address the existing challenges.

Forecasts of Russia's development in 2017 vary significantly. Pessimists expect GDP to fall by 2 % (and maybe even

⁵⁹ Meeting of the State Council on issues of developing small and medium-sized enterprises, April 7, 2015, Kremlin, Moscow.

more), while optimists predict its growth by 2 % or more. If we follow a more balanced view, grounds for optimism are sparse. Russia is much likelier to experience negative growth rates, as these trends have not been promptly addressed, or remain in a state of permanent stagnation. In his address to the Federal Assembly in December 2013, Vladimir Putin stressed that the economic slowdown in Russia that year was caused by domestic factors. Most analysts believe Russia was perhaps the only major economy to sink into crisis, while the West, after the Great Recession, got back on track at a growth pace unattainable for Russia.

The technological underdevelopment of the industrial sector, which is stuck at the level of the 1970s and 80s, and run-down equipment in the real sector only aggravate the current economic downturn. Russian manufacturers see no need to improve the productivity and competitiveness of their goods and services, as international competition on the domestic market failed to de-monopolize the economy. Everything continues to revolve around the interests of these so-called “effective owners.”

Russia's current situation is largely determined by its political environment. In this regard, it would be appropriate to quote Evgeny Primakov: “The political situation in the country is stable... However, it is far from adequate when we consider economic development needs. For example, political pluralism is very important for the economy. Along with competition in the economy, it is also important to have competing political parties. When one party, the party in power, is clearly dominant and no other party can measure up to it, it seems to me there's something wrong there... I think Russia's leadership understands all this and is doing a lot to really get things moving.”

The ever-increasing inequality in Russia is also a cause for concern. According to Russian News Service quotes of Genady Zyuganov, liberals strangled Russia in the 1990s. Now today they are raising their heads again. "They squandered our national wealth in the past, and today is no different," added Zyuganov. His views are supported by experts of the Institute for Social Analysis and Forecasting at the Russian Presidential Academy of National Economy and Public Administration. In their report, they indicated that if the recession continues, significant risks of even wider spread poverty would be unavoidable.

According to official statistics, at the end of 2016, 19.3 million Russians, or one out of every seven, were living below the poverty line. Their income did not exceed the subsistence minimum, or 10.7 thousand rubles for the able-bodied population. Since 2014, 3.1 million more people are now officially considered impoverished, and according to the Accounts Chamber of Russia, 1.4 million more will join them by 2019.

At the Social Forum on March 14, 2017, Russian Deputy Prime Minister Olga Golodets said Russia was experiencing a unique type of poverty: while the poor are usually unemployed in developed countries, in the Russian Federation they include millions of able-bodied and working people. She added that almost 5 million working Russians were earning the minimum wage, or RUB 7.5 thousand monthly. "What kind of labor productivity can we expect if people are earning that kind of money for a month of work? Even with just a high school diploma labor should be valued at a different level," said the Deputy Prime Minister. She added that in Russia, "there is not a single job that deserves to be paid as low as RUB 7500 a month."⁶⁰ The share of families who do

⁶⁰ Rossiya dostigla "unikal'noy" bednosti, Finanz.ru, March 14, 2017.

not have enough money to buy food and those who after buying food cannot afford to buy clothing, has risen from 22 % to 39 %.

However, not all hope is lost. In his report on Threats to Russia and How to Counteract Them, economist Sergey Glazyev⁶¹ notes that “the most important condition for neutralizing Western sanctions is to transition from external to internal sources of credit... The numerous proposals to address this issue from Russian scientists and experts are categorically rejected by the management of the Bank of Russia, which continues to pursue its policy of serving the interests of foreign capital.” The money supply in the Russian economy is clearly insufficient to finance even the simple reproduction of capital.

We should also consider the words of Yevgeny Primakov: “we missed many years, a quarter of a century, where we could have been addressing this task (development of the knowledge-intensive manufacturing sector – *V.M.*). But let’s not focus on criticizing the past, and instead turn our attention to the future and define the economic maneuvering we need to get out of this difficult economic spell.”⁶²

Considering the current state of the economy, primarily in the industrial sector, Russia needs to figure out where to focus its efforts.⁶³ The available resources are clearly insufficient to ensure development in all the areas that need it. We need to identify the priority areas capable of pulling along

⁶¹ See: *Glazyev S. Yu.* Ugrozy Rossii i protivodeystviye im, September 18, 2015.

⁶² See: *Primakov Ye. M.* Yedinstvennaya al'ternativa dlya Rossii – opora na vnutrenniye rezervy i vozmozhnosti, speech at the Mercury Club meeting on January 13, 2015.

⁶³ See: *Malkevich V.L.* (2016). *Rossiya-2016. Uroki noveyshey istorii*, Moscow, OSLN.

the most sectors and sub-sectors behind them and becoming the engines of further development.

Despite all the factors against it, the Russian economy has the potential to grow at a rate up to 10 % annually by relying on domestic resources. All the country needs is to abandon its “belt tightening” policy of limiting the money supply and inject money into the real sector by doubling its quantity in the economy. However, we must also keep in mind the danger that this money may end up on the foreign exchange market rather than in the economy, as often happens when the state supports the Russian banking system. This issue can be addressed by introducing limited currency controls and regulation.

Sources of economic growth or new industrialization should be provided by targeted, pinpointed projects in the industrial sector, agriculture and transport, starting with the financing of R&D along with the mandatory commercialization of obtained solutions and prototype models, and their subsequent manufacture.

In summation, there is ample evidence to argue that the last decade of the 20th century was Russia's own Great Depression. Despite isolated periods of economic growth in the 21st century, this period has been largely dominated by negative trends in all key indicators of the country's development. Given the current state of affairs and policies pursued by federal economic ministries and the Bank of Russia, it would be farfetched to expect any fundamental positive shifts in the near future. The Russian Federation continues to be a country with a narrow class of owners with massive accumulated capital even compared to long-established Western company leaders. Although in the United States the oligarchy ceased to exist (at least officially) after the end of the Great Depression, it emerged in post-Soviet Russia during the country's Great Depression, and in a very unsavory form.

Chapter 9

OLIGARCHY IN POST-SOVIET RUSSIA

Analysis of the economic situation in Russia after 1991 first and foremost requires a description of the nature and structure of financial and industrial groups, from their formation to their operation, on the emerging Russian market. The dissolution of the Soviet Union and spontaneous economic reforms implemented by the new heads of the Russian state led to a dramatic fall in key economic indicators (during the Great Depression of the 1930s, the U.S. had similar or identical indicators in terms of the scale of the crash experienced by Russia in the 1990s). Russia's GDP fell by 55 %, investments in the economy by 73 %, and spending in the defense industry by 83 %. While in 1990, Russia accounted for 5 % of the world's GDP (8.5 % in the USSR), by 1999, this figure fell to 1 %.¹ From 1990 to 1998, oil production in CIS member states dropped by almost a factor of two (from 590 million tons in the USSR to 300 million tons in the CIS) and in Russia it fell by 60 %. Industrial output fell by 25 % in 1993 alone.² The financial market also experienced sharp fluctua-

¹See: Formirovaniye oligarkhicheskogo kapitalizma v Rossii, available at <http://knigi.link/russia-history/formirovanie-oligarhicheskogo-kapitalizma-9966.htm>

²See: Ibid.

tions in currency exchange rates. For example, on October 11, 1994, in just a single day, the U.S. dollar went up by 27 % against the ruble. Inflation reached double digits. In 1998, public debt exceeded USD 120 billion. All this is closely reminiscent of the U.S. economy during the Great Depression of the 1930s. In his comparison of the economic crash of the 1990s in Russia with the Great Depression of the 1930s in the United States, American scholar Stephen Cohen wrote: “we should start with the economic crisis that befell Russia after 1991, or ‘the Great Depression of the transition period,’ which was deeper and longer than the Great Depression of 1930s. Even before the financial collapse of August–September 1998 (contrary to popular opinion, it was not caused by the ‘Asian Contagion,’ but rather by the domestic ills of the Russian economy), Russian GDP was only half of what the country was showing in the early 1990s. The production of meat and output of dairy products fell by a quarter, and real wages were less than half of what they used to be in 1991. For comparison, during the American Great Depression, output only fell by 27 %.”³

Amid its economic devastation, Russia implemented large-scale privatization policies on the (almost gratuitous) transfer of state property to individuals who lacked not only the ability to do business, but who also had an intense lust for money and ambition. Their proximity to those in power and their level of trust were of paramount importance. These individuals were transferred large enterprises as private owners, primarily in the commodity-related sectors of the economy.

Average welfare was deteriorating at a catastrophic rate, while hopes for a brighter future were dashed and shattered.

³ See: *Cohen, Stephen* (2001). *Proval krestovogo pokhoda. SSHA i tragediya postkommunisticheskoy Rossii*, Moscow, AIRO-XX.

By 1998, the number of unemployed reached 8.6 million, or 11.6 % of the able-bodied population,⁴ and those who did work were paid in the finished products of these enterprises instead of wages. Railway stations and highways turned into marketplaces where seas of people could be found selling dishes, pots, pans, faience sinks, toilets, textiles, handicrafts and everything in between. City streets started looking more like ruins, where impoverished Russians put up everything they still preserved from the old time up for sale on improvised counters made of containers and pallets. People from the former Soviet republics brought in meat, salo, cheese, milk, sugar, eggs and many other products, and sold them near railway stations for whatever price they could get. It was a struggle for survival. The ruble had lost its value, and savings in Sberbank were wiped out overnight.

Cheats and swindlers cropped up left and right, pulling their scams wherever they could. For example, seizing apartments by fraudulent means, especially from pensioners, reached epidemic proportions. The most “enterprising” new capitalists quickly learned how to “fish in muddy water.” These members of the newborn owner class popularly known as New Russians rode around in new BMWs and MERCEDES, and lived it up in night clubs and restaurants, where they burned through their ill-gotten gains.

Crime in the country spiked sharply. Contract killing, gang-related activity, street crime and theft were all on the rise. Criminals banded together in organized groups. Racketeering was a daily problem for anyone who started a business, and professional panhandlers were a common sight on the street and in pedestrian underpasses.

⁴ <http://bibliotekar.ru/economika-dlya-yuristov/79.html>

This was what daily life looked like to ordinary Russians in the “wild nineties.” Indeed, the picture was quite reminiscent of the plight suffered by Americans in the early 1930s!

Coming back to the issue of the Russian oligarchy in the 1990s, it pains me to admit there have been no positive changes over the years to today. These new “effective” owners were concerned only with their personal enrichment and acted like the insatiable predators they were. After snatching up enormous volumes of resources, the new owners turned their efforts full swing into establishing financial and industrial groups (FIGs). These initiatives were supported by the government, which assumed the banks included in FIGs would make it much easier to accumulate money from households and direct it to priority economic tasks. However, in practice, instead of investing in the economy, these groups got involved in speculative operations on the financial market using government short-term liabilities (GKOs) and earning up to 300 % per annum in rubles.

What is a FIG? What are the features, structure and activities of these groups that emerged in post-Soviet Russia? These issues were examined in the works of a well-known Russian scholar and Doctor of Economic Sciences Yakov Pappé, who conducted an in-depth analysis of the major financial and industrial groups from their first steps to large-scale economic activities in modern Russia (1992–2008).⁵

Historically and traditionally, Russian businesses have operated in the form of an association or group combining a number of companies involved in their own individual activities, while functioning as a whole by virtue of the connections established between them. These groups are typically

⁵ See: *Pappé Ya.Sh.* Oligarkhi: Ekonomicheskaya khronika – 1992–2000 gg., Rossiyskiy krupnyy biznes: pervyye 15 let. Ekonomicheskiye khroniki 1993–2008 gg.

diversified in terms of industries, doing business in several different sectors or sub-sectors. This can mean both traditional holding companies, whose parent companies hold controlling stakes in subsidiaries, or entities where enterprises are connected only by the informal mutual obligations of their principal owners or managers.

Financial and Industrial Group became the most widely accepted term, as the concept of a “group” was too general. This phrasing more accurately reflects the composition and origin of these economic entities, which include both manufacturing enterprises and financial institutions. Indeed, the term Financial and Industrial Group was popular even among Russian legislators, who introduced it in the Federal Law “On Financial and Industrial Groups” adopted in 1995. Yet as it turned out, in terms of their activities, most Russian financial and industrial associations fail to meet the definition of FIG provided by law. Therefore, in both written and oral forms of discussion on specific issues, there was a constant need to clarify whether the FIG under consideration was meant in the formal (as defined in the law), or actually existing broader sense. Therefore, Yakov Pappe and his colleagues Svetlana Avdasheva and Victor Dementiev introduced and widely used the term Integrated Business Group (IBG) as “a group of legal entities and individuals with the following characteristics:

- At least some of these entities are commercial enterprises

- There are regular interrelations between these entities, that is, they act as a whole in the key economic and administrative aspects of their activities

- There is a centralized body for making key decisions mandatory for all involved entities. This center is known as the central element, and is represented by one of the legal entities or group of individuals (main owners or managers).”

IBGs can be divided by relation type into:

- 1) Property-based (based on property relations)
- 2) Management-based (based on management mechanisms).

An industrial enterprise can be part of two IBGs at the same time. One of them may be led by a major bank providing financial and investment management, while the other could be a large trader ensuring the enterprise with comprehensive supply and sales services.

Management-based IBGs can also intersect with property-based groups. For example, from 1997 to 1998, Krasnoyarsk Aluminum Plant was part of both a property-based IBG led by Russian Credit Bank and a management-based IBG established by Trans World Group (TWG), an international trader. It should be noted that in the oil industry, the establishment of IBGs was initiated primarily by the state, which built vertically integrated companies in the process of privatizing the sector. The state was responsible for such major IBGs as Gazprom, RAO UES of Russia and RAO Norilsk Nickel.

To a certain extent, any business entity that has a potential impact on the national economy becomes a policy maker, whether it wants to or not. This rule is true both in Russia and abroad, as no reasonable government can have the same level of contact, for example, with the head of Rosneft or a major hotel owner, even formally, as business entities with the same equal rights as other enterprises. In any event, big businesses always have more grounds and reasons to be in contact with the authorities, and more chances to be heard than other smaller companies.

Russian IBGs and their influence in the Russian economy reached their peak in late 1997. By this time, a singular group of leaders had left all other enterprises far behind in terms of scale and influence. This group included ten IBGs:

1. Gazprom
2. LUKOIL
3. Interros-ONEXIM (at the end of 1999, it was renamed just Interros, as ONEXIM Bank ceased its operations after the default in August 1998)
4. The Khodorkovsky Empire (by the end of 1997, it was known as Menatep-Rosprom-YUKOS, but at the end of 1998 was renamed YUKOS-Rosprom, as Menatep Bank ceased its operations after the default in August 1998, with the oil component of this IBG rising to the top)
5. Inkombank Group (was practically in ruins by the end of 1999)
6. The Berezovsky–Smolensky Empire (by the end of 1999, it was already the Berezovsky–Abramovich Empire, as the SBS-Agro banking group went bankrupt and the oil company began to play a significantly larger role in the IBG)
7. Russian Credit Bank Group
8. Alfa Group Consortium
9. MOST Group
10. AFK Sistema

I selected these top 10 based on the following economic criteria:

- Scale of activities, and parity of financial and real components
- Stability, both economic and institutional
- Success in the domestic and international markets
- Real development prospects
- Predominance of private ownership

All other candidates for the leader group fail to meet at least one of these criteria.

