

Trading with the Enemy: U.S. Economic Policies and the End of the Cold War

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This dissertation titled
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ABSTRACT

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Trading with the Enemy: U.S. Economic Policies and the End of the Cold War

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This dissertation argues that U.S. economic strategies and policies were effective means to wage the Cold War during its final years and conclude the conflict on terms favorable to the United States. Using recently declassified U.S. and British government documents, among other sources, this analysis reveals that actions in East-West economic relations undermined cooperative U.S.-Soviet relations in the 1970s, contributed to heightened tensions in the early 1980s, and helped renew the U.S.-Soviet dialogue in the late 1980s. Scholars have focused on the role arms control initiatives and political actions played in the end of the Cold War. Arms control agreements, however, failed to resolve the underlying ideological and geopolitical competition between the United States and the Soviet Union. Through economic statecraft, the United States strengthened Western security and moved beyond containment to aid the democratic revolutions in Eastern Europe, help settle U.S.-Soviet political differences, and encourage the transformation of the oppressive Soviet system. In effect, this analysis highlights the ways in which U.S. economic statecraft served as an instrument to promote national interests and peace.

Between the 1970s and early 1990s, the Soviet Union intended to overcome its economic decline through deeper commercial relations with the West. But, the United States continually sought to block Soviet moves, fearing deeper East-West economic relations would enhance Soviet military potential and grant Moscow leverage over the

Atlantic alliance. While working with its West European allies to strengthen the regulation of East-West trade and protect alliance security, the United States also attempted to place further pressure on the Soviet economy and punish Moscow for its aggressive international behavior. In the late 1980s, trade restrictions and limited economic engagement helped the United States negotiate with the Soviet Union from a position of strength, moving beyond the Cold War. Lastly, as the Soviet empire crumbled, economic instruments proved to be the West's most powerful tool in ending the division of Europe, aiding the institutionalization of democratic, market-oriented systems in Eastern Europe, and encouraging Soviet leader Mikhail Gorbachev to undertake deeper economic reforms.

DEDICATION

For Breanna

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INTRODUCTION

“The Soviet Union is economically on the ropes—they are selling rat meat on the market,” President Ronald Reagan told his National Security Council on May 24, 1982. He thought “this is the time to punish them.” Détente, a period of reduced East-West tensions, had characterized the Cold War in the 1970s, but Reagan considered détente to be a “one-way street that the Soviet Union has used to pursue its own aims.”¹ Although Moscow claimed it wanted peaceful coexistence with the West, it conducted a military buildup and intervened in the Third World. In December 1979, the Soviet Union invaded Afghanistan, and almost one year after Reagan assumed office, it aided the Polish communist regime in a crackdown on political dissent. Yet President Reagan knew that the Soviet Union, despite its military strength and threatening actions, faced a growing internal crisis of economic stagnation and decline. Could the Soviet Union survive if rat meat was a growing food staple? He hoped the United States could leverage this economic plight to force Moscow to abandon its aggressive international behavior. In this particular instance, U.S. policy was unsuccessful as the allies in Western Europe refused to cooperate with Reagan’s economic sanctions against the Soviet Union. Nevertheless, this occasion was one of many in which U.S. leaders and policymakers attempted to use economic measures to wage the Cold War during its last decade.

My dissertation demonstrates that U.S. economic strategies and policies played an integral, often controversial, and sometimes subtle role in strengthening Western security,

¹ NSC Meeting Minutes, May 24, 1982, The Reagan Files, created by Jason Saltoun-Ebin, <http://thereaganfiles.com/document-collections/national-security-council.html> (accessed 14 Jan. 2017); Ronald Reagan, “The President's News Conference,” Jan. 29, 1981, *The Public Papers of President Ronald W. Reagan*, Ronald Reagan Presidential Library (RRL), <http://www.reagan.utexas.edu/archives/speeches/1981/12981b.htm> (accessed 26 Aug. 2015).

resolving U.S.-Soviet political differences, and ending the division of Europe. Economic action was one of the most effective means to wage and peacefully conclude the Cold War. Presidents Jimmy Carter, Ronald Reagan, and George Bush each used foreign economic tools to promote U.S. Cold War interests, oppose communism, and help end the conflict peacefully on terms favorable to the United States. At times, these policies were well publicized and apparent to anyone following U.S. politics and international events. Carter's grain embargo on the Soviet Union and the distress it caused U.S. farmers, for example, was a prominent political issue in the 1980 election. But at other times, U.S. economic strategies and policies were less recognizable. Many Americans, aside from foreign policy elites and business executives, did not notice the Reagan administration's successful efforts to help renew the U.S.-Soviet dialogue through the expansion of non-strategic trade. In examining the multi-faceted nature of U.S. economic statecraft in the late Cold War, my dissertation reveals ways in which these tools served as instruments to promote national interests and peace. Without these initiatives, the Cold War would not have concluded in the manner it did.

There were a number of questions guiding my inquiry into U.S. economic statecraft and the end of the Cold War. How did economic issues influence the rise and fall of détente? What relationship did U.S. officials see between trade with the communist world, international politics, and Western security? In what ways were East-West economic relations a stabilizing or destabilizing force in the Cold War? Did the United States wage an economic war on the Soviet Union intended to precipitate the dissolution of the Soviet empire? How did the United States use economic benefits and

sanctions to pursue its objectives? In answering these questions, I pay particular attention to how individuals operating within various institutions—such as the National Security Council, Congress, and the Atlantic alliance—influenced the development of U.S. goals and the implementation of U.S. economic policies. On a number of occasions, individual policymakers profoundly influenced policy developments and personal diplomacy enticed actors towards certain measures favorable to U.S. interests.

In addition to analyzing policymaking dynamics within and between presidential administrations, my study also evaluates how U.S. policies affected relations within the Atlantic alliance. It places U.S. actions in their appropriate international context and illuminates how U.S. allies in Western Europe shaped policymaking within the White House. How did the United States and its allies attempt to manage any conflicting economic interests and policies towards the East in order to maintain allied cohesion? Did the allies agree on any economic initiatives, and if so, did this agreement produce complementary U.S. and West European action? By what means did U.S. leaders and officials promote their agenda within the alliance? By answering these questions this study explores the relationship between U.S. economic policies and national and alliance security to present a unique history of the end of the Cold War.

My analysis rests primarily on recently declassified government documents and personal papers from the Ronald Reagan Presidential Library, the George H. W. Bush Presidential Library, the Library of Congress, and Princeton University. I also obtained British government documents from the National Archives in London. In addition to this extensive archival research, I reviewed the holdings of various digital collections like the

Foreign Relations of the United States. Collections from The Central Intelligence Agency's Freedom of Information Act Electronic Reading Room and the Margaret Thatcher Foundation were particularly helpful in illuminating the Reagan administration's understanding of Soviet economic problems and Britain's role in shaping U.S. economic policies, respectively.² Memoirs, newspaper articles, and the secondary literature helped me clarify points and fill in gaps in the documentary record.

Of course, I am not the first scholar to examine the role U.S. economic policies and trade played on the course of the Cold War or international relations. Political scientists and historians have discussed the relationship between economic policy, diplomacy, and national security at length. In his influential book *Economic Statecraft*, David A. Baldwin expounded on the "utility of economic techniques" to achieve foreign policy and national security goals. In particular, he offered a few principles to understand and assess economic statecraft, namely that a policy's success is usually measured and sanctions are a means to send a message as well as punish actors. Baldwin's analysis was helpful in sharpening my own thinking on economic statecraft during the early stages of this project.³

While Baldwin theorized about the appropriate uses of economic policy, other scholars have explored U.S.-Soviet trade relations as well as the controversies and compromises involved in managing the U.S.-West European strategic embargo on the

² U.S. State Department, Office of the Historian, *Foreign Relations of the United States*, <https://history.state.gov/historicaldocuments>; CIA Reagan Collection, FOIA Electronic Reading Room, <https://www.cia.gov/library/readingroom/collection/reagan-collection>; Margaret Thatcher Foundation, <http://www.margaretthatcher.org/archive/default.asp> (all accessed 27 Jul. 2016).

³ David A. Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1985), 4; Also see, Philip Hanson, *Western Economic Statecraft in East-West Relations* (New York: Routledge & Kegan Paul, 1988); For a thorough review of the theoretical discussions of economic statecraft, see Alan P. Dobson, *US Economic Statecraft for Survival 1933-1991* (New York: Routledge, 2002), Ch. 11.

Soviet Union. Political scientists and historians have assessed whether the United States used economic coercion to compel its allies to support the embargo or wage an economic war on the Soviet Union.⁴ In the late 1980s, Philip J. Funigiello comprised a general history of U.S.-Soviet trade with a particular focus on U.S. policy and domestic political pressures for and against economic relations with the communist world. Due to a lack of available primary sources, Funigiello was not able to present a strong analysis of these issues in the late 1970s and 1980s. My dissertation uses the newly available evidence to build on Funigiello's work.⁵

Michael Mastanduno offered a thorough history of the allied strategic embargo from its formation in the late 1940s to the early 1980s while Bruce Jentleson did the same for the East-West energy trade. Writing near the end of the Cold War, Mastanduno and Jentleson both argued the Reagan administration waged an economic war on the Soviet Union and resisted compromises with Western Europe over the terms of East-West trade. Two scholars, Angela Stent and Werner D. Lippert, have examined these issues from the West German perspective. Since the end of the Cold War, these economic war arguments have taken on a triumphalist tone as scholars like Peter Schweizer claimed Reagan's policies were a part of a successful grand strategy to undermine the Soviet empire and system. Former Reagan officials have also celebrated "victory" in the Cold War and promoted the idea that Reagan used economic policy to strangle the Soviet economy.⁶

⁴ Gunnar Adler-Karlsson, *Western Economic Warfare, 1947-1967* (Stockholm: Almqvist & Wiksell, 1968); Ian Jackson, *The Economic Cold War: America, Britain and East-West Trade, 1948-63* (New York: Palgrave, 2001).

⁵ Philip J. Funigiello, *American-Soviet Trade in the Cold War* (Chapel Hill: The University of North Carolina Press, 1988).

⁶ Michael Mastanduno, *Economic Containment: CoCom and the Politics of East-West Trade* (Ithaca: Cornell University Press, 1992); Bruce W. Jentleson, *Pipeline Politics* (Ithaca: Cornell University Press,

Alan P. Dobson has been the only historian to examine the Reagan administration's foreign economic policies in a substantial way. In his history of U.S. economic statecraft and a subsequent article on the Reagan administration, Dobson maintained that President Reagan did not pursue economic warfare against the Soviets but the hardliners within the administration certainly did. Reagan sought to punish the Soviets and compel them to enter strategic arms negotiations. He believed the hardliners' strategy of economic warfare was never "consummated" since these policies were incompatible with National Security Decision Directive 75's (NSDD-75) objective to negotiate with the Soviet Union and Reagan subsequently doing so. But his analysis rested primarily on memoirs, a few of the then-available declassified government documents, and secondary literature. Dobson even admitted that the "evidence for Reagan's motives in imposing sanctions [on the Soviet Union] is somewhat circumstantial." Dobson's interpretation also lacked sufficient contingency. NSDD-75 was not approved until January 1983, and the negotiations the directive advocated did not produce notable results until after Reagan won reelection in 1984 and Gorbachev assumed power in 1985. If Reagan had lost the election, he would have had no part in U.S.-Soviet rapprochement, and scholars would judge his presidency on the actions of his first term, a period in which hardliners won most of the policy debates. My research uses

1986); Angela Stent, *From Embargo to Ostpolitik: The Political Economy of West German-Soviet Relations, 1955-1980* (New York: Cambridge University Press, 1981); Werner D. Lippert, *The Economic Diplomacy of Ostpolitik: Origins of NATO's Energy Dilemma* (New York: Berghahn Books, 2011); Peter Schweizer, *Victory: The Reagan Administration's Secret Strategy that Hastened the Collapse of the Soviet Union* (New York: The Atlantic Monthly Press, 1994) and *Reagan's War* (New York: Doubleday, 2002); Paul Kengor, *The Crusader* (New York: Regan, 2006); Caspar Weinberger, *Fighting for Peace: Seven Critical Years in the Pentagon* (New York: Warner Books, 1990); Thomas C. Reed, *At the Abyss: An Insider's History of the Cold War* (New York: Ballantine Books, 2004); Norman Bailey, *The Strategic Plan that Won the Cold War* (McLean, VA: The Potomac Foundation, 1998).

new evidence to critique Dobson's interpretation and present a more comprehensive and nuanced analysis of the administration's policies. More generally, my dissertation adds to a growing body of literature on President Reagan and the Cold War. Newly available evidence has led historians to notice Reagan's pragmatic approach to problems as well as his ability to engage Soviet leader Mikhail Gorbachev on superpower differences, improvise when necessary, and rebel against fellow conservatives who opposed negotiating with Moscow.⁷ Similar themes are noticeable when assessing Reagan's economic Cold War.

Despite the shortcomings in his analysis of the Reagan administration, Dobson has helped shape my own understanding of economic war. In his history of U.S. economic statecraft, he offered a theoretical discussion on economic war in the context of the Cold War. Generally, "economic war" can be defined as any wartime military and nonmilitary actions intended to advance victory by undermining the enemy's economic capacity to wage war. This definition includes activities like bombing factories, industrial sabotage, and total trade embargoes. But the Cold War was not a period of open hostilities. As a result, Dobson used "cold economic war" to distinguish between the tools of economic statecraft available during a hot war and the Cold War's state of political, but not military, confrontation. In essence, the means of economic war and cold economic war differ but the goal remains the same: pursuing victory by weakening an

⁷ Alan P. Dobson, "The Reagan Administration, Economic Warfare, and Starting to Close Down the Cold War," *Diplomatic History* 29, no. 3 (June 2005): 543, 535; Dobson, *US Economic Statecraft*, 271; W. Elliot Brownlee and Hugh Davis Graham, eds., *The Reagan Presidency: Pragmatic Conservatism and Its Legacies* (Lawrence: University of Kansas Press, 2003); Melvyn P. Leffler, *For the Soul of Mankind* (New York: Hill and Wang, 2007); James Graham Wilson, *The Triumph of Improvisation* (Ithaca: Cornell University Press, 2014); James Mann, *The Rebellion of Ronald Reagan* (New York: Penguin Books, 2009).

adversary's potential to wage war or commit aggressions. I agree with this distinction but have opted to use the terms "economic war" and "economic warfare" in lieu of "cold economic war" for the sake of clarity and simplicity. I am not assessing any U.S. contingency plans to use economic policies to win a hot war with the Soviet Union. For my purposes, the terminology is interchangeable.⁸

My research also offers new insight into the Bush administration and the Cold War's dramatic conclusion. Although scholars have been assessing the end of the Cold War for two decades, many have understated the Bush administration's contribution to its peaceful conclusion. Such analyses treat Bush's policies as an extension of Reagan's. For example, Schweizer believed the Reagan administration won the Cold War. Historian John Lewis Gaddis argued that Reagan achieved containment's ultimate goal of fostering change within the Soviet system and depicted Bush as having an ancillary effect on Gorbachev's dramatic actions.⁹ A few scholars have cast doubt on these interpretations. Most notably, Christopher Maynard and John Robert Greene have shown that the Bush administration pursued its own innovative strategy and policies to help shape the end of the Cold War. Even so, these analyses have focused predominately on broad aspects of the U.S.-Soviet relationship like conventional and strategic arms control and aiding democratic reforms within the Soviet bloc.¹⁰ My study deepens our understanding of the

⁸ Dobson, *US Economic Statecraft*, Ch. 11.

⁹ Schweizer, *Victory*; John Lewis Gaddis, *Strategies of Containment*, rev. and expanded ed. (New York: Oxford University Press, 2005) and *The Cold War: A New History* (New York: Penguin Books, 2007).

¹⁰ Christopher Maynard, *Out of the Shadow: George H. W. Bush and the End of the Cold War* (College Station: Texas A&M University Press, 2008); John Robert Greene, *The Presidency of George H. W. Bush*, 2nd ed. (Lawrence: University Press of Kansas, 2015); In *Triumph of Improvisation*, Wilson devotes a chapter to the Bush administration and the end of the Cold War while Leffler, in *Soul of Mankind*, discusses Bush's policies within a chapter focused predominately on the Reagan administration, Gorbachev, and arms control.

Cold War's peaceful resolution through an analysis of the economic dimensions of U.S. policy towards the revolutions of 1989, Gorbachev's reforms, and the subsequent collapse of the Soviet Union. In addition, my dissertation compares the Bush administration's economic strategies and policies with its predecessors', shedding light on its own approach to the Cold War.

Beyond deepening our understanding of the presidents' use of economic statecraft, my dissertation assesses U.S. economic initiatives of the late Cold War as a coherent whole, presenting a unique and fresh interpretation of the fall of détente, the U.S.-Soviet tensions of the early 1980s, and the peaceful conclusion to the struggle against communism. By tracing the formulation, implementation, and impact of U.S. economic statecraft, it exposes how the late Cold War presidents, their advisors, and their West European counterparts set objectives, managed alliance relations, and used economic tools to confront Soviet actions and construct a more stable international order. My dissertation reveals that the late Cold War was not an era defined solely by strategic arms control initiatives and superpower power struggles in the Third World but also U.S. and Soviet moves to navigate security challenges through economic measures.

The United States, in fact, relied more on the use of economic pressures and incentives than scholars have previously understood. Between the 1970s and early 1990s, the Soviet Union intended to overcome its economic decline through deeper commercial relations with the West. Until 1990, the United States continually sought to block Soviet moves, fearing deeper East-West economic relations would enhance Soviet military potential and grant Moscow leverage over the Atlantic alliance. The United States also

attempted to place further pressure on the Soviet economy while convincing U.S. allies to strengthen the regulation of East-West trade to protect their common security. In the late 1980s, trade restrictions and limited economic engagement helped the United States negotiate with the Soviet Union from a position of strength, moving beyond the Cold War. As the Soviet empire crumbled, economic instruments also proved to be the West's most powerful tool in ending the division of Europe, aiding the institutionalization of democratic, market-oriented systems in Eastern Europe, and encouraging Gorbachev to undertake deeper economic reforms.

Chapter one reviews the East-West economic relationship between the start of the Cold War in the 1940s and *détente* in the 1970s. After World War II, the United States and its West European allies instituted a strategic embargo on the Soviet bloc. The Coordinating Committee for Multilateral Export Controls (COCOM) managed this embargo, denying the Soviet Union access to advanced military and industrial goods and technologies. With the rise of *détente* in the 1960s, the East-West economic relationship evolved. The United States and West Europe expanded trade with the Soviet bloc in an attempt to tie it into the international economic system, modify Soviet international behavior, and obtain political agreements. After securing a U.S.-Soviet treaty to curb the arms race, for instance, President Richard Nixon sought to normalize U.S.-Soviet economic relations. Controversies over the Soviet Union's abuse of human rights, purchase of U.S. grain, and theft of Western technologies, however, undermined normalization. In particular, Senator Henry "Scoop" Jackson (D-WA) and Representative Charles Vanik (D-OH) secured an amendment to the 1974 Trade Act linking Soviet

most-favored-nation status to its Jewish emigration policies. These measures stunted U.S. trade with the Soviet bloc while, in Western Europe, trade became engrained in the fabric of the East-West relationship.

While Nixon and Soviet leader Leonid I. Brezhnev resented linkage between trade and human rights, President Carter embraced it. The second chapter shows how President Carter used economic carrots and sticks in an attempt to promote human rights in the Soviet Union and build enduring public support for détente and East-West trade. Brezhnev, however, refused to end Soviet human rights abuses, and Carter retaliated with economic sanctions banning the export of certain oil and gas goods and technologies to the Soviet Union. Rather than building public support for détente and fostering bilateral cooperation, Carter's economic policies helped breed resentment and distrust between the superpowers. After the Soviet invasion of Afghanistan, Carter confronted Soviet external aggression through a grain embargo, among other measures, in an attempt to signal disapproval of the invasion, punish Moscow, and elicit allied cooperation in curtailing East-West trade. But U.S. actions did not have their intended result. International cooperation with the grain embargo broke down, and U.S. allies in Western Europe refused to limit their trade with the East. In fact, Western Europe only deepened their economic relationship with the Soviets. In 1980, the Soviet Union and Western Europe announced plans to cooperate on the construction of a massive Soviet natural gas export pipeline from Siberia to the West. While the United States returned to economic containment, Western Europe maintained the economic relationship of détente. As a result, the Atlantic alliance appeared divided in the face of Soviet aggression.

Chapter three traces President Reagan's approach to East-West economic relations in the context of a divided alliance and heightened U.S.-Soviet tensions. Reagan lifted the grain embargo in order to relieve the burdens on U.S. farmers and calm the fears of U.S. allies and Moscow, who viewed the new administration as too bellicose. But the president considered the Siberian pipeline project a strategic folly that deepened the East-West energy, financial, and technology trade, compromising Western security. The administration believed the pipeline would strengthen the Soviet economy and grant Moscow leverage over the West in the form of its energy exports. Nevertheless, Reagan recognized that U.S. allies had a significant economic interest in maintaining East-West trade. Thus, in 1981, Reagan and his advisors crafted a prudent strategy to secure allied cooperation in restricting selected aspects of this trade while developing natural gas sources alternative to the Soviet Union. Above all, Reagan sought to revive allied cohesion after the Afghanistan crisis. Bureaucratic in-fighting within the administration, however, prevented final presidential approval for the prudent strategy. Hardliners urged the president to force the allies to abandon the pipeline through an embargo while pragmatic advisors warned the allies would repudiate such action, further weakening the alliance. Reagan hesitated to make a decision on his advisors' conflicting recommendations. As a result, a strategy was not adopted in time to affect the pipeline negotiations, a significant foreign policy failure for the new administration.

After the December 1981 declaration of martial law in Poland, Reagan sided with the hardliners and launched an economic war against the Soviet Union, the subject of chapter four. In the midst of the Polish crisis, Reagan hoped U.S. allies would recognize

the Soviet Union could not be trusted and follow his lead to punish Moscow by ending economic cooperation, especially on the Siberian pipeline. The president announced unilateral sanctions on Poland and the Soviet Union that blocked the export of U.S. goods and technologies for the pipeline project. The evidence confirms Dobson's belief that Reagan did not intend to wage an economic war on the Soviet Union but signal U.S. disapproval over martial law and pressure Moscow to abandon its aggressive behavior. But, hardliners conceived of these policies as a part of a strategy to wage an economic war on the Soviet Union designed to undermine the pipeline project and slowly strangle the Soviet economy. In implementing these policies, Reagan consummated the hardliners' strategy.

In spring 1982, the Reagan administration attempted to use the pipeline sanctions as leverage to convince Western Europe to abandon the pipeline deal, develop alternative gas sources, and restrict the flow of government-backed financial credits to the Soviet Union. Reagan also proposed the allies initiate a high-level review of the strategic embargo in COCOM. If the allies did not cooperate, Reagan threatened to expand the December 1981 sanctions, revoking the right of Western European businesses and foreign subsidiaries of U.S. corporations to export U.S.-based goods and technologies for use on the pipeline. But Western Europe refused to cooperate, in part, because Reagan declined to re-impose the grain embargo. In the absence of united allied action, the president felt he had no choice but to force allied compliance with U.S. sanctions in order to maintain the credibility of his policies towards Poland and the Soviet Union.

As shown in chapter five, Reagan's actions precipitated a crisis within the alliance as the West Europeans defied U.S. sanctions and shipped pipeline components to the Soviet Union. The crisis also led to the resignation of Secretary of State Alexander M. Haig, Jr. It was up to the new pragmatic Secretary of State George P. Shultz to mend U.S.-West European relations. The allied dispute undermined the influence of hardliners within the administration, and Shultz convinced Reagan to seek an allied agreement ending the crisis and working towards replacing the unilateral U.S. sanctions with appropriate allied measures. Shultz advocated reviving the prudent strategy for East-West trade and secured an allied deal to end the pipeline sanctions and conduct a review of the East-West energy, financial, and technology trade in fall 1982. In ending the pipeline dispute, Reagan broke with the hardliners and their strategy of economic warfare. While the hardliners had sought to precipitate a collapse to the Soviet economy, Reagan only wanted to condemn the Soviet Union's aggressive behavior and strengthen allied security. The president believed the negotiated settlement to the allied dispute presented a better means to further his goals, so he lifted U.S. sanctions and moved to engage the allies on revising the terms of East-West trade.

With the end to the pipeline fiasco, the Reagan administration switched its diplomatic tactics. Since 1981, the United States advocated its trade policies through high-level discussions, often personally involving President Reagan in the Group of Seven. In late 1982, the administration shifted the allied trade debates to a lower bureaucratic level, producing noticeable results over the next few years. The United States secured allied commitments to end interest rate subsidies for the Soviet Union,

expand and streamline the COCOM system, limit West European dependence on Soviet energy resources, and develop indigenous natural gas sources. The Reagan administration did not get its way entirely. It achieved these results through protracted allied negotiations involving compromises on all sides. And, these achievements were obtainable before the pipeline dispute. The pipeline sanctions, however, spawned a political backlash against Reagan's use of export controls to attack East-West trade. U.S. businesses and the West Europeans successfully lobbied Congress to curtail the president's authority to institute similar export controls in the future. Reagan's pipeline sanctions not only fractured allied relations but also harmed the reputation of U.S. businesses as reliable suppliers and contributed to a weakening of executive authority.

Chapter six explores the relationship between economic engagement and U.S.-Soviet rapprochement in the late 1980s. With the alliance reunited and East-West trade on a prudent path, the Reagan administration engaged Moscow on economic issues as a part of a larger agenda to improve relations and negotiate agreements. Beginning in 1984, Reagan promoted the growth of non-strategic trade with the Soviet Union and resurrected agreements suspended after the invasion of Afghanistan and Polish martial law. The United States used limited economic engagement to help build confidence in the superpower relationship. In a sense, Reagan's 1981-1982 economic war was an interlude in a gradual move towards U.S.-Soviet economic rapprochement since the early 1970s. Unlike Carter, however, Reagan refused to seek a repeal of the Jackson-Vanik amendment or normalize bilateral economic relations. The United States held these measures in reserve until Moscow demonstrated it had modified its international behavior

and liberalized its internal system. Reagan and his advisors recognized that Gorbachev was a transformative Soviet leader, one committed to reforming the Soviet system and building a more stable international order. Behind closed doors, Reagan and Shultz encouraged Gorbachev to end human rights abuses, decentralize the Soviet economy, and introduce market mechanisms in order to benefit from the ongoing information and technological revolution.

Finally, chapter seven examines how President Bush used economic policies to continue U.S.-Soviet rapprochement, respond to the East European democratic revolutions of 1989, and support the transition toward market-oriented economies in the communist world. The Bush administration harnessed economic diplomacy to help end the division of Europe and conclude the Cold War peacefully on terms favorable to U.S. interests. Yet, mounting budget deficits limited the administration's options to respond to the dramatic events of the late 1980s and early 1990s. Bush overcame this budgetary hurdle by offering the East extensive technical assistance in undertaking market reforms and organizing a multilateral aid effort, culminating in twenty-four nations extending help to the former communist world. The United States and its international partners granted Eastern Europe, especially Poland and Hungary, significant debt relief, economic stabilization funds, food aid, and technical assistance. The United States and its COCOM allies also re-structured the strategic embargo, loosening export controls significantly.

At the same time, Bush encouraged Gorbachev to follow Eastern Europe's moves towards democracy and free enterprise. For the first time since the early 1970s, the prospect of normalized U.S.-Soviet economic relations enjoyed popular support among

the American public. Bush waived the Jackson-Vanik amendment and pledged to grant the Soviet Union most-favored-nation status once Moscow codified an open emigration policy. In addition, the president offered the Soviet Union substantial technical assistance and promised deeper support if, and only if, Gorbachev adopted meaningful market-oriented economic reforms. Yet, the Soviet leader hesitated to adopt such measures. As the Soviet economic and political situation deteriorated, Gorbachev asked the United States and Western Europe for a financial bailout. Steadfast, President Bush and his Western counterparts insisted they would only support sound market-oriented reforms, not Gorbachev's murky promises to institute systemic economic reforms at a later date. But, the August 1991 military coup against Gorbachev halted further reform. Nevertheless, Congress granted the Soviet Union most-favored-nation status in late November, removing the last vestige of the economic Cold War. Weeks later, the Soviet Union dissolved. Altogether, this history reveals the significant influence U.S. economic strategies and policies held on the course of the late Cold War. Beyond relying on these tools to strengthen Western security and oppose Soviet international actions, Presidents Carter, Reagan, and Bush used economic statecraft to aid the transformation of the Soviet bloc into less hostile, democratic, and market-oriented nations.

CHAPTER 1: PATTERNS OF EAST-WEST ECONOMIC RELATIONS, 1946-1976

After leaving the California governorship in January 1975, Ronald Reagan began writing biweekly newspaper columns and recording daily radio addresses, each a few minutes long, on contemporary political issues. Reagan's ideas reached millions of Americans through the hundreds of newspapers and radio stations that carried his message. He opened one of his addresses in early July 1979 with ominous words. "Maybe Lenin was right," Reagan stated, "when he said that as time came to hang the capitalists they would vie with each other to sell the communists the rope." The former governor was reacting to recent news that the Soviet Union was placing diesel engines produced at a truck factory near the Kama River, east of Moscow, in military vehicles. The factory was constructed with the help of American equipment and technology under a 1972 agreement. The terms of the deal did not legally preclude Moscow from using the plant for military purposes, but the Nixon administration had assured the nation such diversions would not take place. Reagan warned listeners that the U.S. export control system was in disarray, threatening national security, as the Kama River case clearly demonstrated. In Reagan's view, the risks went much deeper than Soviet production of military vehicles. Soviet missiles were capable of carrying more nuclear warheads than their U.S. counterparts, a feat U.S. officials did not think the Soviets would attain anytime soon. "Then we sold them technology for making infinitely small & precisely engineered ball-bearings—just the kind needed for multiple warheads on nuclear missiles," Reagan said.¹¹

¹¹ Kiron K. Skinner, Annelise Anderson and Martin Anderson, "Introduction," in *Reagan, In His Own Hand*, eds. Skinner, A. Anderson and M. Anderson (New York: The Free Press, 2001), xiv-xv; Richard

Reagan's perspective reflected a growing concern among many Americans that the West was pursuing unwise and shortsighted economic policies towards the East. At the start of the Cold War, the United States and its West European allies instituted a strategic embargo against the Soviet Union. The West sought to block Soviet access to sophisticated goods and technologies that might enhance Soviet military potential. These economic measures were designed to complement military and political efforts to contain Soviet expansion. But in the late 1960s and 1970s, a period of reduced East-West tensions, known as *détente*, characterized the Cold War. The United States and Western Europe moved away from economic containment. Instead of maintaining the strict export controls of the past, the West promoted trade in non-strategic goods with the East as a means to achieve political goals and promote international peace and stability. In Western Europe, this trade became engrained in the fabric of the East-West relationship by supporting key industrial sectors, supplementing energy resources, and securing political benefits. But in the United States these policies helped polarize debates over export controls, East-West economic relations, and *détente*. Controversies over grain and high-technology sales to the Soviet Union tempered the public's enthusiasm for increased trade. Many Americans demanded government action to prevent the Soviet acquisition of advanced technologies that contributed to its military potential. They also wanted the United States to oppose Soviet human rights abuses and its mounting involvement in the Third World. While Western Europe's economic relationship with the Soviet bloc grew dramatically, U.S. trade with the East remained stunted.

Burt, "Soviet Army Linked to U.S.-Aided Plant," May 24, 1979, *New York Times*, A12; Richard Burt, "U.S. Curbs Technology for Soviet," Mar. 19, 1980, *New York Times*, D1; Ronald Reagan, "Soviet Trade," Jul. 9, 1979, in *Reagan, In His Own Hand*, 73-74.

The Birth of the Strategic Embargo

In the era before the Cold War, the U.S.-Soviet economic relationship vacillated between confrontation and cooperation. On the one hand, the United States considered the communist state to be hostile to its national interests. Congress barred the Soviet Union from participating in U.S. financial markets after Moscow repudiated old Czarist debts. On the other hand, prominent American business executives invested in the Soviet economy during the 1920s and 1930s. Henry Ford, for example, helped develop the Soviet automobile industry. During World War II, U.S. lend-lease aid proved instrumental in helping the Soviets defeat Nazi forces on the Eastern front. After the war, the Soviet Union requested a favorable U.S. loan to finance economic reconstruction, and Secretary of Commerce Henry A. Wallace advised President Harry Truman to grant this request. But in the late 1940s, the start of the Cold War ended any prospects for continued economic cooperation. The United States and Soviet Union increasingly saw one another as a hostile threat to their security and international peace. As Soviet leader Joseph Stalin installed puppet governments in Eastern Europe and promoted international communist revolutions, the Truman administration moved to contain Soviet expansion while rebuilding Western Europe and Japan as allies in the global Cold War.¹²

¹² Philip J. Funigiello, *American-Soviet Trade in the Cold War* (Chapel Hill: University of North Carolina Press, 1988), 1-26; Thomas G. Paterson, *Soviet-American Confrontation* (Baltimore: Johns Hopkins University Press, 1973), Ch. 2; For interpretations on the origins of the Cold War, see Campbell Craig and Fredrik Logevall, *America's Cold War* (Cambridge: The Belknap Press of Harvard University Press, 2009); Vladislav M. Zubok, *A Failed Empire* (Chapel Hill: University of North Carolina Press, 2009); Melvyn P. Leffler, *For the Soul of Mankind* (New York: Hill and Wang, 2007); John Lewis Gaddis, *The United States and the Origins of the Cold War* (New York: Columbia University Press, 1972) and *The Cold War: A New History* (New York: Penguin Books, 2005); Wilson D. Miscamble, *From Roosevelt to Truman: Potsdam, Hiroshima, and the Cold War* (New York: Cambridge University Press, 2007).

In the context of the Cold War, the United States adopted a general strategic embargo against the Soviet Union. In 1947, W. Averell Harriman, who replaced Wallace as commerce secretary, argued that Soviet opposition to U.S. efforts to reconstruct the West European economy “constitutes a threat to world peace and, in turn, to US security.” He advised the president to control the export of all goods that “would contribute to Soviet military potential.” Truman promptly implemented this recommendation. The embargo, however, was not a total economic blockade on the Soviet Union. The administration recognized that Western Europe needed access to Soviet raw materials in order to rebuild. Yet, the United States did not want this East-West trade to enhance the hostile Soviet military machine. Thus, Truman used existing executive authority to mandate export licenses for the shipments of goods and technologies to the Soviet Union and its East European allies. Any goods and technologies that contributed to Soviet military and economic potential were denied export. The Export Control Act of 1949 codified this strategic embargo, and the United States produced an exhaustive list of controlled goods and technologies.¹³

While Truman erected the U.S. embargo, he asked Western Europe to adopt similar export controls through the North Atlantic Treaty Organization (NATO), the West’s mutual defense alliance. As historian Ian Jackson shows, the West European governments were willing partners with the United States in creating a multilateral strategic embargo designed to safeguard Western security and contain the Soviet threat.