The following is a brief description of each member of the top 10 as of the end of 1997 in accordance with the proposed classification.

Gazprom was a property-based IBG structured as a traditional holding company built around the eponymous gas company. It was also an industrial and financial group.

LUKOIL was a property-based IBG structured as a distributed holding company built around the eponymous oil company. It was also an industrial and financial group.

Interros-ONEXIM was a property-based IBG structured as a distributed holding company which, together with the ONEXIM-Bank Group, was a financial and industrial group.

The Khodorkovsky Empire was a property-based IBG structured as a distributed holding company. It was built around Menatep Bank and was also a financial and industrial group. At the end of 1997, it was in the process of transitioning from a financial and industrial group to an industrial and financial group.

Inkombank Group was a management-based IBG. Inkombank, its central element, offered comprehensive financial and investment services. It was also a financial and industrial group.

The Berezovsky–Smolensky Empire was a management-based IBG. As the central element of this IBG, Boris Berezovsky was engaged in ensuring support from the state and lobbying. IBG was also a financial, industrial and media group.

Russian Credit Bank Group was a property-based IBG structured as a distributed holding company. Its central element was the Russian Credit Bank, and it was also a financial and industrial group.

Alfa Group Consortium was a property-based IBG structured as a distributed holding company. The central element of this IBG was Alfa Bank, and it was also a financial and industrial group.

MOST Group was a property-based IBG structured as a distributed holding company. Until 1997, its central element was MOST Bank, and the IBG operated as a financial and media group. In 1997, the Media MOST holding company shifted to the center of this IBG and it became a media and financial group.

AFK Sistema was a property-based IBG, and by all appearances a distributed holding company. It was also an industrial and financial group. Its central element was unknown.

By early 1997, in addition to the top 10, there were also another 30 to 50 large IBGs playing a significant role both at the macro and sectoral levels. These IBGs (property or management-based, state-owned or private) were not part of larger integrated entities. Among other private property-based IBGs, Surgutneftegas (with its financial entourage) and Siberian Aluminum stood out in terms of scale. After the events of August 1998, these IBGs entered the ranks of undisputed leaders. Other IBGs of this type include Severstal in metallurgy, and also such holding companies as Baltika and Red October in the food industry.

RAO UES Russia held its own special place. This company was comparable to Gazprom in terms of scale and long-term stability. In terms of structure, OAO RAO UES was a traditional holding company, where both parent and subsidiary entities were open joint-stock companies, and the state had no controlling stake. However, the enterprise does not qualify for a position in the top 10 due to chronic non-payments by Russian electricity consumers, while its exports of electricity (especially outside the CIS) were insignificant. The company was in a dire financial situation, could barely keep up with its current operations, and had no prospects for development, expansion, or even the adequate replacement of

retired capacities. On June 30, 2008, OAO RAO UES was dissolved. State-owned natural monopoly enterprises took over the vacuum this created, as well as privatized power generating and sales companies.

State-owned property-based IBGs playing (as of the end of 1997) a prominent role in the Russian economy included three oil companies (Tatneft, Rosneft and Slavneft) and two petrochemical companies (Bashneftkhimzavody and Norsioil). As for IBGs established by the state in the nuclear power industry (the Rosenergoatom and TVEL concerns) and the aviation industry (Sukhoi AIMC), they have recently increased their portfolio of orders significantly and now have real opportunities for high export volumes. It seems that by the end of 1997, the most significant management-based IBGs emerged in metallurgy. They included such groups as TWG, MICOM, Renova and Trustconsult. For the first two, the initial integrating mechanism was supply and sales management, while for the latter two, as far as I know, financial, investment and lobbying services provided for this mechanism.

However, in 1998, IBGs experienced a wave of fundamental changes. Their crisis began in the first months of the new year, rather than in August. In addition to the drop in world oil prices in the spring of 1998, the main causes included:

- The severe crisis on the Russian stock market in the first months of 1998 triggered by the shock to global securities markets
- Competition faced by Moscow-based IBGs from new groups (mostly regional), which initiated a repartition of the market

After August 17, 1998, the crisis spread from the industrial to the banking sector. The complete and utter crash of government short-term liabilities (GKO) led to the subse-

quent collapse of the banking system. Among the IBG central-element banks, only Alfa Bank managed to retain its position, gaining significantly larger influence in the Russian banking community along the way. The same assessment could be made about Gazprombank and Sobinbank, but they play a subordinate role in their IBGs. In the fall of 1998, Inkombank saw its license for banking operations revoked, and in H1 1999, the same happened to Menatep Bank and ONEXIM Bank. In 1998 and 1999, Russian Credit and SBS Agro also found themselves in a tight situation they could not wrench themselves out of.

The most glaring feature of major IBGs is their lack of transparency around the ownership of their members. Many Russian researchers have viewed this as a negative phenomenon preventing the emergence of a civilized market in the Russian economy. It would be hard to deny their assertion. Indeed, some experts understandably believe that a lack of transparency was the main cause for the crash of IBG banks after the events of August 1998. However, the actual situation is much more complex. If the legal entities included in IBGs still have enough resources for normal operations and further development after all taxes have been paid, then a lack of transparency in ownership is undoubtedly a bad thing. Moreover, this phenomenon could even be viewed as unacceptable if the company has opportunities for long-term and medium-term investment in the private sector. But, unfortunately, in most cases, neither the first nor the second condition are met in Russia. The way things were then, a lack of transparency with regard to ownership was the only way to facilitate the rise of big Russian businesses. However, unfair methods concerning tax payments can hardly be considered a greater scourge than the ruble's devaluation or the government's default on its obligations.

Since 1994, the formation of the new business elite was likewise facilitated by the loans-for-shares auctions proposed by the then-head of ONEXIM Bank Vladimir Potanin. His loans-for-shares system allowed leading private banks (mostly Moscow-based) to buy up the largest industrial enterprises of Russia for a pittance, acquire control of huge assets and build vertically integrated companies. For example, MENATEP Bank acquired YUKOS for only USD 159 million, but later it was valued at more than USD 26 billion. The deal also secured support from the wealthiest Russians in the upcoming presidential elections.

This gave rise to the country's oligarchy, which ran especially rampant during Boris Yeltsin's presidency. In the Political Dictionary edited by Boris Ponomarev (Gospolitizdat, 1956), oligarchy was defined as follows: "...by using an extensive system of joint-stock companies, 8–9 groups of the financial oligarchy spread their tentacles across the economy of the entire country." Of course, this quote relates to the United States during the Great Depression. In Russia, the concept of an "oligarch" is a hallmark of contemporary national history, although in recent years, members of the business elite have avoided its usage. This comes as no surprise, especially if we bear in mind the definition of oligarch provided by the late Boris Nemtsov, a liberal Russian politician: "In today's Russia, oligarch means a major businessman who became rich not because he's good at his job, but because he has informal contacts with the authorities he can abuse, often to a criminal extent."⁶

In the modern Russian business world, the concept of "oligarch" was first introduced by Boris Berezovsky in 1996. He used this word to describe the seven biggest and richest

⁶ Literaturnaya Gazeta, No. 32–33, August 9–15, 2000.

bankers supporting the re-election of Boris Yeltsin as president. The group even earned its own name, *semibankirshchina*, or “the banker seven.” Later, the phrase “Russian oligarchs” started being used not only in terms of bankers, but also businessmen who owned the country's largest industrial and agricultural companies, as well as media outlets and banks. They were extremely vested in maintaining the status quo, and political campaign managers, almost as if at their suggestion, came up with the famous slogan “Vote or lose.” For Russia's oligarchs, the defeat of Boris Yeltsin at the polls would mean their downfall. It is difficult to imagine that any other president would not have demanded immediate revision of the outrageous privatization practices, where state property was acquired at prices not related in the slightest to their real value. Ownership was all but spontaneously transferred from state-owned to private amid a chain of economic and social disasters.

The hopes for rapid economic prosperity nurtured by both the people and new state of the Russian Federation were dashed. On the contrary, living standards and every last key economic indicator collapsed. The only real winners were a handful of people who managed to get their hands on the previously state-owned national wealth.

After Boris Yeltsin's success in the 1996 presidential elections (which were anything but fair), the privatization of state property by oligarchs on preferential terms was business as usual. Those who supported Yeltsin in the elections deserved to be “thanked.” Here are just two examples. In November 1996, SBS bank, with an authorized capital of RUB 24 billion, “won” the bid for the rehabilitation of Agroprombank,⁷ the third largest bank in Russia in terms of au-

⁷Rosselkhozbank until 1995.

thorized capital (RUB 130 billion) and household deposits, and the second largest in terms of branch locations (1200 offices). Eastern Oil Company, with an annual oil production of 11 million tons, was privatized in 1997. Instead of the USD 2 billion the state expected to receive at auction, MENATEP only paid USD 750 million.

All oligarchic regimes, including in Russia, share several common features:

- Economic and political influence through informal ties with heads of state
- Relations with other business groups and officials founded on corruption schemes
- Conflicts between individual oligarchic entities or groups
- Nepotism and merging with the state bureaucracy

Oligarchs typically control a portion of the media, which helps them manipulate public opinion in their own interests.

In this regard, we must consider another definition of national oligarchy provided by Yevgeny Primakov in his book *Eight Months Plus...*: “An oligarch is not just a man who got rich using all available means, but someone who got into politics, became closely bound to the authorities and secured a position where money came at the expense of the people, either by breaking the law or exploiting loopholes in the Russian legislation.” The default preceding the Primakov–Maslyukov government was largely caused by the destructive activities of oligarchs, and Yevgeny Primakov was left to deal with its aftermath.

Nevertheless, the Primakov government pursued market-based economic policies. The outcomes of privatization were not revisited, its basic conditions remained the same, and in fact, there were only two actual “victims” among the oligarchs (Boris Berezovsky and Vladimir Gusinsky). However,

even in this case, the reasons behind their persecution were not economic, but rather their “subversive” political activities, as they widely used their informal ties and control over the ORT and NTV television channels, as well as other media.

Russian oligarchs managed to influence state policy in their own interests not because they were so rich, but because the state was so weak. The oligarchy in Russia stands out as a phenomenon by its unprecedented absorption of the country's financial and material resources during privatization and “shock therapy.”

Power and wealth are closely intertwined not only in Russian politics, but the sustainable development of any state depends directly on protecting its interests. This should be a priority for any government. However, the Russian public were repulsed by the oligarchy from the very beginning. Its emergence in the Russian economy and politics was not the result of long-term evolution. It was rather an almost instantaneous event, the intensity of which immediately subjugated the state administration to its will. This event very vividly described by American Sovietologist Stephen Cohen just before the 1998 default: “In my opinion, you (in Russia – *V.M.*) are facing an unprecedented process of demodernization. If the miners, teachers, doctors and other groups are not paid for their work, this smacks of the era of slavery. When, for men, the average life expectancy drops to 57–58, this is the level of the 19th rather than 20th century. If the country has no investments in the industrial sector, this is also not the 20th century. If a significant part of the middle class is forced to grow food in their garden plots, is that the 20th century? This is why, in today's Russia, I see tremendous waste and loss of opportunities, rather than a transition from bad to better. All achievements in industry and science, no matter

under what government they were made, were national achievements. Why did you have to part with them?”⁸

After the 1998 crisis, the Primakov–Maslyukov government took serious steps to consolidate the regulatory function of the state and reduce the influence of oligarchic entities on state decision-making. Naturally, this policy was met with strong resistance from the owners of speculative financial capital, as well as “The Family.” They sought every possible opportunity to reinforce their positions and influence in all spheres, especially in the government, regardless of the economic situation or prospects for its development. Despite the obvious success Primakov, Maslyukov and their staff achieved in just eight months, Boris Yeltsin announced their resignation.

Philosopher Max Weber⁹ argued that “power is the chance of a man or of a number of men to realize their own will in a communal action even against the resistance of oth-

⁸ *Izvestia*, February 01, 1998.

⁹ Max Weber (1864–1920) was a German sociologist, philosopher, historian and political economist. His ideas had a significant impact on the social sciences, especially sociology. Along with Émile Durkheim and Karl Marx, Weber is considered to be one of the founders of sociology.

He first coined the term “social action.” Weber consistently supported methods of anti-positivism and argued that social action was better studied through explanatory and interpretive rather than purely empiricist methods. The core of Weber's scientific interests was the study of transition from traditional to modern society, including the processes of rationalization, secularization and “disenchantment of the world.”

His best known works include an essay on the Protestant origins of capitalism. His research at the junction of economic sociology and the sociology of religion was further developed in his famous book *The Protestant Ethic and the Spirit of Capitalism* published in 1905. Opposing the Marxist concept of historical materialism, Weber noted the importance of cultural influences exerted by religion, where he saw the key to understanding the genesis of capitalist economies. Later, Weber studied the religions of China, India and ancient Judaism in an attempt to explain what caused the differences between the economic structures in the West and East.

ers...” Weber regarded power as sociologically amorphous. Any qualities or circumstances may serve to realize human will. As a rule, a person with a lot of money, high position, or simply someone who is more charismatic and knows better than others how to capitalize on the current circumstances, has more power.

In Russia, the power of oligarchs or even influential regional businessmen is rejected by the public in its collective consciousness and is not reflected in legitimate social structures. Oligarchs cease to exist in the course of the economic, political and legal stabilization of state power. When asked how he viewed oligarchs, Russian President Vladimir Putin answered: “as agents of the market economy. This is a reasonable attitude towards oligarchs, but the real question is whether and how soon the state and its head will be able to fully bring this attitude to life...”¹¹

There are significant differences and nuances in how big businesses are structured in various countries associated with the national traditions, history and specific economic conditions in which they emerge. One example is the South Korean chaebols, or Japanese keiretsu. They were established and continue to operate under rules that differ from those accepted in Europe or the United States, but nevertheless proved quite successful and helped ensure a high pace of economic growth. Various Western countries also have some fairly serious differences among themselves.

In another well-known work, “Politics as a Vocation” (1919), Weber defined the state as an institution with a monopoly on the legitimate use of violence. For the first time, he identified different types of social authority and stressed that modern state institutions were increasingly based on rational-legal authority. Weber contributed to the development of economic history, theory and the methodology of economics.

¹¹See: *Ionin L.G.* (2000). *Oligarkhi: v kavychkakh i bez kavychek. Politologicheskoye predisloviye*, Moscow, VINITI.

In the Russian Federation, big businesses emerged in a unique environment. While becoming a major entrepreneur in the United States, Western Europe and the East required personal efforts and entrepreneurial talent, in Russia, capable and enterprising individuals became oligarchs more often than not through having the right connections and being in the right place at the right time. Establishing a private business did not require patents, R&D, new plants or training skilled workers. It was quite sufficient to just privatize existing enterprises or even entire sectors. All this unfolded amid a swiftly changing political system, undeveloped legislation, severe economic crisis and rapid impoverishment of the population. As a result, at the end of the 20th century, business activities in Russia had acquired the following features:

- Unsettled property relations between majority and minority owners (in many cases, all the workers at an enterprise were made minority owners at the start of privatization)
- Bewildering complexity of financial flows, property and management relations
- High dependence on the authorities, primarily tax and law enforcement agencies
- A highly criminalized business management system

Two key circumstances differentiate big businesses in Russia from similar enterprises abroad. Firstly, they emerged in a unique environment where a socialist state was transitioning to private ownership. Secondly, the new owners were given functional, operating enterprises established in the Soviet Union. However, this is not to say that amid the economic ruin companies never had to restructure their sales or partner channels; facilities also often needed to be retooled to manufacture new products demanded by the market.

In the current state of market relations in Russia, we cannot use the widely known principle of “what’s good for General Motors is good for America,” because it was formulated in a country with globally recognized success both in the economy and in building a democratic society.

So far, the Russian public has few reasons to like their oligarchs. But is their popular disdain always fair? Whether we like it or not, the efforts of IBGs in Russia to a large extent preserved the managability of industrial and transport industry enterprises and prevented them from being stripped by the competing interests of small owners. They facilitated the establishment of the commercial and investment bank systems, considerably expanded the service sector, created new means of communication and alternative media, and also nurtured an entire generation of modern minded and professionally trained managers. This must be kept in mind as well.

The situation made a change for the better in the early 2000s. As the acting President of Russia, Vladimir Putin proclaimed the policy of holding business and the authorities “equidistant” from one another. He particularly stressed that any attempts of oligarchs to appropriate state power would be suppressed, and when he became President, he made it clear his words were not hollow. Perhaps it was the case that President Putin relied on the historical experience of such remarkable 20th century U.S. leaders as Theodore Roosevelt (1901–1909), Woodrow Wilson (1913–1921) and, of course, Franklin D. Roosevelt (1933–1945), whose policies were based on the federal regulation of big businesses whenever necessary. In 1901, U.S. President Theodore Roosevelt wrote: “the total absence of governmental control had led to a portentous growth of corporations. In no other country was such power held by the men who had gained these fortunes. The

Government was practically impotent. Of all forms of tyranny, the least attractive and most vulgar is the tyranny of mere wealth, the tyranny of a plutocracy.”¹² Franklin D. Roosevelt repeatedly stressed in his speeches that his task was to prevent the emergence of economic despotism in the country. He once said that “Government by organized money is just as dangerous as Government by organized mob.”

From the original list, only Vagit Alekperov, Vladimir Yevtushenkov, Vladimir Potanin and Mikhail Fridman still number among the richest people in Russia. It could be said that today, state policy is much more influenced by the heads of state-owned companies such as Gazprom, Rosneft and Sberbank (these are the top three in the 100 largest Russian companies in terms of capitalization), rather than by the richest individuals in Russia. Although the top 10 also includes mostly private companies, such as LUKOIL, NOVATEK, Norilsk Nickel, Surgutneftegas, Magnit, Gazprom Neft and VTB.¹³

At the beginning of the 21st century, the Russian Federation was ripe for economic development in general, particularly large businesses in the trade and commodity sector. From 2000 to 2008 (before the crisis), Russia's GDP growth exceeded the world average and ranged from 10 % in 2000 to 5.6 % in 2008.¹⁴ This led to higher industrial and agricultural

¹² Plutocracy is a special form of oligarchy where real power rests in the hands of a small group of people. This term is more often used for countries where the rich wield dominant influence on elections and public life in general outside the formal privileges guaranteed by law. The term originated in antiquity and is rarely used today, and only in the negative sense, most often to describe countries with a state and corporate capitalism system. Sometimes it is used alongside the term “money oligarchy.”

¹³ See: Stoimost' krupneyshikh kompaniy Rossii vyroslo v poltora raza, Lenta.ru, January 31, 2017.

¹⁴ Data from Roskomstat.

output, and increased real household incomes. The share of people living below the poverty line also dropped from 29 % in 2000 to 13 % in 2007.¹⁵ From 1999 to 2007, the index of production in manufacturing industries increased by 77 %, including machinery and equipment by 91 %, textile and clothing by 46 %, and food by 64 %.¹⁶ However, as early as in 2009, Russia's GDP fell by 7.9 % amid the global economic crisis.

The high pace of growth in the Russian Federation was thanks first and foremost to an extremely favorable market environment, i.e., increased domestic demand and higher prices for traditional Russian exports, including hydrocarbons, industrial raw materials and low-processed products (metallurgy, fertilizers). Foreign investors began to show more interest in the Russian economy, but they preferred to put their money primarily in the commodities sector. However, development also spread beyond these industries. The increase in idle cash and domestic demand helped diversify the interests of industrialists and encouraged large businesses to invest in the manufacturing industry and service sector. These production facilities were developed with both cash and borrowed funds. Large businesses also entered foreign financial markets, which provided the main source of financing for new projects.

Serious changes were likewise observed in the structure of large businesses. In terms of growth and business activity, leadership shifted from IBGs to individual companies. The argument could be made that in this case, the starting point was the establishment of Russian Aluminum (RUSAL) in spring 2000, which grew into Russia's largest aluminum

¹⁵ Key socio-economic living standard indicators.

¹⁶ Production indices by individual types of economic activity in the Russian Federation, % in 1992, Rosstat.

company and third largest producer of this metal in the world. In March 2007, RUSAL combined its assets with Siberian-Urals Aluminum Company and Glencore International, a Swiss commodity trader. The merger resulted in RUSAL United Company, the world's largest aluminum producer. In fact, this was the first time when neither IBGs nor the state had any relation to the establishment of a major private company, or in other words, they did not initiate the process. Other companies not related to IBGs and established in the first half of 2000s include both state-owned (Almaz-Antey Air and Space Defense Corporation, United Aircraft Corporation (UAC), Russian Railways) and private enterprises (Mechel, Concern Tractor Plants, Eurocement Group, National Computer Corporation (NCC), Magnit retail chain).

At the beginning of 2000, about 25 large state-owned and private companies were operating in Russia. The former include natural monopolies such as Gazprom, OAO RAO UES (in 2008, OAO RAO UES was split into 23 independent companies, of which only 2 are state-owned), Transneft, Svyazinvest (the company was liquidated in 2013 and all its assets were merged with Rostelecom), Rosenergoatom, ALROSA, as well as such oil companies as Rosneft, NGK Slavneft, ONAKO (part of TNK since 2005), Tatneft and Bashkirskaaya Toplivnaya Kompaniya. Most private companies operated in the oil and metallurgy sectors, while only three were in the non-commodity sector: AVTOVAZ, GAZ Group and Volga-Dnepr Group, a leader in super-large cargo transportation by air. Almost all IBGs except for Sistema¹⁷

¹⁷ Sistema is a financial and industrial group. Its key assets include controlling stakes in MTS, medical holding company MEDSI, engineering holding company RTI Systems, as well as a 100 % stake in Segezha Group, a major timber holding company providing full cycle logging and deep processing of wood services.

were primarily involved in the production and processing of hydrocarbon and other raw materials.

Russian companies capitalized on the favorable economic environment of the early 2000s by increasing output at individual enterprises and acquiring or taking over competitors. The number of large companies in Russia thus doubled as early as 2003. This growth trend was typical for both private and state-owned companies. The next time this number doubled was just two years later, when in 2005 the number of large companies reached 120 (only 20 % of which were state-owned).

Along with companies in the commodity sector, metallurgy and chemical industries, these five years were also crucial in the development of knowledge-intensive industries with a high level of processing. These include the aerospace industry (Sukhoi Company, Aerospace Equipment, Almaz-Antey), nuclear industry (TVEL), Sitronics KASU (integrated automated control systems), National Computer Corporation (NCC), IBS (information technology), and advertising (Video International). Civil engineering also witnessed encouraging developments with the formation of large companies including several enterprises. Albeit established in Soviet times, their horizontal relationships were transformed in accordance with market economy needs (Transmashholding, Tractor Plants, Severstal-Avto (since 2008, Sollers). There was also notable progress in the food industry (Wimm-Bill-Dann (joined PepsiCo, USA, in 2011), United Confectioners (part of Guta Group), as well as companies in the construction and retail trade sectors. High growth in a favorable domestic and international environment led to yet another doubling in the number of large companies to 250 by 2007.¹⁸

¹⁸ See: *Pappe Ya.Sh.* Rossiyskiy krupnyy biznes: pervyye 15 let. Ekonomicheskkiye khroniki 1993–2008 gg.

The policy of holding business and the authorities “equidistant” from one another forced Russian oligarchs to adopt a more pragmatic approach. For example, Alexey Kudrin even stated that the oligarchy in Russia is no more: “Oligarchs are people who have influence over the authorities. Today, they're just rich people. They're no longer oligarchs in the original sense of the word.”¹⁹

However, this does not mean they have completely left politics and never try to use state ties to solve their problems. From 2000 to 2016, the number of dollar billionaires in the Russian Federation ballooned from 0 to 77. Their combined wealth reaches USD 280 billion, or more than 23 % of national GDP. It would be hard to imagine they do not seek to influence, in one way or another, the legislative and organizational foundations of the country's economic governance system. Russian President Vladimir Putin is constantly looking for ways to direct this influence towards serving the interests of the Russian state and society as a whole. A return to the “wild nineties” would be fatal for Russia. Yet another redistribution of property would lead to Russia's downfall.

The Russian economy saw success in the fact that along with the expansion of its commodity-based economy (hydrocarbons, metals, fertilizers, timber), the share of individual companies operating in the processing and knowledge-intensive industries is growing as well, including defense sector enterprises. Many of them have largely developed on their own outside the influence of IBGs, although the latter have not lost their importance and influence. Instead, they used their international experience to morph into national investment funds with a two-tier structure, including companies in the real sector at the bottom, and capital manage-

¹⁹ Kudrin zayavil, chto v Rossii bol'she net oligarkhov, BBC Russian Service, June 16, 2016.

ment at the top. Compared to the 1990s, the development of companies was based primarily on the use of credit resources, including provided by foreign lenders. The use of lobbying power based on various connections in the state apparatus has lost its importance, although not entirely. It is hard to imagine that major state-owned companies never use their ties in the government.²⁰

The new priority is finding sources of financing on acceptable terms and consolidating positions in industry-specific markets, i.e., specialization. Despite their large number, the capacities of Russian banks, including state-owned (Sberbank, VTB, Rosselkhozbank) and private, were clearly inadequate following the severe crisis of 1998. However, money (and a lot of it) was always available outside Russia, which led to the attraction of large-scale foreign investments. These funds helped finance mergers and acquisitions, while investments in the development of the manufacturing sector and its modernization remained insignificant.

In 2004 and 2005, foreign investments grew by over 30 % annually to reach USD 53.7 billion. At the end of 2005, total foreign investment in the Russian economy reached USD 112 billion, compared to USD 82 billion a year earlier,²¹ with 38 % in wholesale and retail trade, followed by investments in the mining sector. Russia had practically become the world's top foreign borrower, even racing ahead of Brazil, India and China. In 2007, net capital inflows to Russia totaled USD 81.7 billion,²² and the country was considered the top global choice in terms of investments. However, this in-

²⁰ See: *Pappe Ya.Sh.* Rossiyskiy krupnyy biznes: pervyye 15 let. Ekonomicheskiye khroniki 1993–2008 gg.

²¹ RTSB RF. Inostrannyye investitsii v Rossiyu, October 2006. <http://www.rcb.ru/rcb/2006-19/7929/>

²² Net import/export of capital by the private sector in 1994–2011 (according to the balance of payments of the Russian Federation).

creased the debt burden of Russian companies, while the country's external public debt contracted sharply.

This situation fundamentally changed in 2008 amid the global financial crisis. It was less than 80 years since the Great Depression, but the lessons of the past had been largely forgotten. The United States was hit by a subprime mortgage crisis. It was triggered once again by cheap loans American consumers could not repay. A poorly regulated market facilitated rampant speculation. "We are reaping a storm of deregulation and are in the same situation as people in 1929, when the government turned a blind eye to what was happening in the finance world. I hope the government has learned these lessons and is trying more active and aggressive steps than what was taken in the 1930s," wrote Steve Fraser in his book *Wall Street: A Cultural History*.²³ However, the crisis engulfed not only the United States. It had negative repercussions virtually all over the world, and the Russian Federation was no exception, as it turned out to be anything but a "safe haven," contrary to the earlier statements of Russian officials in charge of the economy.

This time around, the record Russia set was not in terms of inflow, but rather outflow of capital, which topped USD 132 billion. In addition to drastically reduced opportunities to refinance debts and raise more funds, Russian companies faced the need to find money to repay earlier loans. After reaching its peak in 2007 (USD 23.3 billion),²⁴ the acquisition of foreign assets has also come to a virtual halt. From 2008 onwards, the balance of payments of the Russian Federation was chronically beset by capital outflows. After Russia was first hit by economic sanctions in 2014, capital out-

²³ The Independent, London, April, 2005.

²⁴ See: *Kuvshinova O. Bol'shaya skupka*, *Vedomosti*, No. 45, March 13, 2008.

flow reached USD 152 billion, and opportunities to borrow abroad have now become even more scarce. The United States managed to overcome the 2008 crisis and achieve modest GDP growth (generated primarily by financial market recovery). Russia is now all but ignored as a potential country to invest in, although in 2012 and 2013, it ranked third in terms of foreign capital inflows.²⁵

In 2016, Russia improved its investment attractiveness slightly, but this was mainly the effect of a stronger ruble than success in the real sector of the economy. In 2016, investments dropped by 16.4 % compared to 2013, and this continues to be one of the most influential negative trends.

The United States views Russia primarily as a source of energy resources and raw materials, and secondly as a market for American engineering and agriculture products. According to U.S. statistics,²⁶ Russia–United States trade turnover reached its peak in 2012, when it was almost USD 40 billion. In subsequent years, this figure declined significantly. Preliminary estimates indicate that in 2016, it was less than USD 20 billion dollars, although it showed a steady upward trend throughout the year. This growth continues today despite Western sanctions against Russia, in place because of the political crisis in Ukraine since 2014 and the annexation of Crimea. The U.S. side suspended talks on improving the legal framework for trade between the two countries and have also frozen a number of projects in the U.S.–Russia Bilateral Presidential Commission, cooperation between the U.S. Department of Energy and Rosatom, as well as certain joint projects of NASA and Roscosmos. The U.S. Department of Commerce also decided to suspend

²⁵ Rol' inostrannykh investitsiy v ekonomike Rossii, July 06, 2015.

²⁶ In U.S. customs statistics, export-import operations are assessed by the country of origin of goods.

issuing export licenses for goods included in the Commerce Control List. Similar restrictions were introduced by the U.S. Department of State Directorate of Defense Trade Controls.