¹³ W. Averell Harriman to National Security Council, “Control of Exports to the USSR and Eastern Europe,” November 14, 1947, *Foreign Relations of the United States (FRUS), 1948*, vol. IV, Eastern Europe, Soviet Union, (1974): pp. 506-507, available at the University of Wisconsin Digital Collections (UWDC), <http://digital.library.wisc.edu/1711.dl/FRUS.FRUS1948v04> (accessed 5 Jul. 2016); Funigiello, *American-Soviet Trade*, 33-49.

U.S. allies, however, objected to NATO managing the multilateral embargo. They feared public discussions about discriminatory trade practices against the Soviet Union would spark protests from left-wing political movements across Western Europe. As a result, the Truman administration compromised with the allies to form the Coordinating Committee for Multilateral Export Controls (COCOM), a secret and informal group to coordinate their national export control policies in the interest of their common security. Since COCOM was an informal group decisions required unanimous consent and remained nonbinding. Members enforced decisions at their own discretion. Despite these institutional weaknesses, the arrangement proved effective throughout the Cold War. U.S. control lists always tended to be longer and more comprehensive than those of the West Europeans. Nevertheless, COCOM members cooperated to prevent the most sophisticated military goods and technologies from falling into Soviet hands.¹⁴

With the death of Stalin and an end to the Korean War in 1953, the United States and its West European allies reassessed the strategic embargo. The new Soviet leader Nikita Khrushchev denounced Stalin and talked about “peaceful coexistence” with the capitalist world. President Dwight D. Eisenhower remained suspicious of Soviet intentions but wondered whether it was possible to move beyond confrontation. Towards that end, he thought the West should trade more with Eastern Europe in order to decrease their economic dependence on the Soviet Union and help roll back Soviet domination gradually. Doing so required COCOM to review the embargo and loosen restrictions on

¹⁴ In his book *The Economic Cold War* (New York: Palgrave, 2001), Ian Jackson uses newly available evidence to challenge assertions that the Truman administration forced the West Europeans to adopt export controls by linking controls to U.S. aid. For these assertions, see Gunnar Adler-Karlsson, *Western Economic Warfare, 1947-67* (Stockholm: Almqvist and Wiksell, 1968); Michael Mastanduno, *Economic Containment* (Ithaca: Cornell University Press, 1992), 78-82.

trade with Eastern Europe. British Prime Minister Winston Churchill, however, thought such a review should go further, significantly loosening controls on all but the most sensitive trade. In February 1954, Churchill said, “The more trade there is between Great Britain and Soviet Russia and the satellites, the better still will be the chances of our living together in increasing comfort.” Eisenhower thought the prime minister’s proposal risked de-controlling dual-use items, goods with both civilian and military applications. In 1954, at Eisenhower and Churchill’s urging, COCOM initiated a high-level review of the embargo that eliminated the number of controlled items by almost one-half. Four years later, another high-level review led to further reductions but preserved controls on dual-use items. These revisions were the last time allied heads of state were involved in the COCOM review process until the late 1970s.¹⁵

But multilateral cooperation on the embargo did not come without controversies. In the early 1960s, the United States and its allies clashed over West European participation on the construction of the Soviet Union’s Friendship Oil Pipeline, stretching from the Caucasus to the West German border. The 1958 COCOM review removed controls on the export of large-diameter steel pipe, and West European industries were eager to supply the Soviets with this product. In October 1962, three German firms signed contracts to export 163,000 tons of pipe, valued at \$28 million. President John F. Kennedy and his advisors opposed this trade, believing it contributed to the growth of Soviet industry and energy production, indirectly enhancing Soviet military potential. After COCOM refused to re-control these exports, Kennedy turned to the NATO council.

¹⁵ Zubok, *Failed Empire*, 86-87, 93-97, 112; Funigiello, *American-Soviet Trade*, Ch. 4; Jackson, *Economic Cold War*, 123-148, 154-158; Mastanduno, *Economic Containment*, 93-94, Churchill quoted on p. 93.

In November, NATO approved a secret resolution forbidding members to export any steel pipe over nineteen inches in diameter to the Soviet Union.¹⁶

The West German government divided over the NATO resolution. Chancellor Konrad Adenauer and his Christian Democratic Union (CDU) supported the embargo while their coalition partners, the Free Democratic Party (FDP), opposed it. The Social Democratic Party (SDP), the political opposition, also campaigned against the NATO decision. The FDP and SDP did not want to sacrifice West German economic interests or violate the sanctity of the signed contracts. Despite strong public criticisms, Adenauer blocked opposition attempts to undermine the embargo. Adenauer did not think steel pipe constituted strategic materials, but he thought Bonn was obligated to abide by the NATO resolution in the interest of the West's collective security.¹⁷

U.S. interference in this pipeline deal irritated the Soviet Union. The U.S. ambassador in Moscow reported that Soviet Foreign Minister Andrei Gromyko blamed Washington for the West German industrialists abandoning their contracts. Gromyko said the United States always talk about "striving for international cooperation" but "applies gross pressure to stop trade with USSR." Kennedy denied these accusations, but Khrushchev still considered the U.S. conception of strategic goods to be too broad. He mocked the embargo, claiming he would not be surprised if the United States saw buttons as strategic materials. "A soldier will not wear pants without buttons," Khrushchev remarked, "since otherwise he would have to hold them up with his hands. And then what can he do with his weapon?" Meanwhile, the British and Italians reluctantly supported

¹⁶ Angela Stent, *From Embargo to Ostpolitik* (New York: Cambridge University Press, 1981), 93-104; Mastanduno, *Economic Containment*, 128-131.

¹⁷ Mastanduno, *Economic Containment*, 128-131; Stent, *Embargo to Ostpolitik*, 104-109.

the NATO resolution only to later refuse to enforce the embargo on their own industries. U.S. actions delayed construction of the Friendship Pipeline by one year at the cost of disrupting allied and U.S.-Soviet relations. In late 1963, President Kennedy announced the United States would supply the Soviet Union with 500,000 tons of wheat, further upsetting U.S. allies. The administration argued wheat was not a strategic good, but the West Europeans only saw the United States following its economic interests. They believed they were not being treated as equal members of the alliance when it came to East-West economic relations.¹⁸

Trade in the Era of Détente

As the 1960s continued, the West Europeans moved away from strict enforcement of the multilateral embargo. The European economies had recovered from the destruction of World War II, but the Cuban Missile Crisis in 1962 and continual U.S.-Soviet stand-offs over Berlin raised the specter of another, more devastating war. At the same time, American power and influence in the world appeared to be waning. The United States found itself mired in a controversial war in Vietnam and domestic unrest at home. In this context, European governments engaged the Soviet bloc politically and economically in the interest of stabilizing the Cold War competition and, over time, ending the artificial division of Europe between East and West.¹⁹ The United States would follow European moves on détente, seeking a more cooperative relationship with the communist bloc. U.S. and European leaders and policymakers sought to use economic diplomacy to encourage

¹⁸ Telegram, Moscow Embassy to State Department, February 25, 1963, *FRUS, 1961-1963*, Vol. V: Doc 299, <http://history.state.gov/historicaldocuments/frus1961-63v05/d299> (accessed 3 Jun. 2015); Khrushchev quoted in Stent, *Embargo to Ostpolitik*, 93, also see 104, 112-124.

¹⁹ Jussi M. Hanhimäki, *The Rise and Fall of Détente* (Washington, D.C.: Potomac Books, 2013), Ch. 1.

Soviet cooperation. They hoped trade would produce a growing economic relationship that would moderate the Soviet Union's international behavior and reward it for abiding by international norms to stabilize the Cold War. In effect, the economic policies of détente challenged the premise of the economic Cold War. In the late 1940s, the West created the strategic embargo due to its ideological and geopolitical fear of Soviet power. Détente's economic diplomacy, however, promoted normalized East-West economic relations, treating the Soviet Union as just another "normal" state.

French President Charles de Gaulle was one of the most notable initiators of détente. He advocated a reunited European continent independent from U.S. and Soviet influence, and the president believed France should lead the movement for European autonomy. In addition to forging closer ties with the West German government and Soviet bloc, de Gaulle withdrew France from NATO's integrated military structure in 1966. Partly in response to de Gaulle's initiatives, NATO adopted the 1967 Harmel Report, advising the alliance maintain its military preparedness but negotiate with the East to enhance European security. De Gaulle's policies and ideas challenged the bipolar Cold War system in an attempt to chart an independent European destiny led by France.²⁰

Like de Gaulle's France, the Federal Republic of Germany (FRG) also stepped out of America's shadow to shape East-West relations. Under Adenauer (1949-1963), Bonn implemented the Hallstein Doctrine, a policy of refusing to conduct relations with any nation that recognized the East German state, the German Democratic Republic (GDR). Bonn's top foreign policy priority was the reunification of Germany, and it resisted any moves that might lend legitimacy to the GDR. In effect, the doctrine

²⁰ Ibid.

precluded West German diplomatic relations with the Soviet bloc for the first half of the postwar period. But Adenauer's successors explored closer relations with the East. Most prominently, the Chancellor, and former Mayor of West Berlin, Willy Brandt (1969-1974) abandoned the Hallstein Doctrine and sought to promote German reunification over time through social, economic, and political contact with the Soviet bloc. As Werner D. Lippert argues, increased trade with the East, or *Osthandel*, was a key component of Brandt's *Ostpolitik*, political policies towards the East. Brandt used economic diplomacy in an attempt to lure Moscow into political cooperation designed to open the iron curtain to Western contact. Brandt's government lobbied FRG banks to extend the Soviet Union credit at below market rates and agreed to increase Soviet energy imports for more industrial exports to the East. These economic developments paved the way for political windfalls, such as a nonaggression pact, the settlement of international borders, and an agreement over the status of Berlin. Brandt's *Osthandel* and *Ostpolitik* were interlinked policies changing the European status quo through rapprochement.²¹

In this more amicable atmosphere, West German-Soviet trade flourished. In 1967, West Germany imported about \$265 million worth of goods from the Soviet Union, and exported almost \$200 million. By 1977, these numbers grew six-fold to \$1.8 and \$2.7 billion. In 1979, almost ninety-five percent of West German exports to the Soviet Union consisted of finished industrial goods, such as large-diameter pipes, and the West German machine-tool industry depended on the Soviet bloc for one-third of its total exports.²²

Although FRG exports to and imports from the U.S.S.R. as a percentage of its total trade

²¹ Ibid., 11, 61-64; Werner D. Lippert, *The Economic Diplomacy of Ostpolitik* (New York: Berghahn Books, 2011).

²² Stent, *Embargo to Ostpolitik*, 208-211.

only amounted to a little over two percent in 1980, the Eastern markets were vital to the health of the West German industrial sector. While the FRG was the Soviet bloc's largest trading partner, the other West European nations also increased their trade with the Soviet Union, with total trade jumping from \$2.5 billion in 1970 to almost \$21 billion in 1981.²³ Between 1968 and 1977, total East-West trade—trade between the U.S.S.R., China, Eastern Europe and Western Europe, Scandinavia, Canada, Japan, and the United States—grew from \$11.6 billion to \$54.1 billion. The U.S. share of the total remained paltry, rising from 0.2 to 1.1 percent. With the help of Western industrial goods and technologies, total Soviet oil and natural gas exports skyrocketed from \$400 million in 1970 to \$14 billion in 1980.²⁴ By 1980, around seventy percent of total Soviet energy exports went to the member nations of the Organization for Economic Cooperation and Development (OECD), and Western Europe depended on Soviet natural gas imports to meet thirteen percent of their energy needs in 1982. Brandt's *Ostpolitik* had opened the door to political rapprochement and greater East-West economic relations. But, as Lippert posits, these connections helped create a paradigm shift in West German views of the Soviet Union. The Soviet Union was no longer an aggressive power bent on

²³ CIA Intelligence Assessment, "Soviet Economic Dependence on the West," Jan. 1, 1982, p. 7. This report and other CIA primary documents are available through the Reagan Collection in the CIA FOIA Reading Room (hereafter, CIA RC), <http://www.foia.cia.gov/collection/reagan-collection> (accessed Jun. 2014). The website has changed since conducting my initial research, making it more difficult to navigate. I recommend accessing the collection through the Wayback Machine:

<http://web.archive.org/web/20130412234252/http://www.foia.cia.gov/collection/reagan-collection>. All CIA RC citations refer to the archived list; David Buchan, "Western Security and Economic Strategy towards the East," *Adelphi Papers*, no. 192, London: The International Institute for Strategic Studies, (1984): 6.

²⁴ Office of Technology Assessment, *Technology and East-West Trade* (Washington, D.C.: U.S. Government Printing Office, 1979), 39; CIA Intelligence Assessment, "Soviet Economic Dependence," p. 2.

expansion but “a benign power with virtually unlimited economic potential,” and the West now had an interest in Soviet economic development.²⁵

Ascending to the U.S. presidency in 1969, Richard M. Nixon and his talented National Security Advisor Henry Kissinger interpreted Brandt’s *Ostpolitik* as a challenge to American leadership and interests in Europe. The stalemated Vietnam War made Nixon, Kissinger, and many Americans realize that there were limits to U.S. power, and the Sino-Soviet split undermined the Cold War axiom that the international communist movement was a monolith led by Moscow. Thus, Nixon and Kissinger sought to create a new balance of power that maintained American interests without the high costs of far-flung U.S. military commitments across the globe. Attempting to create this new structure of peace, they extricated the United States from Vietnam, opened relations with communist China, and concluded a strategic arms limitation agreement (SALT I) with the Soviet Union. Yet Nixon and Kissinger feared the Soviet Union would exploit *Ostpolitik* to encourage German neutralism in the Cold War, fracture NATO’s unity, and undermine the structure of peace they intended to erect. They believed the negative aspects of *Ostpolitik* had to be contained, and in time, the administration worked with Brandt’s government to coordinate their policies towards the East, paving the way for détente between the United States and the Soviet Union. Recognizing the limits of U.S. power and fearing the growth of European Cold War autonomy, Nixon and Kissinger imitated

²⁵ Buchan, “Western Security,” 32; Memo, Director of Soviet Analysis to Deputy Director for Intelligence, “Western Alternatives to Soviet Natural Gas,” May 20, 1982, CIA RC (accessed 30 Jun. 2015); Lippert, *Ostpolitik*, 74.

Europe's move towards détente and returned the Cold War's focus to superpower relations through the 1972 Moscow Summit.²⁶

As with Brandt's policies, economic diplomacy was one of Nixon and Kissinger's key tools to pursue détente. Whereas Brandt employed *Osthandel* to entice closer political relations with the Soviets, Nixon and Kissinger linked improved U.S.-Soviet economic relations to cooperative political relations. And unlike his predecessors, Nixon had the discretionary legal authority to do so. The Export Control Act of 1949 had mandated a general embargo against the Soviet Union. Under it, all U.S. exports to the Soviet Union required government approval. The act was up for renewal in 1969. Reacting to the Sino-Soviet split and détente, Congress significantly changed the law with the Export Administration Act of 1969 (EAA). Congress noted that the strict export system placed American businesses at a competitive disadvantage in the East-West marketplace. The new law liberalized the export system, permitting controls only on items that demonstrated military potential as opposed to creating a legal framework for a general embargo on military, industrial, and commercial goods, as contained in the previous act. Due to the EAA, businesses were no longer required to obtain validated licenses to export any good to the Soviet Union unless the good was on the U.S. control list. By the late 1970s, only five to ten percent of U.S. exports to the East required a validated license. The EAA still authorized the control of dual-use items but overall

²⁶ Hanhimäki, *Rise and Fall of Détente*, Ch. 3, 61-71.

advocated a more cooperative economic relationship with the communist bloc. The law's name alone signified this shift: the *administration*, not *control*, of U.S. exports.²⁷

The U.S. export control list was always longer and more restrictive than those of Western Europe. Using the new authority in the EAA, the Nixon administration began de-controlling items to bring the U.S. control list closer to the lists of U.S. allies. After negotiators made progress on SALT, Nixon rewarded the Soviets by approving selective export licensing and promising export credits. To explore improved economic relations, Nixon sent Secretary of Commerce Maurice H. Stans to the Soviet Union in late 1971. In December, Stans reported to the president that the Soviet Union faced “critical shortages” of housing and consumer goods and was about a “generation behind the United States in industrial advances.” Moscow wanted most-favored-nation status and a trade agreement with the United States, as well as credits to import more goods and relaxed U.S. export controls. The Soviets expected to conduct two billion dollars of trade with the United States by 1975. Kissinger advised the president to temper the secretary's optimism, and Nixon told Stans that while he was not opposed to doing business with the Soviets, prospective deals had to “be governed completely by the state of our political relations.” In other words, Nixon maintained that expanded U.S.-Soviet trade remained linked to improvements in the broader superpower relationship.²⁸

²⁷ Philip J. Funigiello, *American-Soviet Trade*, 177-182; Office of Technology Assessment, *Technology and East-West Trade*, 115-117, 127.

²⁸ Funigiello, *American-Soviet Trade*, 177-182; Memorandum for the President's File, undated, *FRUS*, 1969-1976, Vol. IV, Foreign Assistance, International Development, Trade Policies, 1969-1972, ed. Bruce F. Duncombe (Washington, D.C.: U.S. Government Printing Office, 2002): Doc. 352, <http://history.state.gov/historicaldocuments/frus1969-76v04/d352> (accessed 30 Jun. 2015).

The Soviet Union was willing to cooperate with Nixon's initiatives. The Soviet General Secretary Leonid I. Brezhnev (1964-1982) aimed to reform the ailing Soviet economy through imported Western technologies and goods financed by Soviet energy exports and generous financial credits from the West. By the early 1970s, the Soviet economy entered a period of deceleration as industrial, agricultural, consumer, and investment outputs declined. Central planners poured more resources into the economy but production inefficiencies prevented improvement. As a result, Moscow desired Western capital goods and technologies to overcome inefficiencies and fix the stagnation. Western oil and natural gas drilling equipment and technology helped the Soviet Union increase its energy exports. With Western help, the Soviet Union constructed sophisticated industrial plants to produce machine-tools, heavy machinery, chemical fertilizers, and more.²⁹ An unprecedented symbiotic economic relationship was emerging between East and West.

By May 1972, this linkage between economic relations and improved political relations paid off at the Moscow Summit. Nixon and Brezhnev concluded SALT I, the first superpower agreement to curb the arms race. The president told Brezhnev that SALT I would help him win congressional support for increased trading relations, and Moscow agreed to settle its lend-lease debt. In October 1972, the United States and Soviet Union signed a comprehensive trade agreement, offering most-favored-nation status and Export-Import Bank credits to the Soviet Union, pending congressional approval. They also agreed to encourage more bilateral trade by establishing a Joint Commercial Commission

²⁹ Philip Hanson, *The Rise and Fall of the Soviet Economy* (New York: Longman, 2003), 103-134; Lippert, *Ostpolitik*, 62-74.

and to undertake a range of other joint projects from medical and environmental research to space flight and maritime agreements.³⁰ By the end of the year, it appeared Nixon and Kissinger had reconstituted U.S.-Soviet economic relations, moving the relationship beyond economic containment towards normalization.

On March 14, 1973, Secretary of the Treasury George P. Shultz met with Brezhnev in Moscow to discuss ways to continue normalization. Both individuals were optimistic about the future, and Brezhnev talked about a new economic era not defined by nominal trade but “economic cooperation” in which the superpowers took a sincere, long-term interest in one another’s economic development and needs.³¹ The Nixon administration viewed the new superpower relationship in similar light. Speaking before a trade conference in Athens, Georgia in April 1973, Under Secretary for Economic Affairs William J. Casey laid out the assumptions guiding the administration and the president’s achievements on trade thus far:

We are seeking to build and expand East-West trade as a pivotal element in a structure of peace. We see economic interdependence as a great force for peace. We seek rising economic collaboration to scale down military competition. We see the building of living standards bringing into play an economic equation which will require scaling down the commitment to arms as it becomes necessary to expand the commitment to trade and development. We see trade and all the

³⁰ Funigiello, *American-Soviet Trade*, 177-184.

³¹ Memorandum of Conversation, Mar. 14, 1973, *FRUS, 1969-1976*, Vol. XV, Soviet Union, eds. Douglas E. Selva and Melissa Jane Taylor (2011): Doc. 84, <http://history.state.gov/historicaldocuments/frus1969-76v15/d84> (accessed 30 Jun. 2015).

other strands of economic relationships as threads with which a structure of peace can be woven.

The Nixon administration pursued East-West trade as a means to integrate the Soviet Union into the international economy in order to moderate Soviet international behavior and stabilize the Cold War. Casey promised U.S. businesses would benefit from the virtually untapped Soviet market. He stressed a need to compete with European exporters who were currently conducting four to five percent of their total foreign trade with the communist world compared to America's one percent. Of course, the administration would still control critical strategic and military exports, but it intended to trim the lengthy U.S. embargo list, bringing it in line with "internationally agreed levels."³² In effect, Nixon and Kissinger adapted Brandt's *Osthandel* and *Ostpolitik* towards their own political ends, and the administration resurrected the argument of a profitable Soviet market advanced by some prominent American business leaders at the end of World War II.

But as the Nixon administration celebrated the economic agreements reached with the Soviet Union, Moscow took actions that made Americans view the new economic relationship with skepticism and apprehension. In July 1972, the administration announced a new three-year grain agreement with Moscow under which the Soviet Union would import American grain with the help of a \$750 million credit arrangement. During the negotiations, Soviet officials expressed interest in importing American feed grains and corn to strengthen the Soviet livestock industry. Secretary of Agriculture Earl Butz

³² William J. Casey, "Prospects and Policy on East-West Trade," *Department of State Bulletin* 68 (1973): 638-643.

accepted Soviet claims; after all, the Soviet wheat harvest appeared to be strong, and Brezhnev made increased meat consumption an economic priority. In reality, the harvest was a catastrophic failure, and the Soviet Union was moving to purchase large quantities of wheat on the international market before prices reacted to the its high import demand.³³

While U.S. and Soviet negotiators finalized the grain agreement, two Soviet agents operating out of a New York City hotel room concluded separate, secret agreements with six American companies to purchase a quarter of the 1972 U.S. wheat harvest. Michel Fribourg, President of Continental Grain, later claimed that his company's agreement to sell \$460 million worth of wheat to the Soviet Union represented the "largest single transaction a private business had negotiated up to that time." By August 1972, the Soviet Union had purchased about 19 million tons of grain, almost all of the stored U.S. surplus, worth \$1.14 billion. Since Soviet officials concealed the results of their 1972 harvest and bought U.S. grain through individual private companies, Moscow was able to buy the wheat before prices skyrocketed from \$1.32 a bushel in early July to \$2.10 in late August. The Soviet Union had outmaneuvered the market in what was soon dubbed, "The Great Grain Robbery." The rapid grain sales resulted in increased food prices throughout the United States. The price of food items listed in the Consumer Price Index jumped over two percent between December 1972 and January 1973, with meats actually increasing three percent. Prices continued to rise by similar rates in February and March, and almost ten thousand people lost their jobs once

³³ Funigiello, *American-Soviet Trade*, 184; James Trager, *The Great Grain Robbery*, rev. ed. (New York: Ballantine Books, 1975), 37.

small bakeries could no longer afford the price of flour. These prices increases came in an era of rising inflation and economic problems. Between 1968 and 1971, the Consumer Price Index for commodities and services rose around seventeen percent. Rising inflation led President Nixon to impose temporary wage and price controls in 1971, a measure he reinstated for food items following the Great Grain Robbery.³⁴

As Nixon pushed normalization, the American people and political leaders reacted against the Great Grain Robbery. Farmers across the nation lost millions of dollars in potential profits since the U.S. Department of Agriculture (USDA) failed to foresee increased Soviet grain demand. Representative Neal Smith (D-IA) lambasted the USDA's oversight and falling for the Soviets "diverting attention" during grain talks. Consumers decried the inflated food costs. The *Boston Globe* published a focus article subtitled "how Russians get fed, dealers get fat and farmers fume." The article identified a group of people who moved between positions in the USDA and agribusiness at the time of Soviet grain purchases. It accused these individuals of using insider information to help agribusiness reap obscene profits from Soviet grain needs. The USDA also paid farmers \$300 million in price subsidies, meaning the U.S. government, in effect,

³⁴ Trager, *Grain Robbery*, 2-5, Ch. 2; Funigiello, *American-Soviet Trade*, 184; Bruce Davidson, "FOCUS: The Great Grain Robbery," Oct. 22, 1972, *Boston Globe*, A1; Senate Permanent Subcommittee on Investigations, *Russian Grain Transactions*, 93rd Cong., 1st sess., Jul. 20, 23, and 24, 1973, p. 1; Council of Economic Advisors, *Economic Indicators*, 92nd Cong., 2nd sess., Jan. 1972, 26, available at the Federal Reserve Bank of St. Louis' Federal Reserve Archive, https://fraser.stlouisfed.org/scribd/?item_id=130&filepath=/docs/publications/ei/1972/EI_011972.pdf (accessed 4 Jul. 2016); James T. Patterson, *Grand Expectations* (New York: Oxford University Press, 1996), 740-741.

subsidized the Soviet grain purchase. White House views and the mood of the American public on normalized U.S.-Soviet economic relations were diverging.³⁵

Acting on the public outrage, Senator Henry “Scoop” Jackson (D-WA), as Chairman of the Permanent Investigations Subcommittee, launched an investigation into the USDA and the grain sale. Jackson was a conservative Democrat and the most influential critic of détente. He rose to prominence as an opponent of SALT I, arguing it risked national security since it permitted the Soviets to have more intercontinental ballistic missiles than the United States. Ostensibly, Jackson called for the investigation into the grain sales to prevent future sales from hurting American farmers and consumers. But in truth, Jackson desired another issue to use in the fight against détente. He announced his conclusions before the hearings even started. In his opening statement, Jackson declared, “The grain sale bought food to the Russians, huge profits to a few giant corporations, and more inflation to the American people.” He claimed the “USDA is guilty of incredible negligence” or “guilty of a deliberate attempt to conceal” the negotiations, hurting farmers and costing the taxpayers \$300 million. Senator Abraham Ribicoff (D-CT), another détente critic, agreed with Jackson, accusing the Nixon administration of concluding the grain agreement for “political reasons” even though it “was of such obvious benefit to the Soviet Union and such a disaster to the American taxpayer.” Jackson and Ribicoff used the investigations for political grandstanding, which another committee member pointed out. Despite the political theater, the investigation did

³⁵ Trager, *Grain Robbery*, 77; Davidson, “FOCUS: The Great Grain Robbery”; Subcommittee on Investigations, *Russian Grain Transactions*, p. 2; Austin Scott, “‘Great Grain Robbery’ Firms Were Involved,” Oct. 6, 1974, *The Washington Post*, A19; “Report Hits USDA Over Grain Trade,” Oct. 8, 1972, *Chicago Tribune*, A12.

reveal that current reporting procedures on the grain trade were inadequate. The USDA, to the detriment of the national interest, was not aware of what agreements private companies were reaching with the Soviet Union or other groups.³⁶

To guard against another adverse grain sale, President Gerald Ford signed a new long-term grain agreement with the Soviet Union in 1975 that limited how much grain could be purchased in a single year. But the Great Grain Robbery continued to weigh on the public's psyche, helping to temper enthusiasm for increased trade with the East. After two firms publically revealed new grain sales to the Soviet Union in July 1975, a *New York Times* reporter claimed these deals were "still marked by secrecy" with the U.S. government knowing "very little." Even though these two firms were forthcoming with information, the reporter stated that "the simplest query directed to a grain company can produce a response worthy of a request for atomic secrets." Despite the precautions in the 1975 agreement, some feared that another "robbery" could take place. After another failed harvest in 1977, Moscow walked away from a USDA proposal to sell the Soviet Union up to 15 million tons of grain. The *Chicago Tribune* speculated that Moscow had already bought what it needed off the international market. "Did Russ[ia] pull it again?," asked the newspaper.³⁷

Ronald Reagan commented on the growing U.S.-Soviet grain trade as well. In an October 1975 radio address, Reagan argued that the United States should stop selling

³⁶ Hanhimäki, *Rise and Fall of Détente*, 80-81; Subcommittee on Investigations, *Russian Grain Transactions*, pp. 2-5, also see Clarence D. Palmby's and Earl L. Butz's Testimonies, pp. 45-51 and 91-135, respectively.

³⁷ Funigiello, *American-Soviet Trade*, 184-185; George Anthon, "Grain Deals With Russia Are Still Marked by Secrecy," Jul. 20, 1975, *New York Times*, E2; "'Great Grain Robbery': Did Russ Pull It Again?," Nov. 17, 1977, *Chicago Tribune*, C12.

grain to the Soviet Union for moral and national security reasons. Of course, Reagan noted, American farmers want to sell their grain to the Soviets, and “if we believe in a free market” farmers should be permitted to do so. But the grain sales aided the troubled Soviet economy, letting Moscow maintain its high military spending and threaten American security interests. In addition, Reagan asked, “Are we not helping a Godless tyranny maintain its hold on millions of helpless people? Wouldn’t those helpless victims have a better chance of becoming free if their slave masters regime collapsed economically?” He concluded that while the grain deal benefitted American farmers, the United States should “*simply do* what’s morally right” by stopping the sales and letting the Soviet “system collapse.”³⁸

While the controversies over grain sales were in the public spotlight, Senator Jackson and Representative Charles Vanik (D-OH) also attacked the trade agreement Nixon reached with Brezhnev in October 1972. Together, these congressional allies linked Soviet most-favored-nation status to Soviet Jewish emigration, frustrated Nixon, Kissinger, and Brezhnev, and helped undermine economic cooperation between the superpowers. In August 1972, the Soviet government imposed a tax on emigrants, supposedly, to recover costs for the emigrant’s state-funded education. In practice, the tax was only applied to Soviet Jews to discourage emigration to Israel. The Soviet Union had long opposed its citizens leaving the nation. Joseph Stalin believed emigrants were “traitors to the Motherland,” and his successors feared that loosened emigration policies would foster domestic instability. As Soviet Ambassador to the United States Anatoly Dobrynin stated, “It was not much easier to emigrate than qualify for cosmonaut

³⁸ Reagan, “Russian Wheat Deal,” Oct. 1975, in *Reagan, In His Own Hand*, 30-31.

training.” Even so, the Soviet Union was gradually liberalizing its emigration policies despite the new tax. Only 8,300 Soviet Jews were permitted to emigrate between 1945 and 1968. By 1972, the number grew to almost 30,000.³⁹

In response to the Soviet tax, Jackson and Vanik proposed amendments to a trade reform bill in late 1972. These amendments denied most-favored-nation status to any nation that denied its citizens the right to emigrate. After the December 1972 congressional recess, Jackson and Vanik organized the support of Jewish political groups and labor unions to force a showdown with the Nixon administration over U.S.-Soviet trade relations. The Nixon administration lobbied hard against these amendments.⁴⁰ In meetings with bipartisan congressional leaders and prominent Jewish-American groups, Nixon argued the Soviets viewed emigration as an internal matter and would react negatively to a link between trade and emigration. If the Congress passed the amendments, Nixon stated, “the door will come down hard and there will be no Jewish emigration,” then the United States would not have any leverage to push for a reversal. Continuing U.S.-Soviet strategic and conventional arms control talks would be “seriously jeopardized.”⁴¹ In effect, the Jackson-Vanik amendment threatened to derail the progress in bilateral relations. The president stated that it was better to discuss Jewish emigration with Soviet officials behind closed doors, and Nixon received *private* assurances from Moscow that it would exempt Soviet Jews from paying the tax. Congressional and Jewish

³⁹ Anatoly Dobrynin, *In Confidence* (New York: Random House, 1995), 267; Zubok, *Failed Empire*, 231-232.

⁴⁰ Hanhimäki, *Rise and Fall of Détente*, 82-83; Funigiello, *American-Soviet Trade*, 185-186.

⁴¹ Meeting between President Nixon and the Bipartisan Congressional Leadership, Apr. 10, 1973, *FRUS, 1969-1976*, Vol. XV: Doc. 94, <http://history.state.gov/historicaldocuments/frus1969-76v15/d94> (accessed 1 Jul. 2015).

leaders refused to back down. While visiting the United States in the summer of 1973, Brezhnev even asked the Senate Foreign Relations Committee to drop the amendments to no avail.⁴²

After Nixon resigned in August 1974, President Ford and Jackson reached a compromise: a “freedom of emigration waiver” was incorporated into the law under which the president could still grant the Soviet Union most-favored-nation status, subject to annual congressional review. The Trade Reform Act, including the Jackson-Vanik amendment and the waiver, became law in December 1974. But the Soviet Union still did not obtain most-favored-nation status. The Soviet leadership refused to give *official* assurances on emigration, as required for the waiver, and called the Jackson-Vanik amendment a “clear-cut contradiction not only with an agreement reached between our countries in 1972 on an unconditional elimination of discriminatory restrictions in trade, but also with the principle of noninterference into the domestic affairs of each other.” In defense of Soviet internal sovereignty, Moscow abrogated the trade agreement with the United States.⁴³

The Jackson-Vanik amendment was not the only congressional legislation restricting U.S.-Soviet trade. In December 1974, Congress passed an Export-Import Bank reauthorization bill with an amendment, proposed by Senator Adlai E. Stevenson III (D-

⁴² Message from the Soviet Leadership to President Nixon, undated, *Ibid.*: Doc. 89, <http://history.state.gov/historicaldocuments/frus1969-76v15/d89>; Memo, Helmut Sonnenfeldt to Henry Kissinger, Apr. 11, 1973, *Ibid.*: Doc. 96, <http://history.state.gov/historicaldocuments/frus1969-76v15/d96>; Editorial Note, *Ibid.*: Doc. 99, <http://history.state.gov/historicaldocuments/frus1969-76v15/d99> (all *FRUS* Docs. accessed 1 Jul. 2015); John W. Finney, “Nixon Tells Jewish Group Soviet Exit Tax Is Ended,” *New York Times*, Apr. 20, 1973, 63.

⁴³ Funigiello, *American-Soviet Trade*, 187-188; Note from the Soviet Leadership to President Ford, Jan. 10, 1975, *FRUS, 1969-1976*, Vol. XVI, Soviet Union, ed. David C. Geyer (2012): Doc. 117, <http://history.state.gov/historicaldocuments/frus1969-76v16/d117> (accessed 1 Jul. 2015); See Jackson-Vanik Amendment in the appendix of Hanhimäki, *Rise and Fall of Détente*, 188-190.