According to the Bank of Russia, direct investments by the United States in Russia increased by 45 % (or more than USD 700 million) in 2014. As of July 2015, U.S. total accumulated direct investments in Russia amounted to more than USD 2.9 billion, while the corresponding figure for Russian investments in the United States was USD 7.9 billion. Direct investments of Russian companies in the United States are mostly concentrated in the metallurgy and oil and gas sectors. However, cooperation in the IT field is also well-established. Most American direct investments in Russia are in manufacturing, mining, wholesale and retail trade, motor vehicle repair, transport and communications, finance, real estate, leasing and other services. American companies are particularly interested in investment cooperation with Russian regions rich in mineral reserves or domestic centers in the chemical, metallurgical, aerospace, automotive and food industries.

Major projects include Sakhalin-I and the Caspian Pipeline Consortium. Certain Russian automotive plants are equipped with the assembly workshops of American car brands, including Ford and General Motors. A quarter of U.S. direct investments are in the manufacturing sector.

Russian companies working in the United States include LUKOIL, Severstal (steel production), Evraz Group (a vanadium plant) and Interros Group (hydrogen economy). For many years, leading U.S. aerospace companies, such as Boeing, Lockheed Martin and Pratt & Whitney, have been collaborating dynamically with Russian companies on ISS projects, space launches, aircraft engine production and new

aircraft design. In fact, Russia has been in partnership with the United States on the entire range of manned space exploration issues for more than a quarter of a century. Today's space program has to a large extent become common to both countries. Unified processes include the highly-efficient operation of flight control centers in the United States and Russia, and training programs for American and Russian astronauts. Sergei Krikalev, an astronaut and head of the Gagarin Cosmonaut Training Center, and George Abbey, who for many years supervised the training of American astronauts, wrote an article on U.S.–Russia space collaboration and long-term partnership, in which they make a strong case for the need to develop this cooperation in the future.

Continued collaboration in space-related education is in the obvious interests of both countries. Future Russian space engineers in a variety of specializations can gain joint experience with their colleagues from the United States in special flight and science schools.

In 2007, the Russian VSMPO-AVISMA Corporation (Verknyaya Salda Metallurgical Production Association) and Boeing signed an agreement to establish Ural Boeing Manufacturing (UBM), a joint venture manufacturing and supplying large-size titanium parts for civil aviation in Russia and other countries. The Boeing-787 Dreamliner, a long-distance passenger aircraft, was designed in design bureaus located in both the United States and Moscow.

In 2015, VSMPO-AVISMA Corporation, Boeing and Ural Federal University announced their strategic partnership. The parties will cooperate in the development, manufacturing and implementation of new titanium alloys and technologies. Collaboration will be primarily focused on improving the efficiency and competitiveness of VSMPO.

Despite unstable trade and political relations between the United States and Russia, American businesses show interest in moving trade and economic cooperation forward with Russian regions. For more than a decade, the Russian American Pacific Partnership has been bringing together the business community, scientists, civil society, and federal and regional authorities of the Russian Far East and West Coast of the United States.

INSTEAD OF A CONCLUSION

When Russians (and our compatriots abroad) study industrialized economies, they cannot help but wonder how Russia fares compared to them, especially the United States.

In 2016, global GDP reached USD 77 trillion 845 billion. The United States' share in global GDP is 22.37%, China's is 13% (ranked 2nd after the USA), and Japan's is 5.9% (ranked 3rd, far behind China). Russia is ranked 12th.

The ranking looks a little different when based on GDP in terms of Purchasing Power Parity.¹ In 2016, China held the

¹ Purchasing Power Parity (PPP) is the ratio between two different currencies as regards their purchasing power for a certain group of goods and services.

Comparable prices are the conventionally accepted constant prices tied to prices for a certain period of the year. They are used in economic analysis to compare output and consumption, and revenues and expenditures in different years in order to avoid the price factor impact.

Current prices are the actual prices of final sales at a certain period of time. This can be basic prices (including subsidies for products and excluding industry taxes) and market prices (including taxes, but excluding subsidies).

Why is this indicator essential? Because different countries have different prices for the same services and goods. In Russia, you can buy 1 kg of potatoes for 25–30 rubles, which is less than USD 0.5, but in the United States, you have to pay USD 2.2 dollars for the same volume. A Russian pays USD 80–110 a month for utilities, while Americans pay around USD 500–800 or more.

A Russian citizen earning a salary equivalent to USD 1500–1800 a month can easily live on it and pay for utilities in a decent apartment, buy clothes, get a mortgage and even repay it early. They can even buy a car. Yet in the United States, a salary below USD 4000 a month is considered low, and below USD 1000 forces students to work in order to earn extra money for their everyday needs. Russia's GDP in terms of PPP is USD 3718 billion, which ranks it 6th in the world after the USA, China, India, Japan and Germany.

largest share (17.08 %) and was followed by the United States (15.81 %), India (7.02 %), Japan (4.26 %), Germany (3.38 %) and the Russian Federation (ranked 6th with a share of 1.77 %).

Following the election of Donald Trump, the White House expects U.S. GDP to grow by 2.6 % in 2017. IMF experts believe that in reality, it will grow by no more than 2.3 %.² It should be emphasized that for the United States, the forecast made by the administration is the highest it has been for the last decade. The United States accounts for almost a quarter of global GDP, so growth by several percentage points is more than impressive. The difference between the forecasts made by the U.S. administration and the IMF is only 0.3 %, but in absolute terms that means USD 52 billion. This is a respectable figure. It is equal to or higher than the GDP of some other countries, such as Lebanon, Slovenia and Lithuania. Such is the value of three-tenths of one percentage point in U.S. GDP!

For the United States, the new fiscal year begins on October 1. In accordance with the federal budget, public spending will reach USD 4.1 trillion. In 2017, the budget deficit will total USD 503 billion, which is significantly lower than in 2016 (USD 616 billion).

In the U.S. GDP structure, the largest share is held by the service sector, which is much higher than the share of the industrial or agricultural sectors.³

- Service sector – 78 %
- Industrial sector – 21 %
- Agriculture – 1 %.

² EREPORT.RU, 13:56, May 06, 2017, Obzor mirovoy ekonomiki – aprel' 2017 g.

³ U.S. GDP structure by sector (U.S. GDP in 2016). <http://visasam.ru/emigration/canadausa/vvp-usa.html>

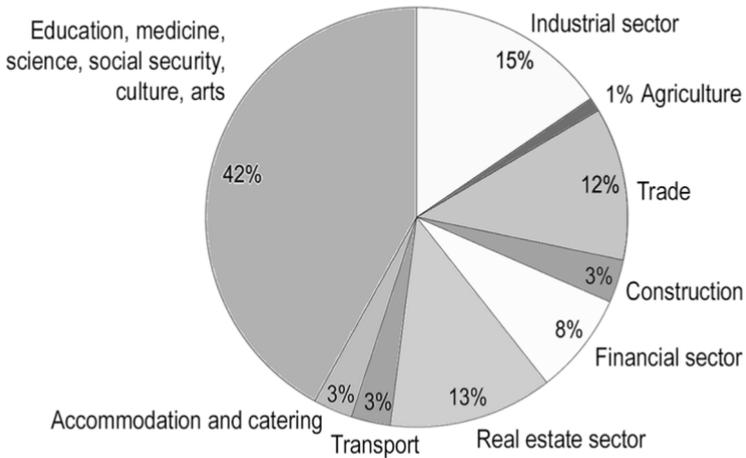


Fig. 9. U.S. GDP structure

The modest figure in American agriculture does not mean this sector is underdeveloped. The United States is the world's largest producer of soybean and the third largest producer of sugar beet. Every year, American farmers harvest 440 million tons of grain, or 16 % of global grain production. Approximately 60 million tons are exported, and the rest is consumed domestically. The United States is ranked the world's 9th largest producer of sugar cane and 11th largest producer of rice.

It would not be an overstatement to say that American agriculture is the most developed in the world, as it effectively combines science, agricultural production, transportation, processing and sales. All this is seamlessly integrated in a single process chain, making the sector highly competitive both in terms of exports and domestic market position.

With output totaling USD 3.3 trillion, the United States confidently ranks as the top industrial producer in the world. For China, this figure is USD 2.75 trillion. Russia's industrial output is USD 550 billion, i.e. it is smaller by a factor of six compared to the United States and by a factor of five compared to China. The American industrial sector is growing at an annual pace of 2.5 %. Growth like this in the world's strongest economy is quite impressive.

The service sector, which accounts for 78 % of the U.S. economy, includes education, healthcare, science, finance, trade, transport and communications, public services, and other various professional and personal services.

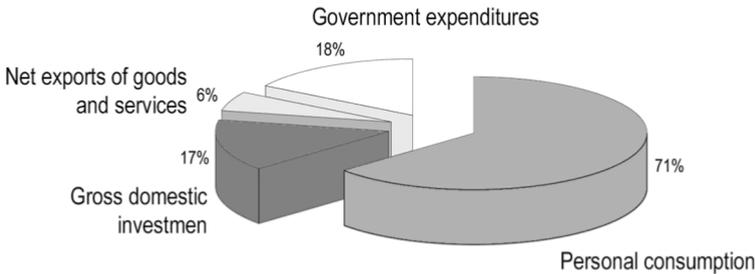


Fig. 10. Main areas of U.S. GDP consumption

How does the most developed economy in the world utilize its GDP? Almost three quarters of GDP goes to personal consumption (71 %). This is followed by government spending (18 %), including R&D. The third largest share of GDP (17 %) is used for domestic investments in various economic sectors. Finally, the excess of imports of goods and services over exports absorbs 6 % of GDP.

Now for a few words on the American investment policy, which is markedly different from other industrialized countries. At the federal level, the U.S. government takes on the lion's share of expenditures related to the development and implementation of technological innovations.

Government stimulus in this sector has a special place in U.S. investment policy. This explains how the United States has been able to maintain the high competitiveness of its industrial manufacturing, agricultural production and service sector for so many years.

Therefore, the U.S. government not only creates a favorable environment for private investors, but also provides half of all investments in R&D. The rest comes primarily from private corporations, as well as American states, local authorities and universities. As a result, every second innovation in developed countries comes from the United States.

Half of all government funds allocated for R&D in the United States are spent in the defense sector. Yet it must be kept in mind that the results originally obtained in the interests of the Department of Defense are later also widely used in the civil economy. Indeed, the United States is far ahead of both Europe and Japan when it comes to the scale and scope of its innovative research. This is how the U.S. manages to stay on the same level with developed countries in terms of civil-purpose R&D expenditures (by amount of allocated funds), while also remaining significantly ahead of them in military innovations.

As an investor, the American government emphasizes the speedy practical implementation of R&D. This ensures pioneering new technology and the capture of new markets. Science and education are the foundation of national prosperity. U.S. authorities recognize that R&D and education help tap into infinite potential with long-term positive effects. This

approach is the cornerstone of American economic development. In the United States, there are four thousand one hundred fully employed scientists and engineers for every one million Americans. Only Japan can boast a higher ratio.

The situation looks quite different in the Russian Federation. Fifty years ago, the USSR was able to if not compete on par with the United States, then at least demonstrate good dynamics and try to get closer to the world leader, while confidently retaining the 2nd place. In 1970, the real GDP of the Soviet Union was USD 433.4 billion, and in the USA it was USD 1,075.9 billion. By 1980, Soviet GDP expanded significantly to reach USD 940 billion (USD 2,862 billion in the U.S.), but then the situation took a turn for the worse and by 1990, the gap between the GDP of the U.S. and USSR grew more significant. In the Soviet Union, GDP fell to USD 778.4 billion (the sad outcome of Gorbachev's perestroika), while U.S. economic potential grew by a factor of more than 5.5 and topped out at almost USD 6 trillion!

It is worth noting that in 1970, the Soviet Union's GDP exceeded such countries as Japan, Germany, France and Italy. However, as early as in 1980, Japan had surpassed the USSR by USD 147 billion, and Germany had reached the same level as the Soviet Union. In 1990, following the crisis in the Soviet economy that had begun in the late 1970s, became aggravated in the 1980s and culminated in the failed policies of Mikhail Gorbachev, the USSR was lagging behind Japan by a factor of four, and behind Germany by a factor of 2.3!

In the 2000s, the Russian economy was developing at a fairly rapid pace, not only compared to similar countries in terms of national welfare, but also to the industrialized West. For example, from 2000 to 2007, average annual growth in Russia was 7.0 % compared to a 4.0 % global rate (2.5 %

in the United States, 2.0 % in the Eurozone, 1.7 % in Japan and 3.3 % in Brazil), though it was lower than in China (9.9 %). But development was extremely uneven, and periods of growth were often followed by steep downturns (*Fig. 11*).

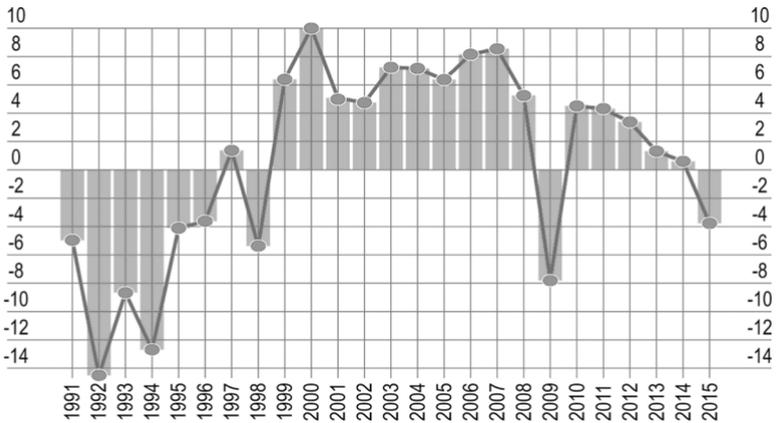


Fig. 11. GDP growth in the Russian Federation, 1990–2015 (in constant prices)

According to the IMF, from 1990–2015, Russia's GDP grew by just 13 % in constant prices. This is an extremely low result, and only achieved by financial speculation. The period after 1991 can hardly be viewed as a success for the Russian economy. During the Post-Soviet Depression, the country devoured everything it inherited from the Soviet Union. The country's material and technical base (buildings, structures, machinery and equipment, transport infrastructure) gradually collapsed and went out of service. According to Girsh Khanin, a professor at the Siberian Institute of Management of RANEP, two-thirds of fixed assets have reached a critical

stage of wear,⁴ and the economy's production base has lost over 420 trillion rubles in value. "This is far more than losses suffered from the Great Patriotic War," argues Girsh Khanin.

2016 also failed to bring serious success to the Russian economy. Although the macroeconomic environment affecting Russian businesses could not be considered extremely negative, it was also far from favorable. These facts are especially dismal when considered on a global scale. According to leading economic organizations such as the OECD and IMF, the world economy is showing serious signs of growth over the next two years compared to 2015–2016. For example, in its World Economic Outlook Update, the IMF estimates that in 2017, global GDP will increase by 3.4 %, and in 2018 by 3.6 %.⁵ Moreover, it is expected that developed economies will grow faster than others.

As for the Russian economy in general, even the most cautious forecast of economic growth fails to inspire confidence in its reliability. After a slight recovery at the end of 2016, the Russian economy returned to an unstable equilibrium despite some growth in oil prices. At the end of Q1, Russia's industrial output increased by only 0.1 %, which was fully the result of intensified mining, which had expanded by 1.2 %. At the same time, output declined by 0.8 % in the processing segment. This was a record downturn since October–December 2015, which wiped out all the growth achieved in 2016 (0.5 %).⁶ IMF experts believe that in 2017, Russia's economic growth will recover to 1.4 % and reach

⁴ See: *Khanin G.I.* Rossiya proyela 420 trillionov rubley naslediya SSSR, February 17, 2017.

⁵ <http://www.ereport.ru/reviews.php>. 07.02.2017. Obzor mirovoy ekonomiki, January 2017.

⁶ Rossiyskiye predpriyatiya proveli rekordnuyu za god volnu sokrashcheniy, *Finanz.ru*, May 02, 2017.

1.5 % in 2018.⁷ Analysts at Credit Suisse raised their forecast for growth in the Russian economy to 1.9 % in 2017 and 2 % in 2018.⁸

At the same time, in its macroeconomic forecast for 2018–2020 published in September, Vnesheconombank expects that in 2017, annual GDP growth could exceed 2 %, but recovery remains very unstable. “The industrial sector slowed down after fairly rapid growth in the first half of the year when consumer demand stopped growing, and export growth slowed down.”⁹

There are also other estimates. Esteemed economic researchers, whose opinion it would be unwise to ignore, are more anxious than hopeful in their assessments of Russia's short-term prospects. Vladislav Inozemtsev, the Director of the Center for Research on Post-Industrial Societies and Doctor of Economic Sciences, believes that “it is an axiom that economic growth is impossible amid a decline in real incomes and limited availability of budgetary funds. So far, there appears to be no change in sight. The only question is whether the downturn in 2017 will be stronger than this year, or it will be contained to within 1 %.”¹⁰ The most difficult situation can be felt in the regions. Sales of durable goods are falling, and the construction industry has come to a virtual halt.

Russia has successfully formed its upper class. Now, it is crucial to overcome poverty and rebuild the middle class, which is in fact the true guarantor of social stability. But this process is extremely slow and difficult. The share of the

⁷ Predskazali rost: MVF ozhidayet vosstanovleniya ekonomiki Rossii uzhe v 2017 godu, russian.rt.com, July 24, 2017.

⁸ https://news.rambler.ru/business/37931198/?utm_content=news&utm_medium=read_more&utm_source=copylink

⁹ <http://www.rbc.ru/economics/18/09/2017/59bfa78c9a7947d53cbefaec>

¹⁰ Inozemtsev V.L. O prognozakh na 2017 god, Forbes, No. 1, 2017.

population with incomes below the subsistence minimum is still high, and it has been growing since 2007. In 2015, this figure reached 13.3 % of the population (19.1 million people), and in 2016, it grew even more to 19.8 million, or 13.5 % (according to official statistics).

In 2017, the Russian Federation is unlikely to achieve sustainable economic growth, let alone reach global levels. Unfortunately, the economy continues to be commodity-centered and progressive structural changes are proceeding at a sluggish pace. Despite the repeated calls of Russian leaders, private businesses are not investing in knowledge-intensive manufacturing and show no interest in developing innovative industrial sectors. Unlike in the West, the burden of financing R&D is borne entirely by the state in its attempt to overcome Russia's technological gap with developed countries.

In June 2017, in his speech at the St. Petersburg Economic Forum, Russian President Vladimir Putin set a historic task: "By the start of 2020, the growth of Russia's domestic economy should exceed the global rate." It is of vital importance to achieve this goal to ensure an adequate level of social welfare, the prosperity of Russia as a whole and its restoration as a great world power. This is impossible without a science-based program to develop the real sector of the economy.

The protracted search for ways to achieve sustainable growth is explained by the need to maintain social stability by all means. This can only be achieved under the state regulation of the national economy.

In June 2017, the Russian Ministry of Economic Development published the data that Russia's GDP had increased by 3.1 % since the previous month. According to the Ministry press service, "all major sectors of the economy, including manufacturing and mining, wholesale and retail trade, and construction significantly contributed to GDP growth in

May.”¹¹ Yet it is too early to view this as an undoubted success. The methodology used by the Ministry of Economic Development in its calculations has not been published, therefore this data should be treated with caution. In any event, claiming an economy has transitioned to sustainable growth is only possible at the end of the year, or even better, at the end of 2–3 years. Nevertheless, according to the Russian Minister of Economic Development, in August 2017, Russia's GDP grew by more than 2 %. Rosstat indicated that in Q2 2017, Russian GDP increased by 2.5 % YoY (0.5 % in Q1). This is the highest it has been since 2013. Overall, the Ministry of Economic Development increased its yearly forecast for GDP growth to 2.1 %.¹² These are encouraging figures indicating a crucial step in the right direction. Considering the task set by the Russian President to achieve growth exceeding the global rate in just two years, this result is a necessary, albeit insufficient condition for reaching this goal. Once again, I must stress the need to implement a national development program for several years to lay the groundwork for success with a detailed breakdown by sector and enterprise, as well as an indication of financing sources and amounts. Otherwise, failure is inevitable. Despite positive GDP growth, business revenues continue to decline. In the non-commodity sector, profits fell by 10.9 % in H1, and the number of bankruptcies is at a 10-year record high (more than 3300 companies, mainly small and medium-sized enterprises, for the same period).¹³ Real disposable household incomes continue their downward slide (1.2 % since the beginning of the year).

¹¹ <http://economy.gov.ru/minec/about/structure/depMacro/2017210602>

¹² Minekonomrazvitiya povysilo prognoz po rostu VVP Rossii na 2017 g., ria.ru, August 31, 2017.

¹³ Rosstat: Ekonomika rastet, naseleniye nishchayet, Finanz.ru, September 20, 2017.

On June 30, 2017, Russian Foreign Minister Sergey Lavrov made the keynote speech at the Primakov Readings. He believes that “the liberal model of globalization, primarily its economic component aimed at ensuring the leadership and prosperity of a narrow group of countries at the expense of the rest of the world, has outlived itself. Despite its seemingly noble mottos, it has proven to be unable to sustain a variety of challenges and effectively deal with numerous issues.”

The transition to a new techno-economic paradigm opens up new opportunities for humanity. However, in reality, the developmental gap between rich and poor countries is widening. Poverty, social insecurity and growing competition in everything lead to dire consequences, including uncontrolled migration, extremism, nationalism and isolationism. International terrorism is fueled by the forced export of democracy regardless of the national, historical, cultural and religious composition of a country, or by the imposition of reforms that fail to consider local nuances. “The promotion of extremist ideas and recruitment of people into the ranks of international terrorist organizations online is especially dangerous. For many years, Russia has sought to adopt, under the aegis of the UN, universal rules for the responsible conduct of states in cyberspace,”¹⁴ Sergey Lavrov stated.

In his book *The Next 100 Years: A Forecast for the 21st Century*, George Friedman,¹⁵ an American political scientist

¹⁴ Speech of the Minister of Foreign Affairs of Russia S.V. Lavrov at the Primakov Readings in the World Trade Center in Moscow on June 30, 2017.

¹⁵ George Friedman is an American political scientist and geopolitical forecaster (b. in 1949). In 1994, he founded the Center for Geopolitical Studies at Louisiana State University specializing in strategic forecasting. In 1996, John Friedmann founded Stratfor, a private intelligence company. He considers himself a conservative Republican. His views can be described as pointedly anti-Soviet and anti-communist.

and geopolitical forecaster, proposes a possible scenario of events in the 21st century and tries to predict the fate of the world. Although the book¹⁶ has many disputable points, its most obvious merit is that it “provokes” readers into making their own conclusions.

According to the author, the first conflict of the 21st century has already happened: the clash between the United States and the Islamic world. The second will be a conflict with Russia, which will advance to the West and confront Poland, as well as Lithuania, Latvia and Estonia. Cold War II, although not as global and dangerous as the first, will again (in his opinion) end in dissolution, only this time of Russia.

If Russia continues to build up its military capabilities and push for the creation of buffer zones, it will result in a full-scale Cold War with the United States and united Europe, as well as Japan and Turkey. In the early 2030s, this confrontation may culminate with the disintegration of Russia. Without noting any exceptional foresight in such a forecast, I would like to draw attention to its obvious underestimation of the Chinese factor. The author “dismisses” the world’s second economy, which clearly challenges the United States and is likely to become number one in the next decade. In support of his position, he puts forth some rather unconvincing arguments. He claims that China is not a maritime power, Chinese society is split and prone to internal conflicts, and the military power of China pales in comparison to the military capacity of the United States. The flimsiness of these arguments is clear to professional historians, political economists and many readers interested in international politics alike. John Friedman likewise predicts the emergence of new centers of power, including Japan, Turkey

¹⁶ *Friedman, George* (2009). *Mir v sleduyushchiye 100 let*, New York, Institute of Democracy and Cooperation.

and Poland. Moreover, he argues Poland may replace Germany as a leading power in Europe. After gaining strength with the help of the United States, these new centers of power will later unite and challenge America, leading to a global war in the mid-21st century. Ultimately, the unrivalled superiority of the U.S. military will help the United States prevail over its adversaries.

The shortage of labor in the USA will inevitably result in a mass influx of immigrants from Mexico. The United States will unwittingly contribute to strengthening the geopolitical position of Mexico, which will become one of the world's leading powers. The global conflict between the USA and Mexico will only be resolved in the 22nd century.

George Friedman believes this century will be the age of the United States, which will dominate the sea by directly controlling the Atlantic and Pacific oceans. America's advanced surveillance capabilities will give it eyes everywhere and over everything in the world. In the future, U.S. power may decline, but not before the 22nd century. In this century, its tremendous might will guarantee the country rapid development. Despite caring deeply about the future of Russia, I still felt no particular concern or anxiety after reading Friedman's forecast.

In fact, this is what he wrote about the reliability of forecasts in general: *“at a certain level, when it comes to the future, the only thing one can be sure of is that common sense will be wrong. There is no magic twenty-year cycle; there is no simplistic force governing this pattern. It is simply that the things that appear to be so permanent and dominant at any given moment in history can change with stunning rapidity.”*

A forecaster with an established anti-Soviet and anti-Communist reputation would not dare acknowledge that in

the 21st century, leadership may change hands to China. Many people perhaps find this highly unlikely, but I still hope Russia will earn a “bronze medal” by the end of the century. Its most important goal is to overcome its economic weakness and poor logistics (especially east of the Urals).

Russia is very active in international politics. At the same time, it is clear that a single state, no matter how powerful, cannot face the entire range of challenges in the modern world alone.

The Cold War was marked by the confrontation of great powers, but it simultaneously facilitated expansive collaboration between Russia and the United States regarding humanity's most pressing issues. Joint efforts to control the non-proliferation of weapons of mass destruction were instrumental in removing nuclear weapons from former Soviet republics after the dissolution of the USSR, as well as completely curtailing the nearly finished South African nuclear program. The implementation of the decision to destroy Syrian chemical weapons can also be viewed as a constructive initiative. Russia assumed the ground part of that operation, while the United States provided a special ship to destroy the weapons, which is no small matter, as no one usually wants to handle such extremely risky operations.

Russia and the United States have come a long way since the Cuban Missile Crisis in preventing the threat of global nuclear war. The hotline between the leaders of the two countries, notification of missile launches and flights under the Open Skies Treaty¹⁷ all played an invaluable role for mutual security by dramatically reducing the likelihood of a nuclear apocalypse triggered by a chain of absurd accidents.

¹⁷The Treaty establishes an open skies regime where participants can fly over each other's territories.

Our experience in joint counter-terrorism operations is extensive. A prime example is the events of 1900, when Russian and American troops banded together as part of an international contingent (8 participating countries) to stop the massacre of foreigners in Beijing (the Boxer Rebellion). The two sides also collaborated in the counter-terrorism operation in Afghanistan where, for example, the Afghan army was equipped with Russian helicopters paid for by the Pentagon.

However, as concerns ideology, we find ourselves in the midst of a large-scale information war (this issue is described in detail in Chapter 7). In particular, the United States is trying to integrate Russia into the contemporary Western culture of “tolerance.” The fact that Russian culture is relatively close to the Western world (unlike the cultures of China and the Arab world) begs the comparison between traditional Russian Orthodox culture and the new Western concept of “tolerance.” Western elites seek to substitute Orthodox values with western ideals and impose their tolerant ideology on Russia.

Since the collapse of the Soviet Union, American elites with political decision-making power have been unwilling to treat Russia as an equal partner. In an interview with the Huffington Post, professor Stephen Cohen stated that “Russian President Vladimir Putin has repeatedly provided assistance to the United States and always kept his promises. However, in response, Washington has many times betrayed Russia and undermined its security.”

Russia has gained impressive political clout on the world stage thanks to its nuclear weapons, vast territory, virtually inexhaustible natural resources (including oil and gas, water and biological resources) and a number of other factors. Russia relies on them to advance its interests, which in many

cases clash with the interests of the United States. The strategic goal of the United States, which it consistently treats as its main priority, is to prevent the emergence of a single hegemonic state (during World War I and World War II, this included preventing German hegemony, and during the Cold War, preventing the spread of Communist ideology emanating from Soviet Russia).

According to the report published by Gazeta.ru on July 23, 2017, Chairman of the U.S. Joint Chiefs of Staff Joseph Dunford said that Moscow was the “single greatest threat” to Washington. As you can see, despite the succession of U.S. presidents, military hysteria fails to subside, and in fact is even ramping up. The direct assertion that “Russia is enemy No. 1” gets hammered in over and over again.

When George Friedman, the founder of Strategic Forecasting Inc. (Stratfor), a private intelligence company in the United States, visited Russia following the first imposition of sanctions, he concluded that “Russians' strength is that they can endure things that would break other nations.” He further added, “But obviously, nothing is more dangerous than wounding a bear. Killing him is better, but killing Russia has not proved easy.” Journalists sometimes refer to Stratfor, George Friedman's company, as the Shadow CIA.

In politics, power is paramount. For a quarter of a century, the nuclear shield inherited from the Soviet Union has reliably protected Russia from possible aggression. In two or three years, the country will complete its provision of all branches of its armed forces with the latest weapons and military equipment.

Today, the Achilles' heel of the Russian Federation is its weak economy. It is hard not to feel concerned when comparing Russia's GDP in terms of PPP (USD 2 trillion) with

that of the United States (more than USD 17 trillion!). In terms of this all-important indicator, especially for social well-being, Russia lags behind the United States by a factor of eight! Both the domestic and international environment make economic growth the most acute challenge for Russia. Today, theoretical debates on whether the neoliberals or proponents of a regulated market are smarter and more convincing are already taking a back seat. Who cares anymore about personal grievances and ambitions! This is about the survival of Russia, its revival as a great power and its sustainable and dynamic economic growth. Immediately! Today! Even yesterday would have been better!

Ensuring the non-proliferation of weapons of mass destruction, preventing nuclear war, reducing the threat of international terrorism and environmental disasters, fighting cyber crime, mitigating conflicts between civilizations and countering other global challenges of the 21st century will require a united global community with the leading countries, including the United States and Russia, at the helm. They must develop an international Code of Conduct (a framework for relations between states) and agree on a coinciding, common interpretation of the principles and norms of international law.