IL), placing a ceiling on official credits to the Soviet Union. If Moscow had complied with the provisions of Jackson-Vanik, it would still have had to overcome the Stevenson amendment's credit hurdle. The amendment limited Export-Import Bank loans and guarantees to \$300 million over the next four years. Of that amount, only \$40 million could be used to finance goods and technologies for Soviet energy exploration and research but not energy production and transmission. These limits represented significant credit restrictions considering the Soviet Union received \$460 million in credits between February 1973 and April 1974. Before the amendment, the bank projected over \$1.2 billion in new credits to the Soviet Union through 1977. Moscow needed these credits to finance its trade with the West due to its limited hard currency supplies. The Stevenson amendment meant U.S.-Soviet trade would remain relatively small compared to Soviet trade levels with West Europe. Stevenson proposed the amendment because he questioned whether "the United States can buy détente with credits" and claimed the superpower's fundamental political disagreements "will not vanish at the first sign of American cash." The Senator's views found widespread support among congressional members who were increasingly skeptical of détente and feared official credits would indirectly finance Soviet industrial strength and military power.⁴⁴

The Jackson-Vanik amendment and the Stevenson amendment, to a lesser extent, were continual points of contention in U.S.-Soviet economic relations throughout the late 1970s and 1980s. No president wanted to expend extensive political capital seeking a

⁴⁴ "Compromise Export-Import Bank Bill Cleared," in *CQ Almanac 1974*, 30th ed., 203-9 (Washington, DC: Congressional Quarterly, 1975), <http://library.cqpress.com/cqalmanac/cqal74-1224313> (accessed 25 Jul. 2015); Office of Technology Assessment, *Technology and East-West Trade*, 146-148, for Stevenson quotation, see p. 147; Funigiello, *American-Soviet Trade*, 188-189.

repeal of the amendments, and Moscow resented the United States meddling in its internal affairs. The amendments cast a shadow on future U.S.-Soviet economic cooperation. In the near-term, the amendments eroded the foundations of U.S.-Soviet cooperation since they violated the Soviet Union's understanding of détente and limited Soviet access to credits. As Raymond Garthoff demonstrates, the United States and Soviet Union held different conceptions of détente, and these differences contributed to misunderstandings that doomed cooperation. Moscow viewed détente as peaceful coexistence in which the United States recognized the Soviet Union as its equal. As an equal, Moscow believed it could exercise the same rights and enjoy the same privileges as the United States in the international system. It also expected the United States to respect Soviet internal matters. The United States, on the other hand, conceived of détente as way to contain the arms race and curb the prospects of nuclear confrontation; implied in this definition was an understanding that the Soviet Union would not disrupt international stability. Once crises erupted in the Middle East, Africa, and Central Asia, Moscow moved to support its Third World allies, and Washington suspected the Soviet leadership of sponsoring instability. Disputes over Soviet internal matters and Third World crises resulted in renewed Cold War tensions. While tensions mounted, prospects for economic cooperation became embroiled in controversies until détente collapsed and U.S.-Soviet economic cooperation returned to confrontation.⁴⁵

Jackson is most well-known for his opposition to strategic arms talks and the Jackson-Vanik Amendment. But there was another issue Jackson championed in the fight

⁴⁵ Raymond L. Garthoff, *Détente and Confrontation*, rev. ed. (Washington, D.C.: The Brookings Institution, 1994).

against détente and normalized U.S.-Soviet economic relations: strengthened export controls to combat technology transfer to the Soviet bloc. During détente critics argued the department and COCOM members relaxed licensing enforcement, permitting the Soviet Union to obtain high-tech goods, like computers and airframes, that improved its military capabilities. Jackson suggested a solution to this technology transfer problem in a speech before the Senate on June 11, 1974. He maintained that the Department of Commerce was understaffed and lacked the necessary military expertise to identify strategic and military critical goods and technologies. Therefore, Jackson proposed an amendment to a defense procurement bill to grant the secretary of defense the authority to review and block any export license he or she believed would compromise U.S. national security. The senator told his colleagues that the Soviet Union was currently building a “large-capacity aircraft-manufacturing complex for the quantity production of wide-bodied transport aircraft” even though “the Soviets have no need for so many long-range jets.” Moscow was also importing Western computers and integrated circuits, far superior to Soviet designs, which could be used in military applications. Jackson reminded the Senate that the United States made the mistake of selling Japan scrap iron before World War II that “came back on battlefields in the Pacific.” In the current era, Jackson warned, “The Soviet Union has more men, more planes, more tanks, and more of almost every other kind of armament than we do. It is only the quality of our weapons that allows us to maintain the military balance.” To Jackson, the secretary of defense needed the authority to block certain exports in order to protect U.S. national security. The Nixon administration opposed Jackson’s amendment, but the Senate approved it with the

modification that the President be permitted to override the defense secretary's objections, if necessary.⁴⁶

The Department of Defense welcomed Jackson's amendment, and in July 1974, Defense authorized its own study on the effectiveness of the U.S. export control system in an era of prospective U.S.-Soviet cooperation. The result was the landmark 1976 report *An Analysis of Export Control of Advanced Technology*, better known as the Bucy Report after J. Fred Bucy, the executive vice-president of Texas Instruments who chaired the study task force. The fifteen-member task force examined the problem of technology transfer in four industries representative of high-technology: airframes, aircraft jet engines, instrumentation, and solid state devices. They concluded that both the U.S. and COCOM export control systems were ineffective at limiting the transfer of these technologies to the Soviet bloc. The task force argued that control lists overemphasized restrictions on end-products and failed to prioritize limiting access to goods and technologies with direct military significance. The report recommended new assumptions to guide the Departments of Defense and Commerce in revising the U.S. and COCOM control systems.⁴⁷

It recommended that the embargo system focus on controlling "design and manufacturing know-how—the detail of how to do things." Military significance items were those containing such know-how. End-products, aside from those with direct

⁴⁶ Henry Jackson, "Technology Transfer to Soviet Bloc Countries," Jun. 11, 1974, in *Henry M. Jackson and World Affairs: Selected Speeches, 1953-1983*, ed. Dorothy Fosdick (Seattle: University of Washington Press, 1990), 220, 221; "\$22.2-Billion Authorized for Weaponry" in *CQ Almanac 1974*, 30th ed., 571-586 (Washington, DC: Congressional Quarterly, 1975), <http://library.cqpress.com/cqalmanac/cqal74-1221519> (accessed 11 Jun. 2015).

⁴⁷ Mastanduno, *Economic Containment*, 186-187; Office of the Director of Defense Research and Engineering, *An Analysis of Export Control of U.S. Technology - a DOD Perspective* (Hereafter Bucy Report) (Washington D.C.: 4 Feb. 1976).

military use, were not important. In general, end-products did not transfer knowledge on how to produce superior technologies and goods. Reverse-engineering end-products typically failed or yielded unsatisfactory results. Limiting Soviet access to know-how was critical to protecting America's lead times in strategic technologies. The report stated, "The release of know-how is an irreversible decision. Once released, it can neither be taken back nor controlled. The receiver of know-how gains a competence which serves as a base for many subsequent gains." As one Defense official explained, the United States could produce superior combat aircraft because the United States mastered the process of manufacturing heat-resistant turbine blades. These blades enabled U.S. aircraft to operate at higher temperatures, outperforming Soviet aircraft.⁴⁸ Controlling know-how meant maintaining America's technological superiority over the enemy.

The Bucy Report suggested the United States heavily regulate and monitor trade arrangements involving the extensive transfer of technical data and training in order to guard American know-how. End-products, for example, did not fall under this category, but turnkey factories did. Under a turnkey factory arrangement, the Soviet Union would contract a Western company to build a factory using advanced technologies and production know-how. Once completed, the company taught Soviet officials the technical processes before transferring factory ownership to Moscow. The Soviet Union not only gained modern industrial infrastructure but also the know-how to apply the technologies

⁴⁸ Bucy Report; Maurice J. Mountain, "Technology Exports and National Security," *Foreign Policy* no. 32 (Autumn 1978): 96.

elsewhere. The Bucy Report maintained that any areas that consisted of extensive training in advanced technology areas should be denied export.⁴⁹

The report's suggestion to prioritize the control of know-how and technical data reflected recognition of structural changes taking place in technological development. As Michael Mastanduno observes, the U.S. government controlled and influenced a significant portion of technological research and development since World War II. The era's most significant technological innovations were developed for military applications. Nuclear technologies, for example, were first created in national laboratories for weaponry. Civilian uses, such as energy, were developed only later. But by the 1970s, private industry developing technologies for commercial purposes supplanted the government's control of research and development. It became more common for these civilian technologies to find military uses. Widely available consumer goods, like micro-electronics, came to be used in cruise missiles. In response to these structural changes, the Bucy Report drew a distinction between military *use* and military *significance*. Goods without direct military use, like integrated circuits, could hold significant military capabilities and worthy of control. Computer software, "even in commercial application enhances preparedness of the Soviets to exploit advanced technologies," noted the task force. To protect U.S. national security, it was prudent to keep these technologies from the Soviets.⁵⁰ To accomplish this goal, the report recommended the Department of Defense, with its military expertise, "should identify principal technologies that require export control," not the Commerce Department. All in all, the Bucy Report offered an

⁴⁹ Bucy Report and Report Transmittal Memo, J. Fred Bucy to Chairman of Defense Science Board, in Bucy Report, iii-iv.

⁵⁰ Bucy Report; Mastanduno, *Economic Containment*, 190-193.

indictment of the current export control system and provided a rationale to empower the Department of Defense with greater influence over the shape of U.S. economic relations with the communist world. The department officially adopted the report's recommendations and conclusions in August 1977.⁵¹

Conclusion

After World War II, the United States and Western Europe saw the Soviet Union as a threat to international peace and security. To wage the Cold War, the West aimed to deter Soviet military attack and contain the expansion of communism. The Western embargo on the export of advanced goods and technologies to the Soviet bloc played a vital role in protecting the allies' military and industrial strength. In the late 1940s, the allies created COCOM to manage the multilateral embargo, and, in the 1950s, COCOM revised the list of controlled goods and technologies in order to promote trade with Eastern Europe, hopefully weakening Moscow's hold on the region. Although the United States and Western Europe believed the embargo was in their collective security interests, they sometimes clashed over the scope of export controls. The controversies of the Soviet Friendship Oil Pipeline demonstrated these disagreements. The West Europeans thought the export of large-diameter steel pipes did not contribute to the growth of Soviet military power while the United States argued it strengthened the Soviet economy, indirectly enhancing the communist threat. In essence, the allies disagreed on the definition of strategic goods. The Kennedy administration obtained a NATO resolution blocking the exports but did not prevent the construction of the pipeline. Yet these disputes appeared

⁵¹ Bucy Report and Transmittal Memo; Mastanduno, *Economic Containment*, 199.

manageable in the early 1960s, and the United States and its allies deepened East-West economic relations as means to promote international peace later in the decade.

During *détente*, the West used economic diplomacy in an attempt to lure the Soviet Union into political cooperation and moderate its international behavior. Through the relaxation of export controls and generous official credits, East-West trade grew to unprecedented proportions, benefiting key industrial sectors and employment in the West. While Western Europe's economic ties with the East deepened, U.S. trade with the Soviet bloc remained stunted. The Nixon administration attempted to reconstitute U.S.-Soviet economic relations, but the Great Grain Robbery and controversies over the Soviet Union's treatment of its Jewish citizens tempered public enthusiasm for normalized economic relations and restricted political possibilities. At the same time, congressional fears that the Soviet Union exploited East-West trade to obtain military significant goods and technologies led to investigations exposing the ineffectiveness of U.S. export controls. All of these factors placed profound political and economic limits on the U.S.-Soviet relationship. The West loosened the enforcement of the embargo during *détente*, but the United States still believed the embargo served a vital role in safeguarding Western security. The West Europeans, however, increasingly saw the embargo as a relic of the early Cold War. These diverging views of economic containment would have profound consequences for allied and East-West economic relations in the late 1970s and 1980s.

CHAPTER 2: A DIVISIBLE DÉTENTE AND THE RETURN OF ECONOMIC CONTAINMENT

The Jackson-Vanik amendment undermined President Richard Nixon's attempts to normalize economic relations with the Soviet Union. Meanwhile, the Great Grain Robbery tempered public enthusiasm for trading with the Soviets while the Bucy Report exposed security lapses in the U.S. export control system. These developments created new political realities shaping the pursuit of East-West trade. People demanded the government strengthen measures to protect America's technological lead over the Soviet Union without harming businesses' ability to compete in the international market. Americans also insisted Moscow had to respect human rights before receiving any U.S. economic benefits. In an era following the tumultuous 1960s, the Vietnam War, and Watergate, Americans wanted morality in American foreign policy and domestic politics. In 1976, former Democratic Governor of Georgia Jimmy Carter rode these calls to the White House.

President Carter sought to promote human rights in the Soviet Union through economic carrots and sticks. He made overtures to Soviet leader Leonid I. Brezhnev to waive, and possibly repeal, the Jackson-Vanik amendment, granting the Soviets most-favored-nation status. But the Soviet Union had to improve its treatment of political dissidents and Jewish citizens else the American public would remain opposed to normalizing economic relations. Once the Kremlin continued oppressing dissidents, Carter used economic sanctions to signal U.S. disapproval and attempted to push Brezhnev to respect human rights. At the same time, a high-profile technology transfer

case showed the Carter administration remained divided over appropriate measures to address the security risks of East-West trade. The Soviet invasion of Afghanistan in 1979, however, led the president to reverse course. Economic rapprochement with the Soviet Union was no longer possible, and Carter employed economic sanctions to punish Soviet actions. The president also hoped a grain embargo—ending the United States' most substantial trade relationship with the East—would convince Western Europe to join the United States in condemning Soviet behavior and restricting Soviet access to Western goods, technologies, and financial credits. U.S. allies, however, refused to sacrifice their significant economic interests in the East. As a result, a divisible détente emerged. The United States returned to economic containment while the West Europeans continued pursuing détente and deepened their economic relations with the Soviet Union.

An Attempt to Save Détente

Carter campaigned for president as a Washington outsider who promised to restore America's moral purpose and honesty in government. He grew up on a rural Georgian farm during the Great Depression and eventually attended the U.S. Naval Academy to become an engineer. He left the Navy in 1953 to manage his family's farm after his father died, becoming involved in local politics until serving in the Georgia Senate and winning the governorship in 1970. As well as being an outsider to national politics, Carter was deeply religious and modest. No act better symbolized Carter's humble image than when he left the presidential limousine to walk down Pennsylvania Avenue during the inaugural parade. Reflecting on the walk in his memoir, Carter wrote, "I wanted to provide a vivid demonstration of my confidence in the people as far as

security was concerned, and I felt a simple walk would be a tangible indication of some reduction in the imperial status of the President and his family.” To a polarized and weary America, Carter was untainted by Washington’s corruption and capable of injecting American ideals into government practice.⁵²

Although Carter had no direct experience in foreign affairs, he assembled an experienced foreign policy team. The president appointed Columbia University Professor Zbigniew Brzezinski as national security advisor. Brzezinski had written extensively on the Soviet Union and Eastern Europe, advised past presidents on policy matters, and was Carter’s principal foreign policy advisor during the presidential campaign. Cyrus Vance, a Washington insider who served in numerous posts in the Kennedy and Johnson administrations, became secretary of state. There were other members in Carter’s inner foreign policy circle, like Defense Secretary Harold Brown and Vice President Walter Mondale, but Brzezinski and Vance held the most influence. Carter, Brzezinski, and Vance agreed that détente with the Soviet Union had to continue in the interests of peace and international stability. Nixon and Kissinger had failed to build enduring public support for détente. The United States and Soviet Union both pursued unilateral advantages when opportunities arose and cooperated only when it suited their mutual interests. The Carter administration sought to make this selective cooperation truly broad and reciprocal, winning public support for détente.⁵³

⁵² Melvyn P. Leffler, *For the Soul of Mankind* (New York: Hill and Wang, 2007), 259-260; Betty Glad, *An Outsider in the White House* (Ithaca: Cornell University Press, 2009), 1; Jimmy Carter, *Keeping Faith: Memoirs of a President* (New York: Bantam Books, 1982), 18.

⁵³ Raymond L. Garthoff, *Détente and Confrontation*, rev. ed. (Washington, D.C.: The Brookings Institution, 1994).

Despite this general agreement on détente's aims, Brzezinski and Vance often came into conflict over specific policies and approaches. Generally, Brzezinski favored taking a harder stance against Soviet involvement in the Third World in order to deter Moscow's proclivity for supporting social revolutions and to strengthen the foundations of equal bilateral relations. Vance, on the other hand, thought Third World crises often had local roots, not Soviet ones, and that the United States should focus on reaching a SALT II agreement while strengthening the relationship with U.S. allies. Overtime, Carter agreed more and more with Brzezinski until Vance resigned in April 1980, but in 1977, the three sought to restore America's moral purpose in foreign affairs and, as Brzezinski stated, "strive to make détente both more comprehensive and more reciprocal."⁵⁴

In contrast to Nixon and Kissinger's pursuit of amoral balance of power politics, Carter sought to restore American moralism and idealism in foreign policy through the promotion of human rights. "Moral principles were the best foundation for the exertion of American power and influence," Carter believed. He intended to use human rights as a tool foster public support for détente, to promote U.S. global interests, and to shape a more democratic international system. A few days after inauguration, President Carter wrote Brezhnev, expressing a desire to "improve relations with the Soviet Union on the basis of reciprocity, mutual respect and benefit." These goals could be advanced through a SALT II agreement and encouraging the peaceful settlement of Third World conflicts. He also wanted to improve U.S.-Soviet economic relations but stressed "we cannot be

⁵⁴ Zbigniew Brzezinski, *Power and Principle* (New York: Farrar, Straus, & Giroux, 1983), 6-7, 149; Glad, *Outsider in the White House*, 1-3, 20-23; John M. Goshko, "Cyrus Vance, Carter's Secretary of State, Dies," Jan. 13, 2002, Final Edition, *The Washington Post*, A2; Carter, *Keeping Faith*, 51.

indifferent to the fate of freedom and individual human rights.” The new president intended to use linkage between trade and human rights to conduct a moral foreign policy towards the Soviet Union.⁵⁵ He hoped the use of economic carrots and sticks would encourage the Soviet Union to change its deplorable behavior. But U.S. actions only further irritated the Soviet leader, contributing to increased tensions.