In this regard, Henry Kissinger concluded his speech at the Primakov Readings in 2017 by saying that "...today we have a unique opportunity for Russia and the United States to join forces in this sad period. It is essential that we can find a vision of the world that would be shared by both sides, and find a form of dialogue to make it sustainable."¹⁸

¹⁸ Speech of Henry Kissinger at the Primakov Readings in the World Trade Center in Moscow on June 30, 2017.

How will relations between the United States and Russia develop in the coming years? The policy pursued by Franklin D. Roosevelt in U.S. Congress in 1943 on the need to maintain normal relations between the United States and Russia has so far failed to materialize. A sober assessment of the state and prospects of bilateral relations does not inspire any justified optimism for the near future.

A historical view of relations between the two countries leads to the conclusion that a sustainable Russia will most likely aggravate the Cold War syndrome. Yet a retrospective outlook suggests something else entirely. Steady growth of Russia's military and economic capacity, and closing the gap between Russian and U.S. GDP in terms of PPP in the context of continued nuclear balance, will reinforce a desire among the American elite to normalize bilateral relations. They do not respect the weak and poor. In the near future, the White House will find it difficult to retool the vector of confrontation set by the ruling establishment to serve the aims of constructive cooperation. Yet the need to normalize Russia–United States relations requires us to find ways and seek solutions to this challenge, while keeping faith in the long-term success of common sense.

In the waning days of a hundred years of friendly Russia–United States relations (May, 1878), the *New York Times* did a piece on the origins of this friendship and noted that “we have almost nothing in common, and because of this our interests do not come into conflict.” I want to remind readers of these lines mentioned in Chapter I to get a keener sense of the changes that have occurred 140 years since their publication.

Today, everything looks different. Our interests are constantly intersecting and increasingly come into conflict. Yet despite developments that further strain relations, the two

sides must form a dialogue capable of preserving stability in any conflict situation. “the only way to win World War III is to prevent it.” These are the words of Dwight Eisenhower, American Commander of World War II and former President of the United States.¹⁹ As the guarantors of international peace and security, Russia and the United States are fated to be together and cooperate.

¹⁹ Rosamond R. (1962). *Crusade for Peace*. Philadelphia, New York, p. 9. Campaign for peace speech of Dwight Eisenhower in Philadelphia on September 4, 1952.



Emperor Peter The Great
(1689–1725)



Empress Catherine
the Great (1762–1796)



Emperor Paul I
(1796–1801)



Emperor Alexander I
the Blessed
(1801–1825)



Emperor Nicholas I
(1825–1855)



Emperor Alexander II
the Liberator
(1855–1881)



Emperor Alexander III
the Peacemaker
(1881–1894)



Emperor Nicholas II
(1894–1917)



Prince Ivan Baryatinsky,
lieutenant-general and envoy
of Russia in Paris
(1738–1777)



Alexander Gorchakov
(1798–1883), Russian
statesman and Chancellor
of the Russian Empire



Sergei Witte, eminent Russian
statesman (1849–1915)



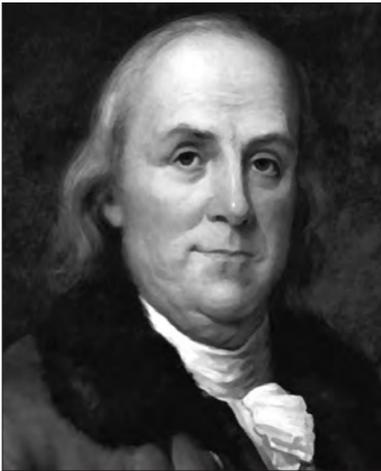
Pyotr Stolypin, Prime
Minister of Russia
and prominent reformer
(1862–1911)



William Penn (1644–1718), a famous Quaker preacher and the founder of Philadelphia, the first capital of the United States



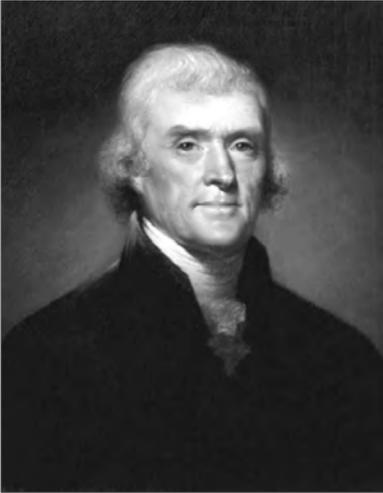
1st U.S. President
George Washington (1789–1797)



Benjamin Franklin
(1706–1790), a brilliant
scientist and public figure,
one of the founding
fathers of the United States



2nd U.S. President
John Adams Sr. (1797–1801)



3rd U.S. President
Thomas Jefferson (1801–1809)



4th U.S. President
James Madison (1809–1817)



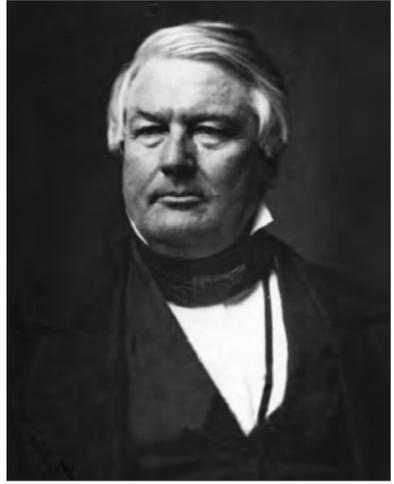
5th U.S. President
James Monroe (1817–1825)



6th U.S. President
John Quincy Adams (1825–1829)



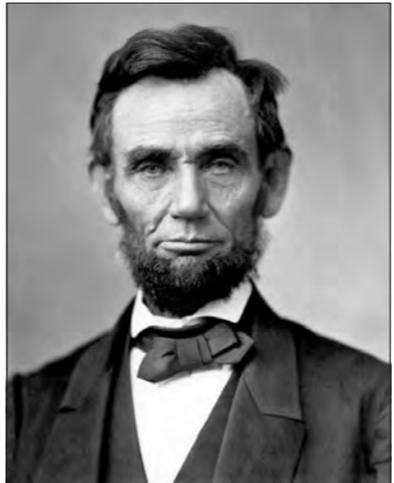
8th U.S. President
Martin Van Buren (1837–1841)



13th U.S. President
Millard Fillmore (1850–1853)



14th U.S. President
Franklin Pierce (1853–1857)



16th U.S. President
Abraham Lincoln (1861–1865)



18th U.S. President
Ulysses S. Grant (1869–1877)



21st U.S. President
Chester A. Arthur (1881–1885)



22nd and 24th U.S. President
Grover Cleveland
(1885–1889; 1893–1897)



25th U.S. President
William McKinley (1897–1901)



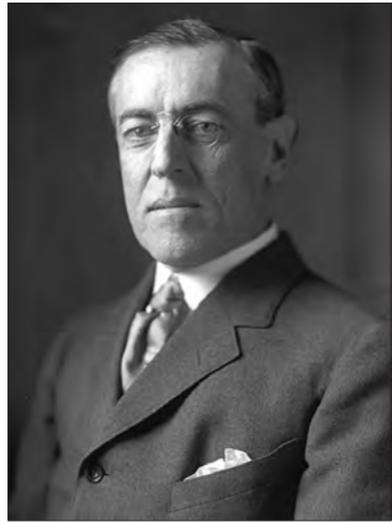
26th U.S. President
Theodore Roosevelt (1901–1909)



The powerless attempts
of Theodore Roosevelt to save
democracy. 1901



27th U.S. President
William Howard Taft (1909–1913)



28th U.S. President
Woodrow Wilson (1913–1921)



30th U.S. President
Calvin Coolidge (1923–1929)



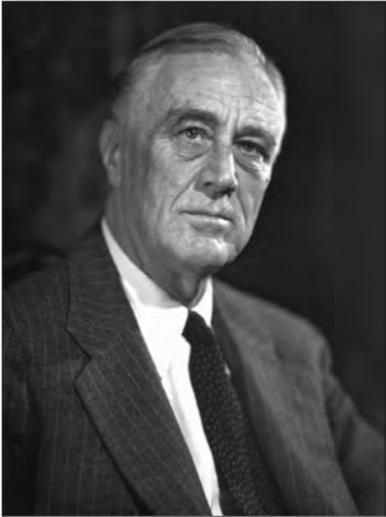
Calvin Coolidge wins the 1923 presidential elections in the United States (the elephant is the symbol of the Republican party)



Woodrow Wilson, who initiated the establishment of the League of Nations (the predecessor of the UN), presents its symbol, the dove of peace. 1919



31st U.S. President
Herbert Hoover (1929–1933)



32nd U.S. President
Franklin D. Roosevelt
(1933–1945)



Franklin D. Roosevelt
with his Scottish terrier
(from a collection of toy presidents)



Adolf Hitler and Benito Mussolini ride to the Munich Conference
in Germany. 1938.



Marshal of the Soviet Union Georgy Zhukov
and General Dwight Eisenhower



Monument erected in Sochi to honor the Yalta Conference of 1945.
From left to right: Winston Churchill, Franklin D. Roosevelt,
Joseph Stalin



33rd U.S. President
Harry S. Truman (1945–1953)



34th U.S. President
Dwight D. Eisenhower
(1953–1961)



35th U.S. President John F. Kennedy (1961–1963)
and Soviet Foreign Minister Andrei Gromyko



John F. Kennedy and
Anastas Mikoyan



Fidel Castro



Vasili Kuznetsov (1901–1990),
Soviet politician, statesman
and diplomat



Anatoly Dobrynin (1919–2010),
Soviet Ambassador
to the United States



Winston Churchill and Dwight Eisenhower meeting with Bernard Baruch



Anatoly Dobrynin and Henry Kissinger on board of a helicopter



Andrei Gromyko, Leonid Brezhnev and Nikolai Patolichev in the Kremlin, Moscow. 1973. *Photo by ITAR-TASS*



Leonid Brezhnev and Richard Nixon at the signing of SALT I. 1972



Signing of the trade agreement in Washington by the U.S. Secretary of Commerce Peter Peterson and Soviet Minister of Foreign Trade Nikolai Patolichev. 1973



Nikolai Patolichev (1908–1989),
Minister of Foreign Trade of the
USSR (1958–1985)



Andrei Gromyko (1909–1989),
Minister of Foreign Affairs of the
USSR (1957–1985) and
Chairman of the Presidium of the
Supreme Soviet of the USSR
(1985–1988)



36th U.S. President
Lyndon B. Johnson (1963–1969)



37th U.S. President
Richard Nixon (1969–1974)



Dzhermen Gvishiani, the Deputy Chairman of the Soviet State Committee for Science and Technology and member of the Soviet Academy of Sciences, and Frank T. Cary, the Chairman of IBM Board, in New York. 1978



Conversation between Vladislav Malkevich and Richard Nixon
in New York



Meeting of Vladislav Malkevich and Richard Nixon. 1987



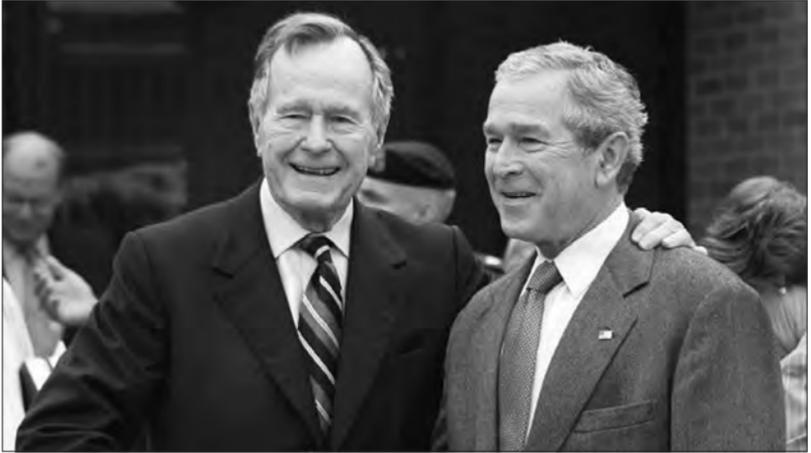
38th U.S. President
Gerald Ford (1974–1977)



39th U.S. President
Jimmy Carter (1977–1981)



40th U.S. President Ronald Reagan (1981–1989) speaking
with Dwayne Andreas, CEO of ADM. 1986



41st U.S. President George H.W. Bush (1989–1993) and
43rd U.S. President George W. Bush (2001–2009)



Putin and Bush. The Great Texas. 2001



42nd U.S. President
Bill Clinton (1993–2001)



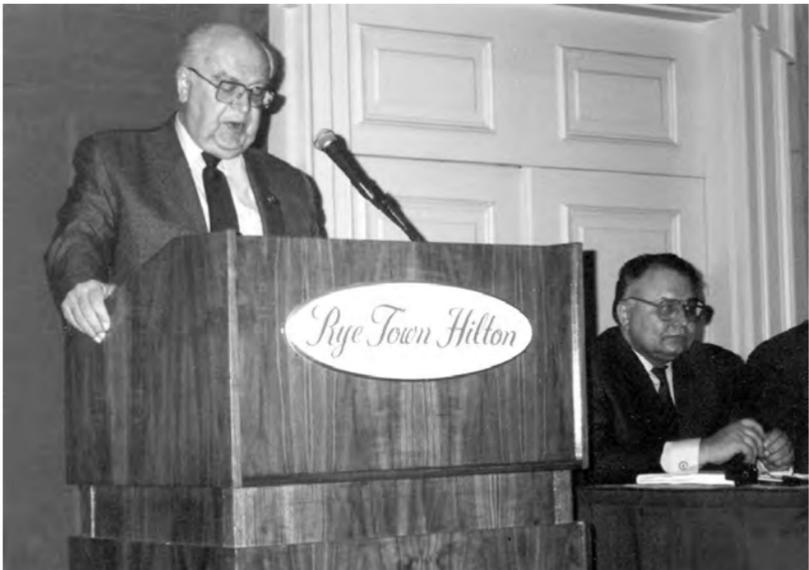
Boris Yeltsin (1991-1999),
first President of the
Russian Federation



After a break between meetings. To the right of Vladislav
Malkevich is Donald M. Kendall, CEO of PepsiCo



Visit of Nikita Khrushchev to the United States. From left to right:
N.S. Khrushchev, D. Eisenhower, N. Khrushchev's wife Nina
Petrovna, ambassador extraordinary and plenipotentiary of the USSR
O. A. Troyanovsky (at the time translator in the rank of
Khrushchev's assistant)



Anatoly Dobrynin and Vladislav Malkevich



Vladislav Malkevich speaks at the annual meeting of USTEC in New York



Vladislav Malkevich and U.S. Secretary of Commerce Calvin William Verity at a reception in Moscow. 1987



Alexey Kosygin with his wife Klavdia and granddaughter Tanya



Senior Vice President of the Soviet Chamber of Commerce and Industry Vladimir Golanov, Vladislav Malkevich, Vice President of USTEC Boris Alekseev in San Francisco. 1987



Vladislav Malkevich and Armand Hammer at the headquarters of Occidental Petroleum in Los Angeles, USA. 1989



Meeting between Vladislav Malkevich and Mr. Cohen, President of Coca-Cola. 1987



Ronald Reagan and Mikhail Gorbachev



U.S. President Ronald Reagan



Head of the Executive Office of the Soviet Council of Ministers Mikhail Shkabardnya and Soviet Ambassador to the United States Alexander Bessmertnykh at the reception of U.S. President John Bush. White House, Washington. 1990



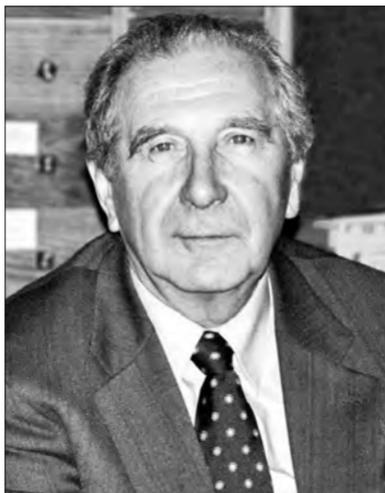
Anatoly Dobrynin, Alexander Bessmertnykh and U.S. Secretary of State George Shultz



Vladislav Malkevich and U.S. Secretary of Commerce Peter Peterson. 1973



To Vladislav Leonidovich Malkevich, with best wishes.
Richard Nixon. May 2, 1987
Handwritten note on a photo from Richard Nixon



Ivan Ivanov (1934–2012), Deputy Minister of Foreign Affairs of the Russian Federation, member of the Russian Academy of Sciences, Ambassador Extraordinary and Plenipotentiary of Russia



Vladimir Putin visits Henry Kissinger at home, USA. 2001



Meeting of the Board of the US-USSR Trade and Economic Council. From left to right: Ivan Ivanov, Yevgeny Pitovranov, Vladislav Malkevich, Vladimir Alkhimov. World Trade Center, Moscow. 1985.



Reception in the Kremlin in honor of the annual meeting of USTEC in Moscow. Sitting in the Presidium (from left to right) are CEO of PepsiCo Donald M. Kendall, Nikolay Slyunkov, U.S. Ambassador to Russia Jack F. Matlock, Secretary of Commerce U.S. Calvin William Verity, Nikolai Ryzhkov, Mikhail Gorbachev, Dwayne Andreas, Alexander Yakovlev, Vladislav Malkevich, Armand Hammer and Eduard Shevardnadze



At the meeting in Lomonosov Moscow State University. From left to right: president of the Association of Russian Society Researchers (AIRO-XXI) G.A. Bordyugov, V.L. Malkevich, Princeton and New York Universities Professor S. Cohen and his wife, editor-in-chief of The Nation journal K. vanden Heuvel, rector of the Lomonosov Moscow State University, academician of the Russian Academy of Sciences V. A. Sadovnichy



V.L. Malkevich gives clarifications while attending the MSU picture gallery. From left to right: V.L. Malkevich's colleague D.V. Schekalev, V.L. Malkevich, S. Cohen, director of the MSU historical museum T. K. Ivanova



Yevgeny Primakov (1929–2015),
Russian statesman and member of
the Russian Academy of Sciences



Yuri Maslyukov (1937–2010),
the First Deputy Chairman of the
Government of the Russian
Federation



Vladimir Putin, the President
of the Russian Federation



Sergey Lavrov, Minister
of Foreign Affairs of the Russian
Federation

APPENDIX

Rulers of the Russian Empire (from Peter the Great) Leaders of the USSR (1917–1991) Presidents of the Russian Federation (Period in power)

Emperor Peter The Great (1689–1725)
Empress Catherine I Alexeyevna (1725–1727)
Emperor Peter II Alexeyevich (1727–1730)
Empress Anna Ioannovna (1730–1740)
Emperor Ivan VI Antonovich (1740–1741)
Empress Elizabeth Petrovna (1741–1761)
Emperor Peter III (1761–1762)
Empress Catherine the Great (1762–1796)
Emperor Paul I (1796–1801)
Emperor Alexander I the Blessed (1801–1825)
Emperor Nicholas I (1825–1855)
Emperor Alexander II the Liberator (1855–1881)
Emperor Alexander III the Peacemaker (1881–1894)
Emperor Nicholas II (1894–1917)

USSR

Vladimir Lenin (Ulyanov) (1917–1924)
Joseph Stalin (Dzhugashvili) (1924–1953)
Georgy Malenkov (1953–1955)
Nikita Khrushchev (1955–1964)
Leonid Brezhnev (1964–1982)
Yuri Andropov (1982–1984)
Konstantin Chernenko (1984–1985)
Mikhail Gorbachev (1985–1991)

Presidents of the Russian Federation

Boris Yeltsin (1991–2000)

Vladimir Putin (2000–2008)

Dmitry Medvedev (2008–2012)

Vladimir Putin (2012 – present)

Presidents of the United States

1st – George Washington (1789–1797). No party affiliation

2nd – John Adams Sr. (1797–1801). Federalist

3rd – Thomas Jefferson (1801–1809). Democratic-Republican

4th – James Madison (1809–1817). Democratic-Republican

5th – James Monroe (1817–1825). Democratic-Republican

6th – John Quincy Adams (1825–1829). Democratic-Republican

7th – Andrew Jackson (1829–1837). Democratic

8th – Martin Van Buren (1837–1841). Democratic

9th – William Harrison [died of pneumonia one month after his election] (04.03.1841–04.04.1841). Whig

10th – John Tyler (1841–1845). Whig

11th – James Knox Polk (1845–1849). Democratic

12th – Zachary Taylor (1849–1850). Whig

13th – Millard Fillmore (1850–1853). Whig

14th – Franklin Pierce (1853–1857). Democratic

15th – James Buchanan (1857–1861). Democratic

16th – Abraham Lincoln [assassinated] (1861–1865). Republican

17th – Andrew Johnson (1865–1869). Democratic

18th – Ulysses S. Grant (1869–1877). Republican

19th – Rutherford B. Hayes (1877–1881). Republican

20th – James A. Garfield [assassinated] (04.03.1881–19. 09.1881). Republican

21st – Chester A. Arthur (1881–1885). Republican

22nd – Grover Cleveland (1885–1889). Democratic

23rd – Benjamin Harrison (1889–1893). Republican

24th – Grover Cleveland (1893–1897). Democratic

25th – William McKinley [assassinated] (1897–1901). Republican

26th – Theodore Roosevelt (1901–1909). Republican

27th – William Howard Taft (1909–1913). Republican

- 28th – Woodrow Wilson (1913–1921). Democratic
29th – Warren G. Harding (1921–1923). Republican
30th – Calvin Coolidge (1923–1929). Republican
31st – Herbert Hoover (1929–1933). Republican
32nd – Franklin D. Roosevelt [four terms] (1933–1945). Democratic
33rd – Harry S. Truman (1945–1953). Democratic
34th – Dwight D. Eisenhower (1953–1961). Republican
35th – John F. Kennedy [assassinated] (1961–1963). Democratic
36th – Lyndon B. Johnson (1963–1969). Democratic
37th – Richard Nixon [resigned] (1969–1974). Republican
38th – Gerald Ford (1974–1977). Republican
39th – Jimmy Carter (1977–1981). Democratic
40th – Ronald Reagan (1981–1989). Republican
41st – George H.W. Bush (1989–1993). Republican
42nd – Bill Clinton (1993–2001). Democratic
43rd – George W. Bush (2001–2009). Republican
44th – Barack Obama (2009–2017). Democratic
45th – Donald Trump (2017 – present). Republican

List of Abbreviations

- AIMC – Aviation Military Industrial Combine
b. – born
BAM – Baikal-Amur Railway
bln – billion
BMW – Bavarian Motor Works
BRICS – an international political economic association (group) of five countries: Brazil, Russia, India, China and South Africa
CCI – Chamber of Commerce and Industry
CIS – Commonwealth of Independent States
CSA – Central Statistical Administration
CSCE – Conference on Security and Cooperation in Europe
FDR – Franklin Delano Roosevelt
FIG – financial and industrial group
FRS – Federal Reserve System
GDP – gross domestic product
GKO – government short-term liabilities

- GMC – General Motors Company
GS MoD USSR – General Staff of the Soviet Ministry of Defense
IBG – integrated business group
IMF – International Monetary Fund
INF – Intermediate-Range Nuclear Forces
MIRV – Multiple Independently Targetable Reentry Vehicle
mln – million
MROT – minimum wage
MTS – machine tractor stations
NATO – North Atlantic Treaty Organization
NEW – net economic welfare
NTV – all-Russian TV channel
OPEC – Organization of Petroleum Exporting Countries
ORT – Russian Public Television
present – present
R&D – research and development
RANEPA – the Russian Academy of National Economy and Public Administration
RCA – Radio Corporation of America
RFC – Reconstruction Finance Corporation
RIAC – Russian International Affairs Council
RSPP – Russian Union of Industrialists and Entrepreneurs
RUSAL – Russian Aluminum
SALT – Strategic Arms Limitation Treaty
SBS – Stolichny Bank of Savings
SDI – Strategic Defense Initiative announced by U.S. President Ronald Reagan on March 23, 1983
SME – small and medium-sized enterprises
SPG – self-propelled gun
ths – thousands
TIC – territorial industrial complexes
tln – trillion
TVEL – a fuel company (part of Rosatom Corporation)
UBM – Ural Boeing Manufacturing
UN – United Nations
USD – U.S. dollar
VNII – All-Union Research Institute
VSMPO-AVISMA – Verknaya Salda Metallurgical Production Association

Index of Names

A

- Abbey, George Abbey – 374
 Abramov, Fyodor – 206
 Adams, Henry – 32
 Adams, Henry. – 32
 Adams, John Quincy – 30–33, 45,
 46, 397
 Adams, John, Sr. – 20, 21, 27, 29,
 30, 32, 397
 Adams, Samuel – 21
 Aganbegyan, Abel – 332
 Aitmatov, Chinghiz – 206
 Akayev, Askar – 296
 Aksyonov, Vasily – 205
 Aldrin, Buzz – 209
 Alekperov, Vagit – 365
 Alexander I – 28, 29, 31, 32, 34, 396
 Alexander II – 41, 42, 44, 93, 396
 Alexander III – 47, 93, 396
 Amerike, Richard – 12
 Amirejibi, Chabua – 206
 Andropov, Yuri – 265–267, 396
 Aristov, Boris – 111, 115
 Armstrong, Neil – 209
 Arthur, Chester Alan – 47, 261, 397
 Astafyev, Viktor – 206
 Avdasheva, Svetlana – 350

B

- Babkin, Konstantin – 319
 Badoglio, Pietro – 176
 Baker, James – 73
 Baklanov, Oleg – 200
 Baklanov, Vyacheslav – 92, 93
 Baranov, Alexander – 28
 Bark, Pyotr – 93
 Baruch, Bernard – 60
 Baryatinsky, Ivan – 25, 26

- Begin, Menachem – 232
 Bell, Daniel – 207
 Belov, Vasily – 206
 Berdyaev, Nikolai – 46
 Berezovsky, Boris – 352, 353, 357,
 359
 Bering, Vitus – 16, 43, 50, 74, 246,
 247
 Berle, Adolf A. – 207
 Bernanke, Ben – 153, 328
 Beshchev, Boris – 247
 Bessmertnykh, Alexander – 7, 72, 73
 Blaine, James – 48, 49
 Bobrinsky, Alexey – 94
 Bock, Fedor von – 164
 Bodisko, Alexander – 39
 Boguslavsky, Mark – 237
 Bolkhovitinov, Nikolai – 16, 24, 28
 Bordyugov, Gennady – 5
 Bovdunov, Alexander – 292
 Boylston, Nicholas – 16
 Brezhnev, Leonid – 69, 205, 211,
 215, 220–222, 224, 230, 234,
 273, 396
 Brian, William – 49
 Brodsky, Joseph – 206
 Brown, Thompson – 38
 Bukin, A.P. – 237
 Bullitt, William – 52
 Burnham, James – 207
 Bush, George H.W. – 49, 61, 71–75,
 112, 259, 277–279, 398
 Bush, George W. – 78–80, 291, 301,
 302, 326, 398
 Butenko, Anatoly – 118
 Bykov, Vasil – 206

C

- Cabot, John – 12
 Camus, Albert – 46

Carnegie, Andrew – 89
Carter, Jimmy – 69, 232–235, 260, 398
Cary, Frank T. – 240
Casey, Douglas – 152, 156
Castells, Manuel – 290
Castro, Fidel – 67
Catherine II – 17, 18, 25–28, 34
Charles II – 15
Che Guevara, Ernesto – 213
Chernenko, Konstantin – 267, 396
Chervov, Nikolai – 73
Churchill, Winston – 60, 135, 166, 179
Clapper, James – 85, 282
Clark – 29, 130
Clayton – 98
Cleveland, Stephen Grover – 48, 49, 397
Clinton, Bill – 49, 77, 86, 112, 279, 299–301, 398
Clinton, Henry – 22
Clinton, Hillary – 285
Cohen, Ariel – 285
Cohen, Stephen – 86, 254, 286, 301, 347, 360, 391
Cole – 153, 156
Columbus, Christopher – 11–13
Cook, James – 26
Coolidge, John Calvin, Jr. – 53, 54, 124, 125, 398
Cornwallis, Charles – 22
Crane, Stephen – 100

D

Daladier, Eduard – 159
Dana, Francis – 27, 28
Daniel, Yuli – 205, 207
Danilov-Danilyants, Anton – 332
Dashkov, Andrey – 30
Davis, Angela – 214
de Gaulle, Charles – 168
de Stoeckl, Eduard – 43

Dementiev, Victor – 350
Derbin, N.N. – 5
Deripaska, Oleg – 321
Dobrynin, Anatoly – 9, 66, 67, 73, 203, 211, 219, 222, 230, 254, 255, 260, 277
Dostoevsky, Fyodor – 49, 214
Dovlatov, Sergei – 205
Drake, Francis – 13
Dreiser, Theodore – 100, 123
Dubinin, Yuri – 115
Dugin, Alexander – 292
Dumbadze, Nodar – 206
Dunford, Joseph – 392
DuPont – 153, 182
Dvornichenko, Andrey – 28

E

Efremov, Ivan – 106
Einstein, Albert – 153
Eisenhower, Dwight – 63–66, 176, 201–203, 217, 218, 395, 398
Elizabeth I – 13
Erhard, Ludwig – 190
Evstafiev, Dmitry – 327

F

Fillmore, Millard – 39, 397
Fletcher – 33
Ford, Gerald – 182, 229–232, 234, 296, 398
Ford, Henry – 53, 142, 153
Franco, Francisco – 160
Franklin, Benjamin – 20, 24–26, 29, 39, 45, 46, 130, 182, 183, 215, 259, 398
Fraser, Steve – 371
Friedman, George – 387–389, 392
Friedman, John – 387, 388
Friedman, Milton – 152, 153, 259, 299, 322
Fukuyama, Francis – 105
Fulton, Robert – 31, 60