Perhaps no public address better reflected Carter’s human rights commitment and his views of the present international system than his commencement address at the University of Notre Dame on May 22, 1977. Carter argued that containment and the Cold War were no longer the defining features of American foreign policy. “It is a new world that calls for a new American foreign policy,” the president remarked. The collapse of European empires after World War II had created a plethora of new but poor nations fighting for self-determination and economic development. These developing nations, often referred to as the Third World, demanded greater influence in the international system. Carter wanted to respond to this “global change” with a “policy rooted in our moral values” and “designed to serve mankind.” While the Vietnam War had created a “profound moral crisis, sapping worldwide faith in our own policy and our system of life,” human rights promotion would restore a “foreign policy that is democratic . . . [and] uses power and influence . . . for humane purposes.” In pursuing these goals, Carter intended to strengthen U.S. ties to other democracies and settle differences with the Soviet Union. Together, the United States, the democracies, and the Soviet Union would aid the world’s poor and less developed nations to shape a more democratic and just

⁵⁵ Carter, *Keeping Faith*, 143; Letter, President to Brezhnev, Jan. 26, 1977, *FRUS*, Vol. VI: Doc. 1, <http://history.state.gov/historicaldocuments/frus1977-80v06/d1> (accessed 1 Jul. 2015).

international system. “Being confident of our own future,” Carter stated, “we are now free of that inordinate fear of communism which once led us to embrace any dictator who joined us in that fear.” To the Carter administration, the Cold War confrontation had passed and a new age had dawned necessitating global cooperation to solve the world’s problems and maintain a lasting peace.⁵⁶

Although the president dismissed the notion of a bipolar world and believed U.S.-Soviet confrontation had ended, the administration still recognized, as stated in Presidential Directive 18, that U.S.-Soviet relations “will continue to be characterized by both competition and cooperation.” PD 18, approved in August 1977, laid out a national strategy intended to deter adverse Soviet international actions while pushing the Soviet Union towards cooperation. The strategy envisioned the superpowers creating a more reciprocal détente, resolving regional conflicts, reducing strategic armaments, and addressing global development issues. The administration planned to make use of the “number of critical advantages” the United States had over the Soviet Union, ranging from its vibrant economy and popular political system to its international alliances. In this strategy, human rights promotion was to be one tool to “compete politically with the Soviet Union.” Presidential Directive 30, adopted in February 1978, enshrined human rights promotion as official U.S. policy. But as Carter later reflected, “I did not fully grasp all the ramifications of our new policy. It became clear in the early days (and

⁵⁶ Jimmy Carter, University of Notre Dame Commencement Address, May 22, 1977, *American Presidency Project*, <http://www.presidency.ucsb.edu/ws/?pid=7552> (accessed 1 Jul. 2015).

increasingly so later on) that the promotion of human rights was to cut across our relations with the Soviet Union.”⁵⁷

Carter’s human rights policies deeply irritated Brezhnev, who replied to the president’s inaugural letter with condemnation. “In [your] letter the question of *so-called* ‘human rights’ is raised again,” Brezhnev wrote. He stressed that Moscow would not permit “interference in our internal affairs, no matter what kind of *pseudo-humane* pretense is used for the purpose.” Carter had also written to the influential Soviet physicist and dissident Andrei Sakharov, reaffirming human rights as a “central concern of my Administration.” Brezhnev did not think it was appropriate for the president to exchange letters with “an enemy of the Soviet State.” The human rights issue “tested” Soviet “patience” and threatened to disrupt bilateral initiatives on arms controls and the Third World.⁵⁸

Disputes over arms control negotiations and a crisis on the Horn of Africa also contributed to tensions between the Carter administration and the Soviet leadership. President Ford and Brezhnev had reached a framework agreement for SALT II at Vladivostok in 1974. There were a few outstanding issues before the United States and Soviet Union could conclude SALT II, but Brezhnev, for all intents and purposes, considered the agreement done. In 1977, however, Carter proposed Vladivostok’s armament ceilings be reduced and the superpowers commit themselves to future

⁵⁷ P.D. 18, U.S. National Strategy, Aug. 26, 1977, Jimmy Carter Library and Museum (JCL), <http://www.jimmycarterlibrary.gov/documents/pddirectives/pd18.pdf> (accessed 1 Jul. 2015); P.D. 30, Human Rights, Feb. 17, 1978, JCL, <http://www.jimmycarterlibrary.gov/documents/pddirectives/pd30.pdf> (accessed 1 Jul. 2015); Carter, *Keeping Faith*, 144.

⁵⁸ Letter, President to Andrei Sakharov, Feb. 5, 1977, *FRUS*, Vol. VI: Doc. 5, <http://history.state.gov/historicaldocuments/frus1977-80v06/d5> (accessed 1 Jul. 2015); Carter, *Keeping Faith*, 146; Letter, Brezhnev to the President, Feb. 26, 1977, in *The Fall of Détente*, ed. Odd Arne Westad (Boston: Scandinavian University Press, 1997), 185-186, emphasis added.

reductions. The Soviet leadership considered it a non-starter since further reductions would impose more limits on Soviet forces than the United States. Carter's proposal added to Moscow's suspicions of U.S. motives. The Carter administration and Soviet leadership haggled over the terms of SALT II for the next two years until finally signing an agreement at the Vienna Summit in June 1979. The Soviet leadership asked itself if the United States really wanted détente or if it was seeking advantages over the Soviet Union.⁵⁹ At the same time, Soviet and Cuban involvement in Africa concerned the United States. Soviet aid and Cuban troops helped Angola win independence from Portugal in 1974. Marxist-Leninist inspired military insurgencies challenged regimes in other parts of Africa. In late 1977, the Soviet Union sent significant amounts of military aid and advisors to the communist regime in Ethiopia, helping it repeal a Somali invasion. The United States thought Moscow was exploiting this crisis to gain a foothold on the Horn of Africa, a strategic region near the oil supplies and sea lanes of the Middle East and Arabian Sea.⁶⁰

In a May 1978 press conference, Carter warned that these disagreements over human rights and conflicts in Africa endangered détente. Although the president denied any linkage between SALT II, human rights, or Third World conflicts, he said these U.S.-Soviet disagreements could hinder the ratification of SALT II. If the Soviets do not honor human rights and show restraint in Africa, Carter cautioned, "It will have a strong adverse effect on our country and make it more difficult to sell to the American people

⁵⁹ Hanhimäki, *Rise and Fall of Détente*, 81, 106-110.

⁶⁰ Leffler, *Soul of Mankind*, 273-288; Hanhimäki, *Rise and Fall of Détente*, 127-130; Odd Arne Westad, *The Global Cold War* (New York: Cambridge University Press, 2007), Chs. 6 and 7; Brzezinski, *Power and Principle*, 178-190.

and to have ratification in Congress of a SALT agreement.” Détente was in jeopardy.⁶¹ On June 7, Carter made his concerns in a more forceful manner. In a commencement address at the U.S. Naval Academy, Carter reminded cadets that détente was “central to world peace” but “must be broadly defined and truly reciprocal” in order to increase cooperation and public support for it. But the president declared that the Soviet Union’s military buildup was “excessive” and that their “abuse of basic human rights” violated the Helsinki Agreement of 1975. The United States envisioned an African continent “free of the dominance of outside powers” but Soviet and Cuban actions “could deny this hopeful vision.” Finally, Carter warned, “The Soviet Union can choose either confrontation or cooperation. The United States is adequately prepared to meet either choice.” It was a bold speech, and Carter signaled that U.S.-Soviet cooperation was in danger of sliding back towards confrontation if the Soviet Union did not stop violating human rights at home and promoting its unilateral interests abroad.⁶²

In reaction to Carter’s speech, Brezhnev told the Politburo that “a serious deterioration” was taking place in U.S.-Soviet relations. The United States was showing “growing aggression” and a “more sharply anti-Soviet character.” Brezhnev denounced Carter as “struggling” for reelection as president “under the banner of anti-Soviet policy and a return to the ‘cold war.’” Soviet Ambassador Dobrynin reported to Foreign Minister Andrei Gromyko that the Carter administration was using the events in Africa as a “pretext . . . to create tension in Soviet-American relations.” The U.S. president was

⁶¹ Jimmy Carter, The President's News Conference, May 25, 1978, *American Presidency Project*, <http://www.presidency.ucsb.edu/ws/?pid=30852> (accessed 1 Jul. 2015).

⁶² Jimmy Carter, United States Naval Academy Commencement Address, Jun. 7, 1978, *American Presidency Project*, <http://www.presidency.ucsb.edu/ws/?pid=30915> (accessed 1 Jul. 2015).

creating these tensions “in order to, as they say, win cheap applause” with the American public. In a meeting on July 13, 1978, Gromyko expressed these views to Vance, describing U.S. actions “not just as propaganda but a concerted hostile campaign against the Soviet Union.” Moscow believed U.S. rhetoric was not conducive to superpower cooperation. Vance reassured Gromyko that the administration still wanted to move beyond the Cold War towards continued cooperation, but increased suspicions remained.⁶³

In the midst of these tensions, Carter used economic sanctions to signal U.S. disapproval of Soviet human rights abuses. On July 13, 1978, the Soviet government convicted two Soviet dissidents, Aleksandr Ginzburg and Anatoly Shcharansky, of crimes against the state and gave them lengthy prison and labor camp sentences. The dissidents were targeted because they were members of the Moscow branch of the Helsinki Monitoring Group, an organization dedicated to observing the East’s compliance with the Helsinki Act. Shcharansky, in particular, championed the right of Soviet Jews to emigrate, gaining worldwide attention. Carter expressed his concerns about the activists’ treatment to Moscow on many occasions, and he now reacted with outrage to the lengthy sentences. On July 18, the president announced an embargo on the export of all U.S. oil and natural gas exploration and production technologies to the Soviet Union. Carter also blocked the sale of a Sperry Univac computer ordered for TASS, the Soviet news agency. Carter was attempting to use economic sanctions to

⁶³ Brezhnev Speech in Politburo on Foreign Affairs Issues, Jun. 8, 1978, 207-208; Ambassador Dobrynin’s Political Report to Gromyko, Jul. 11, 1978, 213, 215; Cyrus Vance’s Conversation with Andrei Gromyko, Jul. 13, 1978, 220-223; All in Westad, *Fall of Détente*.

signal U.S. disapproval of Soviet human rights abuses and punish the Soviets by controlling technologies that would aid Soviet energy exploration and development.⁶⁴

Even though Carter ordered strong action to be taken in response to the convictions, these sanctions soon appeared hollow. On August 10, *The Washington Post* ran the headline, "U.S. to Allow \$1 Million Soviet Sale." The Commerce Department had approved a validated license for Dresser Industries to export a one million dollar electron-beam welding machine to the Soviet Union. The machine was a part of a larger \$144 million deal to build the Soviets a rock-drill bit turnkey factory for energy production. The administration divided over the role of trade in U.S.-Soviet relations, in general, and the Dresser license, in particular. Brzezinski read the newspaper headline and immediately asked the State and Commerce Departments to cancel the license. Where Brzezinski and the national security staff saw a risk of transferring advanced technologies to an adversary, Vance, Commerce Secretary Juanita Kreps, and Treasury Secretary W. Michael Blumenthal saw an opportunity to broaden U.S.-Soviet cooperation through trade initiatives. Brzezinski said, "The President was furious" that Commerce granted the license without his approval, as required under the export embargo. Treasury, Commerce, and State had asked Carter to support new trade overtures towards the Soviet Union. Carter, however, blocked those proposals because the president "want[ed] the Soviets to take this seriously, that we can do this to them, that it is meant to hurt,"

⁶⁴ David K. Shipler, "Ginzburg Given 8-Year Sentence By Soviet Court," Jul. 14, 1978, *New York Times*, A1; David K. Shipler, "Shcharansky Given 13 Years in Prison and Labor Camps," Jul. 15, 1978, *New York Times*, 1; CIA Memo, Jan. 30, 1979, *FRUS*, Vol. VI: Doc. 170, <http://history.state.gov/historicaldocuments/frus1977-80v06/d170> (accessed 1 Jul. 2015); Carter, *Keeping Faith*, 220; Richard Burt, "Carter, Reacting to Trials in Soviet, Will Control Oil-Technology Sales," Jul. 19, 1978, *New York Times*, 19.

reflected Brzezinski. Now, Commerce subverted the president's will by approving the license. As another article in *The Washington Post* observed, the debate about the license "captures ambivalence at highest administration levels" over export controls and sent "confusing signals" to Moscow. "Having marched up the hill last month flying the banner of trade reprisals against the Kremlin," the article noted, "Uncle Sam was now marching back down with approval of the drill-bit plant."⁶⁵

Senator Henry Jackson (D-WA) threatened to investigate the Dresser license in the interest of protecting national security, and Carter initiated an internal review, under J. Fred Bucy, assessing the potential for technology transfer to the Soviet Union. In late August, Brzezinski passed the review's conclusions on to the president. Bucy contended that the technology and know-how contained in the drill-bit turnkey factory as well as the computer for the electron beam welder were too critical to export to the Soviet Union since they could be easily diverted to the production of armor-piercing projectiles. There was no harm in Dresser exporting finished rock drill-bits (i.e. end-products) provided the volume of sales were "monitored carefully." Instructing the Soviets in how to construct such bits with the help of sophisticated computer equipment, however, posed a risk to national security and America's technological lead. In his letter transmitting the findings, Bucy emphasized, "There must be a few times within a decade that a subtle decision can change the course of history. My sincere belief is that a decision regarding the export of a turnkey factory for the manufacturing of drill bits for the exploration of oil is one of those." Brzezinski was "quite impressed" with Bucy's conclusions and advised the

⁶⁵ Don Oberdorfer, "U.S. to Allow \$1 Million Soviet Sale," Aug. 10, 1978, *The Washington Post*, A1; Brzezinski, *Power and Principle*, 324, 323; Rowland Evans and Robert Novak, "Confusing Signals on Trade with Russia," Aug. 16, 1978, *The Washington Post*, A15.

president to avoid further political controversy and protect U.S. security by suspending the export license.⁶⁶

Despite Bucy's review, disagreements within the administration over the license remained. Officials in the Commerce, State, and Treasury Departments saw no national security risk in exporting the materials. Defense Secretary Brown may have agreed with Bucy and Brzezinski, but Deputy Secretary of Defense Charles W. Duncan, Jr. and other Defense officials did not. Duncan dismissed fears of technology transfer since the beam welder was not scheduled for export until 1981 when the factory was near operational and when the technology's foreign availability would have increased. He thought a U.S. firm should benefit from the sale now as opposed to a foreign business in 1981. Bucy had pointed out that the individual technologies and technical data in the sale did not appear to constitute adverse technology transfer to the Soviets. But assessing the data together, as a *system* of technologies and procedures, revealed a security risk, asserted Bucy. Despite growing political controversies over the license, Carter decided to permit the exports on September 6.⁶⁷

The Dresser case reinvigorated the movement to strengthen export controls and enact discriminatory trade policies towards the Soviet Union. Senator Jackson carried out his threats to investigate the license a month after Carter let the decision stand. Jackson's 1974 technology transfer amendment had empowered Defense to review export licenses

⁶⁶ J. Fred Bucy's Report on the Dresser Case is Exhibit No. 1 in Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, *Transfer of Technology and the Dresser Industries Export Licensing Actions*, 95th Cong., 2nd sess., Oct. 3, 1978, 6-10; Also see Bucy's Testimony, 143-171; Memo, Brzezinski to President, Aug. 29, 1978, *FRUS*, Vol. VI: Doc. 141, <http://history.state.gov/historicaldocuments/frus1977-80v06/d141> (accessed 1 Jul. 2015).

⁶⁷ Memo, Duncan to Sen. Jackson, Aug. 20, 1978 (Exhibit No. 2) and Memo, Duncan to Brzezinski, Aug. 26, 1978 (Exhibit No. 3), in Subcommittee on Investigations, *Transfer of Technology*, 10-13; "Carter to Allow Sale of Equipment to Soviets," Sep. 7, 1978, *The Washington Post*, A6.

with the Commerce Department. Now it appeared that Defense was not adequately carrying out its mandate. On October 3, representatives from Dresser Industries, J. Fred Bucy, and Defense officials testified before the Permanent Subcommittee on Investigations, revealing substantial lapses in the licensing review process.

The Commerce Department sent Dresser's export application to Defense in February 1978. Commerce officials recommended approval since the drill-bit's tungsten carbide inserts (used for the drill-bit's teeth) were available from foreign sources and the Soviet Union could already produce them. An office within the Defense Department found the technologies could be diverted to produce armor-piercing projectiles and recommended the application be denied. A superior, however, removed the denial recommendation from the report, reasoning that if the Soviets already had the ability to produce the tungsten carbide inserts, then why deny the U.S. export. In approving the license, Defense relied primarily on Commerce's word that the exports would not harm national security. As a result, the department failed to recognize "that the proposed plant and the manufacturing technology would be especially adaptive to producing Soviet penetrators which were effective against armor used in U.S. and allied armor personnel carriers and helicopters," as the subcommittee's assistant counsel Peter M. Sullivan explained.⁶⁸

During the investigation, Dresser representative Jack Murphy defended the export license. Dresser was not providing the Soviet Union with a traditional turnkey factory; the company was not building the facility, training Soviet officials, or exchanging any technical data. Instead, Dresser was merely supplying the Soviet Union with equipment

⁶⁸ Subcommittee on Investigations, *Transfer of Technology*, 20-25, for quotations see p. 22.

to more efficiently process tungsten carbide inserts into drill-bits—a process the Soviets already understood. Furthermore, Murphy said that the drill-bit and the computer for the electron-beam welding machine were not technologies wholly concentrated in the United States, as Bucy claimed. Dresser had numerous European and Asian competitors selling comparable quality computers on the international market. Nevertheless, Jackson's investigation revealed significant lapses in the export review process with the Department of Defense handling its responsibilities in a "very cursory way." Senator Sam Nunn (D-GA) summarized the events as "lower levels recommending against [license approval], in the Department of Defense, the middle level overruling them and the upper level never looking at it." Despite the controversies over the Dresser license, Carter only suspended the license after the Soviet Union invaded Afghanistan in late December 1979.⁶⁹

The Dresser case represented clashing schools of thought about the prudence of East-West trade. One side interpreted the license approval as damaging national security through the export of critical technologies while the other sides dismissed security concerns and wanted to help American business compete in the international market. Officials like Bucy, Jackson, and Brzezinski all held that U.S. trade with the Soviet bloc had to be carefully monitored and many items had to be restricted in order to guard against augmenting Soviet military potential. Their position rested on an assumption that all applications for exports to the Soviet bloc should start with a presumption of denial. American business executives and administration officials, like Murphy and Vance, on the other hand, believed risks to national security were minimal, most items and

⁶⁹ Subcommittee on Investigations, *Transfer of Technology*, 201-210, 158; Brzezinski, *Power and Principle*, 324; Clyde H. Farnsworth, "Dresser License for Sales to Soviet Ended by U.S.," Dec. 4, 1980, *New York Times*, D1.

technologies were widely available outside of the United States, and stringent export controls placed U.S. businesses at a competitive disadvantage. Furthermore, increased trade could be a tool to construct a reciprocal détente with the Soviet Union. The controversy over the Dresser license brought tensions between those for and against East-West trade to the fore, raising more doubts about the government's ability to monitor the flow of trade with a potential adversary.

The Dresser case was not an isolated flashpoint over U.S. export control policies. Rather, the case set off a public debate about the Carter administration's policies and the relationship between export controls over critical technologies, trade deficits, and economic diplomacy in the era of détente. *The Washington Post* called the case a "litmus test of the future of U.S.-Soviet trade and whether the Carter administration will bow to urgings to use trade as a tool for pressuring Soviet policy on human rights and other issues." On September 14, 1978, in response to the Dresser case, Representative Robert K. Dornan (R-CA) introduced The Technology Transfer Ban Act in Congress. Seventy congressional members sponsored the bill, accusing the executive of failing to develop a sufficient policy to guard the transfer of advanced technologies to the Soviet bloc. While the Soviet Union and its allies exploited crises in Africa, Dornan asserted, they also abused America's trade policies to import sophisticated technologies. In effect, the bill called for an embargo of all U.S. trade with communist nations—a return to the economic denial measures of the early Cold War. Although the bill died in committee, public debates about U.S. East-West trade policies continued.⁷⁰

⁷⁰ Ward Sinclair, "Dresser Industries: Aggressive Giant, No Stranger to Political Tight Spots," Sep. 8, 1978, *The Washington Post*, A6; Office of Technology Assessment, *Technology and East-West Trade*, 122.

A year before the Dresser affair, Brzezinski had ordered the Special Coordinating Committee (SCC), a National Security Council subcommittee, to evaluate export control and technology transfer strategies and policies towards the communist world. The committee concluded that the administration could use export controls, especially over oil and gas technologies, as leverage in SALT II negotiations, Third World crises, human rights issues and more. After leaving the administration in late 1978, NSC staffer Samuel P. Huntington defended the NSC position and Carter's human rights sanctions. In *Foreign Policy*, Huntington argued America's advantages over the Soviet Union were "perhaps, most clearly marked in the area of economics and technology." Simply denying the Soviet Union access to superior American goods and technology risked sacrificing a key tool to shape bilateral relations. After dismissing the Nixon and Ford administration's efforts at linking U.S.-Soviet trade relations to other political issues, Huntington advocated similar linkage, calling it "conditioned flexibility." He speculated that since the Soviet Union had reaped significant economic benefits from Western technology, perhaps access to further technologies could be leveraged in negotiations over political issues. To do so, however, required the bureaucratic centralization over the sprawling export control apparatus, ideally in the National Security Council. Huntington then defended Carter's oil and gas sanctions over the trials of Ginzburg and Shcharansky as a step in the right direction.⁷¹

In the same issue of *Foreign Policy*, scholars rebutted Huntington, arguing that there were limits to economic pressure. Franklyn Holzman and Richard Portes questioned

⁷¹ J. P. Smith, "Business Irked by Curbs on Oil Technology Sales to Soviet," Nov. 20, 1978, *The Washington Post*, A29; Samuel P. Huntington, "Trade, Technology, and Leverage," *Foreign Policy* no. 32 (Autumn 1978): 63-80, quotations on pp. 64, 66, 67.

the significant economic benefits the East gained from Western technology. These technologies had “not succeeded in reversing a downward trend” in the Soviet economy. They believed such benefits were “grossly overstated.” Central planned economies usually failed to diffuse technology’s productive benefits throughout the economy, limiting growth. Besides, most of the technologies people like Huntington talked of controlling were widely available on the international market. Regardless of Western export policies, the Soviet bloc’s increasing hard currency debts would curtail technology imports and, above all, the Soviet Union would not sacrifice its larger political goals for Western imports. In sum, they argued there were significant challenges to harnessing export controls and sanctions on critical technologies to achieve noneconomic foreign policy goals. If U.S. policymakers wanted to use economic policies to influence Soviet decision-making, Holzman and Portes suggested, “Placing controls on the export of grain or the provision of hard currency credits would probably be more effective than denying export licenses for oil drilling equipment or a computer.”⁷²

Representative Johnathan B. Bingham (D-NY) also disagreed with Huntington and co-authored, with Victor C. Johnson, a *Foreign Affairs* article in the spring of 1979 explaining a “rational approach to export controls.” They identified persistent tension in the debates over export controls. While alarmists said weak export controls let the Soviet Union import critical military technologies, American businesses claimed the control system was too tight, exports were too often denied, and potential sales were lost to foreign competitors. American businesses were being squeezed under the system while

⁷² Franklyn Holzman and Richard Porters, “The Limits of Pressure,” *Foreign Policy* no. 32 (Autumn 1978): 80-90, quotations on pp. 83, 85, 89-90.

U.S. trade deficits mounted. To make controls more effective without hurting U.S. businesses, the authors reiterated the Bucy Report's recommendation to trim the embargo list and enact targeted controls on know-how. They also wanted restrictions on the executive's use of controls to advance foreign policy goals like human rights. Such controls, in their view, should only be used if objectives were clearly defined and no equivalent foreign products or technologies existed. "The burden of proof," they wrote, "should be on the government" to block a sale since "other countries stand ready to sell what we do not." Lastly, they warned that if U.S. exports continued to be subjected to Washington reacting to the Soviet Union's changing and unpredictable human rights policies and Third World actions, American businesses and Soviet buyers might take their trade elsewhere, ending U.S. leverage.⁷³

When the Export Administration Act (EAA) of 1969 was due for renewal in 1979, Bingham proposed a reform bill (H.R. 4034) that revised the control system to guard U.S. national security, remove burdens for business in an era of economic hardship, and supervise the president's use of foreign policy controls. The bill proposed an Office of Export Administration be established within the Commerce Department to monitor foreign product availability. The bill also granted Congress veto authority over the president's use of foreign policy controls. With this power, Congress could block Carter's human rights sanctions on the Soviet Union, for example. Bingham's opponents proposed a system that granted more power to the Department of Defense and required the president to justify to Congress any licenses granted on the grounds of foreign

⁷³ Jonathan B. Bingham and Victor C. Johnson, "A Rational Approach to Export Controls, *Foreign Affairs* 57, no. 4 (Spring 1979), <https://www.foreignaffairs.com/articles/united-states/1979-03-01/rational-approach-export-controls> (accessed 1 Jul. 2015).

availability. Only Bingham's bill left committee to be passed and reconciled with a similar Senate measure in September 1979.⁷⁴ The Carter administration saw the congressional veto on foreign policy controls as unconstitutional. But, it does not appear President Carter took any significant action to shape congressional action on the renewed EAA. Besides pledging to work with Congress on reauthorization in January 1979, the president made no public remarks on the EAA, nor did he release a statement on signing the renewal. Congressional veto authority over foreign policy controls was dropped during reconciliation, but the EAA of 1979, overall, favored the promotion of U.S. exports and limiting the use of foreign policy controls. Export controls for national security reasons remained, and the president still retained the flexibility to use economic diplomacy to pursue détente or implement foreign policy controls in consultation with Congress.⁷⁵

The controversies in U.S.-Soviet economic relations over the 1970s led many Americans to question the prudence of trading with a potential adversary and some Americans even championed a return to the confrontational economic policies of the past. But as late as the early fall of 1979—a time when détente came under increasing fire—U.S. trade policies towards the Soviet bloc were still trending towards liberalization, as

⁷⁴ Office of Technology Assessment, *Technology and East-West Trade*, 122-123; "Export Control Extension" in *CQ Almanac 1979*, 35th ed., 300-305 (Washington, D.C.: Congressional Quarterly, 1980), <http://library.cqpress.com/cqalmanac/cqal79-1185119> (accessed 23 Jun. 2015).

⁷⁵ Office of Technology Assessment, *Technology and East-West Trade*, 125-126; "Export Control Extension" in *CQ Almanac 1979*; For the administration position, see William Root's Testimony in Subcommittee on International Economic Policy and Trade, House Committee on Foreign Affairs, *Extension and Revision of the Export Administration Act of 1969*, 96th Cong., 1st sess., Feb.-Apr., 1979, p. 648; Jimmy Carter, State of the Union Annual Message to Congress, Jan. 25, 1979, *American Presidency Project*, <http://www.presidency.ucsb.edu/ws/index.php?pid=32735> (accessed 8 Jul. 2016); Carter's public remarks and signing statements can be found at the *American Presidency Project* website.

the EAA's terms demonstrate. The economic diplomacy of détente was still in force. While Carter initiated trade sanctions over Soviet human rights abuses and public debates unfolded over the means and ends of export controls, the administration continued making overtures to Moscow about normalizing U.S.-Soviet economic relations. For example, in early December 1978, only a few months after Carter announced the sanctions on oil and gas exports, Treasury Secretary Blumenthal and Commerce Secretary Kreps visited Moscow and told the Soviet leadership that the administration had decided to support the development of Soviet energy resources. The secretaries talked about a "turning point" for bilateral trade contingent on continued progress on SALT II, and Kreps approved twenty-two export licenses for oil technology. American businesses welcomed the secretaries' comments, but the president's sanctions over human rights abuses now appeared even hollower.⁷⁶

But Carter's attempts to expand bilateral trade relations date back well before the December 1978 overture. In his letter to Brezhnev a few days after inauguration, the president said it was important to increase bilateral economic relations without being "indifferent to the fate of freedom and individual human rights." Brezhnev welcomed prospects for increased trade provided the linkage of Jackson-Vanik ended. In a second letter, Carter told Brezhnev "we have to do something practical in order to remove barriers. From my side, I intend to do everything that I can to achieve mutually beneficial trade, but you are aware of certain restrictions imposed by Congress, which I must take

⁷⁶ Craig R. Whitney, "Moscow Gets Good Word—Carter Wants More Trade," Dec. 10, 1978, *New York Times*, E3.

into account.”⁷⁷ Two months later, Vance told Soviet Foreign Minister Gromyko, “This Administration would like to see trade between our countries increased, and would like to see the Soviet Union accorded most favored nation status in the US.” It would be difficult to get Congress to take favorable action on the issue, Vance explained, but the administration had already raised the matter with congressional leaders. And the Carter administration was not only prepared to move on Jackson-Vanik but also the Stevenson amendment limiting credits to the Soviet Union. In many ways, these credits were more important to the Soviet Union, with its mounting hard currency problems, than most-favored-nation status. Gromyko said the Soviet leadership would make a “very positive assessment” of future cooperation if the administration followed through on its intentions.⁷⁸ Through these letters and private talks, the administration warned the Soviet leadership that although improved trade relations were possible, opponents in Congress, like Senator Jackson, would be difficult to work around. Carter intended to take steps towards better economic relations but he could only do so much while the Jackson-Vanik Amendment remained in force.

In early April 1977, Vance met with leaders from prominent Jewish organizations (the National Conference on Soviet Jewry and the Conference of Presidents of Major American Jewish Organizations) in the United States in an attempt to convince them that the administration had Jewish interests in mind. The secretary had met with these same people on March 24 before traveling to Moscow. Now, he assured the leaders that he had

⁷⁷ Letter, President to Carter, Jan. 26, 1977, *FRUS*, vol. VI: Doc. 1, <http://history.state.gov/historicaldocuments/frus1977-80v06/d1> (accessed 1 Jul. 2015); Letter, President to Brezhnev, Feb. 15, 1977, in Westad, *Fall of Détente*, 176.

⁷⁸ Memorandum of Conversation, Mar. 30, 1977, *FRUS*, vol. VI: Doc. 22, <http://history.state.gov/historicaldocuments/frus1977-80v06/d22> (accessed 1 Jul. 2015).

“personally delivered” a list of people wishing to emigrate from the Soviet Union and “told the Soviets that progress in trade would be related to progress in SALT and emigration. . . . That all [these issues] were related in the eyes of the American people.” The secretary explained to Gromyko that the relationship between trade and emigration had to be taken into account and that Jackson-Vanik could only be removed if there was progress in emigration.⁷⁹

While the Carter administration made these overtures to the Soviets, the CIA concluded an assessment on “key elements of US-Soviet economic relationship.” The CIA examined whether the United States could use trade in technology, energy, credit, and grain, as well as most-favored-nation status, to influence Soviet decision-making. It was a limited analysis, “focused narrowly on the current situation,” as opposed to examining trends in the Soviet economy and bilateral relations over the next decade. Indeed, the CIA advised policymakers to undertake a long-term study of these trends as “strains and pressures” on the Soviet economy were likely to increase, perhaps revealing better policy opportunities. But, based on the current Soviet economic situation, the CIA found the present relationship did “not provide the US or the West with policy levers that could be used to exert significant influence upon Soviet behavior.” The administration’s ability to use economic diplomacy to induce Moscow towards cooperation or confront the Soviets over actions adverse to U.S. interests was limited.⁸⁰

⁷⁹ Memorandum of Conversation, Apr. 8, 1977, Ibid.: Doc. 25, <http://history.state.gov/historicaldocuments/frus1977-80v06/d25> (accessed 1 Jul. 2015).

⁸⁰ CIA Paper, Aug. 1977, Ibid.: Doc. 40, <http://history.state.gov/historicaldocuments/frus1977-80v06/d40> (accessed 1 Jul. 2015).

Of course, the Soviet leadership desired Western technology imports, especially in energy production, to improve economic productivity, but the “magnitude of Soviet imports . . . is too small to have much impact on overall economic growth.” Moscow sought Western technology imports, credits, and grain to bolster their economy but would “avoid exploitable dependence” on the West. It was also unlikely to sacrifice its political goals for increased access to Western goods and technologies and likely would not have to make such concessions. The United States was a sole supplier of only a few key goods and technologies Moscow desired, and U.S. primacy in these areas faced increasing international competition. “Other Western countries,” the CIA reported, “have shown little willingness to sacrifice economic gains for a concerted, sustained policy of using East-West economic relations for purposes of exerting influence upon Soviet behavior.” For example, the CIA noted that the United States could offer the Soviet Union superior oil and gas lifting equipment and submersible pumps to aid Soviet energy production, a sector that needed such technologies to alleviate expected production declines. But for other energy equipment and technologies, such as drill-bits, drilling rigs, and pipes, “close substitutes” were available throughout the West. If the administration wanted to use economic policy levers against the Soviets, it “must rely primarily on persuasion” to elicit allied help in controlling technology exports to the East.⁸¹

The possibility for unilateral economic leverage only existed in the grain trade, but the CIA argued that those levers had significant caveats. The Soviet Union typically needed to import ten to twenty million tons of grain annually to meet its economic plans. U.S. grain exporters supplied about one-half of these needs. At face value, the U.S. share

⁸¹ Ibid.

of the Soviet grain trade offered Washington significant bargaining power. Yet, “attempts to apply US leverage on the grain issue might lead to minor concessions in the short run but would carry longer run costs.” If the United States sought to use grain as a political tool, whether through threatening or instituting a grain embargo, “US reliability as a supplier” would be compromised and the Soviets would “pursue alternatives.” Furthermore, the CIA noted, there were a “wide range of options available to the Soviets.” Other grain exporters could increase shipments to the Soviet Union at bargain prices, and the Soviets could negotiate long-term contracts with these nations to guarantee supplies. If all else failed, “Moscow could fall back on [its] strategic grain stocks.”⁸²

On August 31, 1977, the Policy Review Committee, another NSC subcommittee, met to review this CIA assessment and the U.S.-Soviet economic relationship. Treasury Secretary Blumenthal chaired the meeting, and Vice President Walter Mondale, Commerce Secretary Kreps, and NSC advisor Brzezinski also attended. They agreed that “trade was an important aspect of overall US-Soviet political relations” but the Jackson-Vanik amendment limited the president’s ability to use economic tools to promote détente. Jackson-Vanik and the Stevenson amendments had “largely failed” to pressure Moscow to increase the emigration level of Soviet Jews, and “the ability to offer MFN [most-favored-nation status] and, perhaps, credits could be a valuable tool.” The administration would need the amendments repealed, but it had to decide whether it was worth the political controversy and expended political capital in Congress to obtain repeal. In the end, the committee concluded, “It would be a major tactical mistake to

⁸² Ibid.

launch an Administration initiative to repeal or modify the Jackson-Vanik and Stevenson amendments now.” Carter had other goals he wanted to accomplish in his first term, namely the ratification of a Panama Canal treaty and SALT II. The president would need “the full support of Jackson and other key senators” to achieve these goals. The members advised Carter to continue exploratory talks with Jackson and other congressional leaders about repealing or modifying the amendments and encourage Moscow “to take steps to improve the atmosphere.”⁸³

In the meantime, the committee decided to undertake a more focused analysis of Soviet economic needs, as the CIA assessment advised. The officials realized “we cannot exert significant influence upon Soviet behavior by economic means, and to be effective what leverage we do have would have to be used in a coordinated Western effort.”