G

- Gagarin, Yuri – 199, 374
 Galbraith, John Kenneth – 207
 Galich, Alexander – 206
 Gandhi, Mahatma – 212
 Ganelin, Rafail – 48
 Garbuzov, Vasily – 239
 Garfield, James A. – 47, 397
 George III – 17, 18, 21
 Gershov, Zinovy – 119
 Glass, Carter – 133
 Glazyev, Sergey – 296, 326, 335, 344
 Golikova, Tatyana – 312, 334
 Golitsyn, Alexander – 93
 Golodets, Olga – 343
 Golodryga, Pavel – 269
 Golubovich, Valery – 89, 90, 96
 Gorbachev, Mikhail – 61, 71, 72, 74, 252–255, 266, 267, 272, 274–279, 381, 396
 Gorchakov, Alexander – 40
 Gore, Albert – 49
 Gorky, Maxim – 53, 55
 Goya, Francisco – 54
 Granovsky, Evgeny – 92, 147
 Grant, Ulysses S. – 44, 397
 Greek, Maximus – 15, 141
 Gromyko, Andrei – 114, 182, 186
 Guderian, Heinz – 167
 Gusinsky, Vladimir – 359
 Gvozdev, Mikhail – 42

H

- Hammer, Armand – 53, 54, 113
 Harding, Warren G. – 53, 124, 398
 Harrison, Benjamin – 39, 49, 397
 Harrison, William – 397
 Hart, B.H. Liddell – 164
 Hawley, Willis C. – 127, 141
 Henry VII – 12
 Hirohito – 175

- Hitler, Adolf – 159, 162, 170, 173
 Hoover, Herbert – 54, 55, 130, 132, 133, 135, 140, 142, 144, 145, 154, 302, 398
 Hopkins, Harry – 60
 Howard, Charles – 13, 397
 Howard, William – 103
 Howells, William Dean – 100
 Hudson, Henry – 12, 16
 Hughes – 33
 Hull, Cordell – 180

I

- Ilyin, Yevgeny – 28
 Ilyushin, Sergey – 83
 Inozemtsev, Vladislav – 384
 Ionin, Leonid – 362
 Iskander, Fazil – 206
 Ivan the Terrible – 15
 Ivanov, Alexander – 5, 180
 Ivanov, Ivan – 297

J

- Jackson, Andrew – 24, 79, 80, 397
 Jackson, Henry M. – 112, 223
 James I – 13, 14
 Jaspers, Karl – 190
 Jefferson, Thomas – 24, 27–30, 397
 Johnson, Lyndon B. – 43, 210–212, 397, 398

K

- Kakhovsky, Pyotr – 35
 Kalashnikov, Mikhail – 83
 Katasonov, Valentin – 304, 307, 318, 333
 Kennedy, John F. – 66, 203–205, 208–210, 214, 398
 Kennedy, Joseph, Sr. – 125, 134, 154
 Kennedy, Robert – 214
 Kennedy, Rose – 126
 Kerensky, Alexander – 107

Kerry, John – 81
Keynes, John M. – 147, 299, 301
Khanin, Girsh – 195, 382, 383
Khomyakov, Aleksey – 46
Khrushchev, Nikita – 65, 66, 196–
200, 202–205, 217, 268, 396
Kim, Yuliy – 206
King, Martin Luther – 212–214
Kissinger, Henry – 215, 219, 220,
227, 231, 283, 393
Klyuchevsky, Vasily – 35
Kondratiev, Nikolai – 296
Konev, Ivan – 169
Konovalov, Alexander – 106
Kornienko, Georgy – 69
Kornilov, Lavr – 107
Korovin, Valery – 292
Koshkin, Mikhail – 83
Kosygin, Alexey – 195, 197, 210, 211,
229, 241, 243
Kovalev, Anatoly – 70
Kozlov, Mikhail – 167
Krichevsky, Nikita – 143
Krikalev, Sergei – 374
Krivorotov, Vadim – 296
Krivosheev, Yuri – 28
Kudrin, Alexey – 335, 369
Kumanev, Georgy – 185
Kutovoy, Yevgeny – 5
Kuvshinova, Olga – 371
Kuznetsov, Vasili – 66, 67
Kvitsinsky, Yuli – 71

L

Lafayette, Gilbert de – 25
Laffer, Arthur – 260, 261, 300, 301
Lamont, Thomas – 125, 135
Langemak, Georgy – 83
Lavrov, Sergey – 387
Lee, Robert E. – 44
Lenin (Ulyanov), Vladimir – 52, 53,
107, 109, 110, 199, 288, 396
Lewis – 29

Liberman, Evsei – 242
Liebich, Andre – 86
Lincoln, Abraham – 39, 41–43, 102,
397
Lipkin, Arkady – 5, 41, 42, 46
Litvinov, Maxim – 56, 57
Livingston, Robert – 29
Loeb, Nina – 134
Loeb, Solomon – 134
Lvov, Dmitry – 242, 296
Lvov, Georgy – 107

M

MacArthur, Douglas – 154, 175
Madison, James – 24, 30, 397
Magellan, Fernand – 12, 13
Maksimov, Vladimir – 206
Malenkov, Georgy – 63, 396
Malia, Martin – 118
Malkevich, Vladislav – 7, 193, 196,
237, 344, 415
Mamontov, Savva – 93
Mandell, Robert – 259
Mao Zedong – 213
Marcuse, Herbert – 213, 214
Marie Antoinette – 26
Marshall, George – 190, 256
Marx, Karl – 126, 213, 361
Maslyukov, Yuri – 302, 311, 315,
359, 361, 415
Matlock, Jack – 72
McCain, John – 283
McCarthy, Joseph – 63, 202, 203
McGovern, George – 221
McInerney, Daniel J. – 96, 100
McKinley, William – 49, 50, 88,
247, 397
Means, Gardiner C. – 207
Medvedev, Dmitry – 81, 323, 397
Mellon, Andrew – 131, 182
Melnikov, Pavel – 37, 38
Menshikov, Stanislav – 296
Mikhaylov, Alexey – 330

Mikoyan, Anastas – 67, 185
 Miloradovich, Mikhail – 34
 Mitchell, Charles – 123
 Mitrofanov, Igor – 5
 Moiseev, Lev – 133
 Molotov, Vyacheslav – 59, 195
 Monroe, James – 24, 30, 33, 50,
 397
 Montgomery, Bernard – 63
 Monticello – 29
 Morgan, John P. – 89, 90, 96, 97,
 125, 153
 Morozov, Savva – 93
 Mozhayev, Boris – 206
 Muravyov-Amursky, Nikolay – 42
 Murray, Rothband – 129
 Mussolini, Benito – 159, 173, 176,
 177

N

Neizvestny, Ernst – 200
 Nemtsov, Boris – 357
 Nicholas I – 34–38, 396
 Nicholas II – 50, 51, 107, 396
 Nicholas Nikolaevich, Grand Duke –
 50
 Nikiforov, S.N. – 5
 Nixon, Richard – 69, 111, 215–218,
 220–229, 231, 234, 260, 398
 Nixon, Thelma Catherine – 228
 Norris, Benjamin – 100

O

Obama, Barack – 79, 81, 326–331,
 398
 Ohanian, Lee – 153, 156
 Okudzhava, Bulat – 206
 Osipov, A.A. – 5

P

Pappe, Yakov – 349, 350, 368, 370
 Pasternak, Boris – 200

Patolichev, Nikolai – 224, 237, 239
 Patrushev, Nikolai – 289
 Patton, George S. – 177
 Paul I – 28, 396
 Pavlov, Valentin – 279
 Penn, William – 15, 16
 Pereslegin, Sergey – 164
 Peter the Great – 15, 16, 396
 Peterson, Peter – 222–224
 Petrov, G.G. – 5
 Pierce, Franklin – 39, 397
 Pipes, Richard – 55
 Pokryshkin, Alexander – 185
 Ponomarev, Boris – 357
 Popov, Gavriil – 295
 Potanin, Vladimir – 357, 365
 Primakov, Yevgeny – 77, 254, 283,
 293, 298, 299, 302, 310, 311,
 314, 315, 324, 342, 344, 359,
 361, 387, 393, 415
 Pu Yi – 181
 Putilov, Aleksei – 93
 Putin, Vladimir – 61, 62, 78, 85,
 279, 284, 289, 292, 301, 322,
 323, 337, 342, 362, 364, 369,
 385, 391, 397

R

Randolph, Peyton – 18
 Rasputin, Valentin – 206
 Ray, James Earl – 212
 Reagan, Ronald – 70, 71, 73, 111–
 114, 223, 230, 232, 251, 259–
 261, 263–265, 273–275, 277,
 278, 398, 399
 Reed, Lawrence – 156
 Rockefeller, John – 88, 89, 96–98
 Rokossovsky, Konstantin – 167, 169
 Rommel, Erwin – 176
 Roosevelt, Eleanor – 111
 Roosevelt, Franklin D. – 10, 55–61,
 87, 88, 99, 101–103, 111, 112,
 130, 132, 142–156, 159–163,

166, 173, 178–183, 186, 187,
206, 234, 258, 259, 265, 273,
329, 364, 365, 394, 398
Roosevelt, Theodore – 50, 51, 87,
88, 97–99, 102–104, 110–112,
119, 120, 364, 397
Rosenberg, Julius and Ethel – 203
Rostow, Walt – 207
Rothschilds – 80
Rozhdestvensky, Robert – 200
Rudin, L.G. – 5
Rumyantsev, Alexey – 242
Ryabushinsky, Pavel – 93, 106
Ryzhkov, Nikolai – 266, 269, 271,
272

S

Sadat, Anwar – 232
Sagdeev, Roald – 218
Samuelson, Paul Anthony – 85, 216
Scheuer, Michael – 79
Schiff, Jacob – 50
Schlesinger, Arthur – 227
Schumpeter, Joseph – 296
Schwartz, Anna – 152
Selyunin, Vasily – 295
Senin, Vladimir – 332
Sergeyev, A.N. – 5
Seward, William Henry – 43
Shatalin, Stanislav – 272
Shchekalev, Dmitry – 5
Sherman, John – 49, 87, 95, 98, 99
Sherman, Roger – 29
Sherman, William Tecumseh – 44
Shevardnadze, Eduard – 73, 277
Shirma, Tatyana – 5
Shmelev, Nikolai – 179, 184, 295
Shokhin, Alexander – 324
Shoumatoff, Elizabeth – 182
Shtemenko, Sergei – 167
Shukshin, Vasily – 206
Shultz, George – 113, 114, 223, 224,
276
Sinclair, Upton – 100

Sinyavsky, Andrei – 205
Smith, Adam – 143
Smith, John – 14, 15
Smolensky, Alexander – 352, 353
Smoot, Reed – 127, 141
Solovyov, Vladimir – 46
Solow, Robert – 259
Solzhenitsyn, Alexander – 76, 205
Stalin, Joseph – 58, 63, 152, 167,
179, 180, 183, 191, 197, 289, 396
Steagall, Henry B. – 133
Stiglitz, Joseph – 299–301
Strokov, Alexander – 51
Sumner, George – 36, 37

T

Taft, William – 51, 99, 103, 397
Talbott, Strobe – 77, 78, 299
Tarnovsky, Konstantin – 92
Tatishchev, Vladimir – 93
Tatishcheva, Alexandra – 30
Timiryazev, Vasily – 93
Tinbergen, Jan – 207
Tippelskirch, Kurt von – 166
Titov, Boris – 319, 332
Tolstoy, Leo – 49
Tot, Yuri – 28
Tretyakov, Vitaly – 288
Trojanovsky, Alexander – 58
Truman, Harry – 60, 61, 186, 187,
220, 398
Trump, Donald – 49, 377, 398
Tsaturyan, Sarkis – 107, 110
Tsiperovich, Grigori – 92
Tsoi, Viktor – 206
Tuchkov, Ivan – 5
Tvardovsky, Alexander – 205
Twain, Mark – 47
Tyler, John, Jr. – 39, 397

U

Umansky, Konstantin – 60
Utkin, Anatoly – 119

V

- Van Buren, Martin – 29, 36, 397
Vanik, Charles – 112
Vasilevsky, Aleksandr – 165, 180
Vasily III – 15
Vespucci, Amerigo – 12
Vlasov, Andrey – 170
Voinovich, Vladimir – 205
Volobuev, Pavel – 118
Voznesensky, Nikolai – 185
Vyshnegradsky, Alexander – 93
Vysotsky, Vladimir – 206

W

- Warburg, Aby – 134
Warburg, Fritz – 134
Warburg, Max – 134
Warburg, Moses Marcus – 133
Warburg, Paul Moritz – 133, 134,
141
Washington, George – 17, 18, 21, 24,
27, 33, 36, 37, 43–45, 66, 67, 73,
77, 81, 82, 107, 114, 151, 154,
181, 221, 222, 224, 227, 230,
239, 260, 275, 276, 282, 284,
286, 301, 302, 391, 392, 397
Weber, Max – 361, 362
Welles, Sumber – 60
Whistler, George Washington – 37,
38

- Whistler, George William – 38
Whistler, James – 38
Wilson, Woodrow – 52, 53, 99, 100,
102–106, 108–110, 118–120,
364, 398
Winthrop, John – 115
Witte, Sergei – 50, 51, 94

Y

- Yakovlev, Alexander – 295
Yaroslavova-Chistyakova, Natalia –
36
Yavlinsky, Grigory – 272
Yeltsin, Boris – 61, 75–77, 228, 253,
254, 278, 279, 299, 301, 311,
358, 361, 397
Yevtushenko, Yevgeny – 200
Yevtushenkov, Vladimir – 365

Z

- Zarate, Antonia – 54
Zaslavskaya, Maria – 261, 264
Zhukov, Georgy – 165, 167, 169, 185,
202
Zhukovsky, Vladislav – 308, 309,
336
Zhuravlev, Dmitry – 283, 284
Zlobin, Nikolai – 249
Zorin, V.V. – 5
Zyuganov, Gennady – 343

ABOUT THE AUTHOR

Vladislav Malkevich was born in 1936. He graduated from the Moscow Power Engineering Institute and the All-Union Academy of Foreign Trade. His career began in the defense industry, and later took him from tune up engineer to Deputy Director of Research at the Central Research Institute of the Ministry of Radio Technology. From 1971 to 1988, he worked in the Ministry of Foreign Trade of the USSR, where he held positions as a member of Collegium, head of the Main Engineering and Technical Department (GITU), Deputy Minister, and then First Deputy Minister of Foreign Trade of the Soviet Union.

In 1988, Vladislav Malkevich was elected President of the Chamber of Commerce and Industry of the USSR. In the government of Yevgeny Primakov and Yuri Maslyukov, he headed the Federal Service of Russia for Currency and Export Control. For a decade after 2002, Vladislav Malkevich headed Expo-center, a Russian exhibition and conference company.

He is a Candidate of Technical Sciences, Doctor of Economic Sciences, Honorary Professor of Lomonosov Moscow State University, and Honorary Member of the Russian Academy of Cosmonautics.



Malkevich, Vladislav Leonidovich
**Russia and the United States:
Fated to be Together?**

Подписано в печать с оригинал-макета 04.02.2019
Формат 60×90/16. Усл. изд. л. 25,5
Тираж 500 экз. Зак.