Obtaining allied support would be difficult, though, since they “are more reluctant than we to use trade policy to achieve political ends.” Officials noted, however, that the future could hold more leverage over a Soviet Union facing overall economic decline. “If economic growth in the Soviet Union slows as projected,” members stated, “the Soviets will face difficult choices in the 1980’s regarding the allocation of resources. . . .

Conceivably, our economic leverage may be much stronger than now, and we may have a unique opportunity to use it.” Other members speculated, though, that such a slowdown in the Soviet economy might not be to America’s advantage. How can the nations build a stable relationship if one of them was in the midst of a systemic economic crisis? “We should begin to think now whether it is on our long-term interest to help the Soviets

⁸³ Summary of Conclusions and Minutes of PRC Meeting, Aug. 31, 1977, Ibid.: Doc. 46, <http://history.state.gov/historicaldocuments/frus1977-80v06/d46> (accessed 1 Jul. 2015).

develop and expand their energy production, in order to avoid the [oil production] crisis,” noted other members. The administration faced tough decisions on how to handle the U.S.-Soviet economic relationship, and the committee recommended the administration develop a coherent East-West trade policy and strategy to meet future challenges and seize opportunities. Now was not the time to take bold steps on Jackson-Vanik and the Stevenson amendments, but the administration could lay the groundwork for future moves to reconstitute economic relations with the Soviet Union and stabilize the international system.⁸⁴

The Policy Review Committee was articulating a policy that the administration had maintained at least since the early summer of 1977. U.S. officials had discussed moving beyond the Jackson-Vanik and the Stevenson amendments with Soviet officials and American-Jewish leaders at the start of the administration. Consistently, officials tempered Soviet expectations for rapid action on trade and attempted to elicit Soviet moves on human rights. In June, the Vance and Blumenthal told Soviet Minister of Foreign Trade Nikolai Semenovitch Patolichev the administration wanted the amendments changed but action would be dependent on the Soviet Union improving its human rights issues and better attitudes in Congress. At the time, SALT talks were at an impasse and tensions remained between the superpowers over human rights and other issues. On July 8, Dobrynin had told Special State Department Advisor Marshall D. Shulman that the Kremlin was “emotionally wrought” over these tensions and Brezhnev had considered giving up on detente. “Does he [Carter] really want to improve relations? If so, why does he repeatedly violate our sensitivities?” asked Dobrynin. The ambassador

⁸⁴ Ibid.

questioned whether the Carter administration even wanted a SALT II agreement or was so plagued by “inexperience” in foreign affairs that it did not observe diplomatic “civilities.” Shulman attempted to reassure Dobrynin that the Carter administration desired improved political relations, but at the end of the meeting, Dobrynin stressed the need “to have a period of quiescence in the relationship for the next month or two” to let tensions subside.⁸⁵

By the autumn of 1977, though, U.S.-Soviet relations appeared to be improving. U.S. and Soviet negotiators made progress on SALT II, and Jewish emigration from the Soviet Union had increased almost twenty-five percent over the previous year. Shulman and Dobrynin had a more positive meeting in October reflecting these improvements. There were still outstanding issues in bilateral relations, but the officials agreed to keep talking and Shulman reassured the ambassador that the administration was holding “exploratory conversations with members of Congress” about extending the Soviet Union provisional most-favored-nation status and Export-Import Bank credits. Dobrynin welcomed the administration’s efforts as “better than no action at all.”⁸⁶ Carter conveyed these same points to Patolichev, who requested a meeting with the president, on November 10, 1977. In the meeting, Carter discussed these issues, as well as SALT II,

⁸⁵ Memo, Vance to the President, Nov. 4, 1977, “11/10/77” folder, Container 50, Office of Staff Secretary, Presidential Files, JCL, available online at http://www.jimmycarterlibrary.gov/digital_library/sso/148878/50/SSO_148878_050_07.pdf (accessed 1 Jul. 2015); Memorandum of Conversation, Jul. 8, 1978, *FRUS*, vol. VI: Doc. 36, <http://history.state.gov/historicaldocuments/frus1977-80v06/d36> (accessed 1 Jul. 2015).

⁸⁶ Memorandum of Conversation, Oct. 22, 1977, *FRUS*, vol. VI: Doc. 55, <http://history.state.gov/historicaldocuments/frus1977-80v06/d55> (accessed 1 Jul. 2015).

the Middle East, and more, with Patolichev, pointing out that the issues “all go hand in hand” towards better relations.⁸⁷

The administration’s overtures to improve U.S.-Soviet economic relations slid backwards in early 1978. In January, the CIA reported that Moscow was likely going to put Shcharansky on trial for accusations of anti-Soviet slander and working for the CIA. Although Shcharansky was not a CIA agent, the Soviet authorities were “laying publicly and privately a trail of innuendo” connecting the dissident to the West. A few months later, national Jewish leaders informed Vance that the Soviet authorities were harassing Soviet Jews more and more, though emigration levels increased approximately forty percent over last year. The Jewish leaders welcomed the increased levels but believed more work had to be done to aid Soviet Jewry. Human rights disputes and the crisis on the Horn of Africa pushed Carter towards confrontation with the Soviet Union. In July, Carter announced the sanctions on oil and gas exports in response to Shcharansky’s and Ginzburg’s convictions. In the course of less than eight months, the Carter administration went from expressing a desire to promote beneficial bilateral trade to brandishing an economic stick against the Soviet Union. By December 1978, the administration reversed course again as Secretary Kreps and Secretary Blumenthal told Soviet leaders the administration supported Soviet energy development and increased economic contact.⁸⁸

⁸⁷ Memo, Vance to the President, Nov. 4, 1977; Memorandum of Conversation, Nov. 18, 1977, *FRUS*, vol. VI: Doc. 61, <http://history.state.gov/historicaldocuments/frus1977-80v06/d61> (accessed 1 Jul. 2015).

⁸⁸ CIA Memo, Jan. 10, 1978, *FRUS*, vol. VI: Doc. 68, <http://history.state.gov/historicaldocuments/frus1977-80v06/d68> (accessed 1 Jul. 2015); Memorandum of Conversation, May 3, 1978, *FRUS*, vol. VI: Doc. 105, <http://history.state.gov/historicaldocuments/frus1977-80v06/d105> (accessed 1 Jul. 2015); Whitney, “Moscow Gets Good Word,” *New York Times*; Kevin Klose, “Looking for Better Times in Russia,” Jan. 14, 1979, *The Washington Post*, K1.

By spring 1979, the administration decided once again to seek movement on most-favored-nation status and credits for the Soviet Union. On April 27, Vance and Blumenthal met with Dobrynin in Washington, presenting the ambassador with “an oral note . . . approved at the highest level.” After consulting Congress and Jewish leaders, the administration concluded that “an effort to delete or amend Jackson-Vanik would be lengthy and not likely succeed.” Yet Carter wanted to reward Moscow for the “recent increase in Jewish emigration” with a freedom-of-emigration waiver to the amendment, “so that the 1972 Trade Agreement will come into force.” The president did not request explicit assurances that Moscow would comply with the emigration terms of the amendment but stressed that “it would be essential . . . that the Soviet Government say nothing inconsistent with the President’s waiver and report to Congress.” Before doing so, though, President Carter merely asked Moscow to confirm that emigration was increasing, the emigration application process had been improved, and “the Soviet Union has no intention of changing the foregoing policies.”⁸⁹

In early May, the Soviet leadership called Carter’s proposal “completely unacceptable.” The Soviets argued that confirming emigration procedures, which would be reported to Congress, would condone U.S. involvement in Soviet internal affairs. In essence, the proposal was no different than the “provisions of existing American legislation.” A “highly abnormal situation” marked U.S.-Soviet economic relations, and Carter’s proposal did not seek a “fundamental change, nor . . . change in the existing legislation.” Moscow considered the offer an effort to “create only the superficial

⁸⁹ Telegram, State Department to U.S. Embassy Moscow, Apr. 28, 1979, *FRUS*, vol. VI: Doc. 190, <http://history.state.gov/historicaldocuments/frus1977-80v06/d190> (accessed 1 Jul. 2015).

appearance of willingness to resolve this major question in our relations.” The Soviet Union wanted to solve these problems but stated, “It is hard to conceive that the American side could seriously expect that our principled position on this can undergo any changes.” Despite Carter’s best efforts, Moscow refused to recognize the linkage between trade and human rights established under the Jackson-Vanik amendment. The Soviet Union repeatedly rejected this linkage since 1974. On the cover memorandum sending the Soviet note to Carter, the president scribbled, “Zbig—To hell with them.”⁹⁰ Ahead of the Vienna Summit in June 1979, Vance made one last failed attempt to secure Soviet cooperation on a waiver. Carter and Brezhnev also discussed economic relations in passing at the summit. Yet economic relations remained at an impasse over Jackson-Vanik.⁹¹

Confrontation Renewed

On Christmas Day, 1979, 80,000 Soviet troops crossed into neighboring Afghanistan in an effort to save a socialist government on the brink of collapse. The invasion marked the first time the Soviet Union used military force outside of the Warsaw Pact nations and made normalized U.S.-Soviet economic relations impossible.⁹² Considering the invasion a grave threat to world peace, Carter returned the United States to a policy of economic containment. The president enacted more economic sanctions against the Soviet Union in order to signal U.S. disapproval. He also hoped to secure

⁹⁰ Oral Note from the Soviet Leadership, undated, Ibid.: Doc. 193, <http://history.state.gov/historicaldocuments/frus1977-80v06/d193> (accessed 1 Jul. 2015).

⁹¹ Memorandum of Conversation, Jun. 6, 1979, Ibid.: Doc. 198, <http://history.state.gov/historicaldocuments/frus1977-80v06/d198>; Memorandum of Conversation, Jun. 18, 1979, Ibid.: Doc. 206, <http://history.state.gov/historicaldocuments/frus1977-80v06/d206>; Memorandum of Conversation, Jun. 18, 1979, Ibid.: Doc. 207, <http://history.state.gov/historicaldocuments/frus1977-80v06/d207> (all accessed 1 Jul. 2015).

⁹² Hanhimäki, *Rise and Fall of Détente*, 134-135

allied cooperation in pressuring the Soviet Union to withdraw. Most notably, the Carter administration instituted a grain embargo, sacrificing America's strongest economic relationship with the Soviet Union in an attempt to elicit similar West European action on high-technology exports and official credits. U.S. allies in Europe, however, were unwilling to sacrifice the economic and political gains of détente. The result was a "divisible détente," in the words of President Carter, with U.S. and European East-West economic and political policies diverging.⁹³

The Soviet invasion took place in the midst of an energy crisis, a worsening U.S. economy, and the beginning of the Iranian hostage crisis. Political fallout from these continual crises limited Carter's ability to act and contributed to a perception among most Americans that the president was unable to lead the nation. In general, the U.S. economy in the 1970s suffered from stagnation and inflation brought on by international competition from the revived Western economies and mounting government budget deficits. Increasing oil prices exacerbated these economic problems, and towards the end of the decade, the economic challenges grew more acute. By 1979, the unemployment rate hovered near 6 percent, the average annual prime interest rate broke 11 percent, and inflation averaged 11.3 percent. Oil prices rose steadily over the decade from \$1.80 a barrel in 1970 to over \$20 in July 1979. These prices aggravated the economy's problems, and Carter's approval rating dropped to twenty-nine percent in July.⁹⁴ In

⁹³ Letter, Jimmy Carter to Margaret Thatcher, Apr. 7, 1980, The Margaret Thatcher Foundation, Thatcher MSS (digital collection), Doc. ID 112704, <http://margaretthatcher.org/document/112704> (accessed 21 Jul. 2015).

⁹⁴ Council of Economic Advisors, *Economic Indicators*, 96th Cong., 1st sess., July 1979, 12, 30, 24, available at the Federal Reserve Bank of St. Louis' Federal Reserve Archive, https://fraser.stlouisfed.org/scribd/?item_id=351&filepath=/docs/publications/ei/1979/07-1979.pdf#scribd-open (accessed 7 July 2015); James T. Patterson, *Restless Giant* (New York: Oxford University Press,

response, Carter delivered his infamous “malaise” speech in which he sermonized about a “crisis of confidence” sapping the American people’s optimism and promising action. A few days later, the president accepted the resignation of five cabinet members, including the Treasury Secretary Blumenthal, in order to demonstrate the administration’s changing course. But the speech and resignations only contributed to the growing public perception of presidential ineptitude.⁹⁵

In addition to the energy and economic crisis, a fierce debate on the merits of SALT II took place over the summer and fall of 1979. Carter and Brezhnev signed the agreement at the Vienna Summit, and the president maintained the treaty was in the national interest since it placed significant caps on weapon delivery systems, bombers, and cruise missiles. The Joint Chiefs of Staff and NATO allies also supported SALT II. Opponents, however, questioned the ability to verify Soviet treaty compliance and argued that the agreement failed to address Soviet advantages in heavy nuclear missiles. Conservative Republicans and Democrats—such as Senate minority leader Howard Baker (R-TN) and Senator Jackson—argued SALT II threatened America’s nuclear deterrent, creating a “window of vulnerability.” These opponents used the ratification debates as a platform to attack détente by linking SALT II to other problems in U.S.-Soviet relations. They demanded the Soviet Union demonstrate restraint in the Third World and halt its military buildup in return for ratification. Administration officials

2005), 127; Burton I. Kaufman and Scott Kaufman, *The Presidency of James Earl Carter Jr.* 2nd ed., rev. (Lawrence: University Press of Kansas, 2006), 186.

⁹⁵ Jimmy Carter, Address to the Nation on Energy and National Goals: “The Malaise Speech”, July 15, 1979, online by Gerhard Peters and John T. Woolley, *The American Presidency Project*, <http://www.presidency.ucsb.edu/ws/?pid=32596> (accessed 7 July 2015); B. Kaufman and S. Kaufman, *Presidency of James Earl Carter*, 176-184; Kevin Mattson, *What the Heck Are You Up To, Mr. President?* (New York: Bloomsbury, 2009).

defended the treaty, and the president attempted to address concerns by approving the development of a new nuclear missile system (the MX) and a three percent increase in defense spending.⁹⁶

At the end of August, revelations that a Soviet combat brigade had been discovered in Cuba casted further doubt on the prudence of SALT II. Such a military buildup on the island would violate an agreement between the superpowers after the Cuban Missile Crisis in 1962 and be another example of the Soviet Union seeking advantages over the United States. Critics of SALT II claimed the Soviet brigade demonstrated Moscow could not be trusted to honor the treaty's limits. In fact, as President Carter explained, the brigade had been there since 1962 and did not violate any prior agreements. The controversy passed but it halted the SALT II ratification process for a month, and once the Senate finally returned to the treaty, members were more cautious about endorsing it. By the fall of 1979, the public mood was swinging more and more against U.S.-Soviet cooperation, and elections were only a year away.⁹⁷

Another crisis beset the Carter administration on November 4 when Iranian students stormed the U.S. embassy in Tehran taking over fifty Americans hostage. Iran, a staunch U.S. ally in containing Soviet expansion in the region, had been in turmoil since January 1978. In the 1970s, Shah Mohammad Reza Pahlavi enacted repressive modernization policies with the benefit of American foreign and military aid. Iranian Islamic fundamentalists opposed the Shah, leading to riots in 1978 and the overthrow of

⁹⁶ Cyrus Vance, *Hard Choices* (New York: Simon and Schuster, 1983), 349-356; Hanhimäki, *Rise and Fall of Détente*, 108-109, 121-123; Glad, *Outsides in the White House*, 111-115; B. Kaufman and S. Kaufman, *Presidency of James Earl Carter*, 187-189.

⁹⁷ B. Kaufman and S. Kaufman, *Presidency of James Earl Carter*, 189-191; Vance, *Hard Choices*, 358-367.

the Shah, who fled Iran, in early 1979. Relations between the nascent Islamic government and the United States were tense throughout 1979 until Carter permitted the exiled Shah to enter the United States for cancer treatment, at which point Iranian demonstrators overran the U.S. embassy. The hostages were held in captivity for the next 444 days, despite Carter's best attempts to secure their rapid release and an aborted rescue mission. All the while, nightly newscasts like ABC's *America Held Hostage* broadcasted heartfelt stories about the captives and images of Iranian street demonstrators burning American flags while chanting "Death to America!" More than anything else, the hostage crisis made the president seem weak and unable to lead the United States. Under President Carter, America appeared to be a helpless giant.⁹⁸

The Soviet invasion of Afghanistan was the final crisis of 1979. After a coup brought a socialist government to power in Afghanistan two years earlier, the Kremlin offered it substantial foreign aid and urged it to expand its base of support among the region's rural tribes. Power struggles plagued the regime, however, prompting the Politburo to intervene to save the revolution. The Soviet leadership had considered intervening earlier in March 1979 but feared undermining détente and the ongoing SALT II negotiations. By December, the situation had changed. Anti-détente sentiments in the United States were stronger than ever. The U.S. Senate seemed unlikely to ratify SALT II, and NATO had recently decided to deploy a new generation of intermediate-range nuclear missiles in Europe to counter similar Soviet deployments. Reacting to the Iranian Revolution, Moscow feared Islamic fundamentalism might spread to Afghanistan and the

⁹⁸ B. Kaufman and S. Kaufman, *Presidency of James Earl Carter*, 155-160, 193-195; Hanhimäki, *Rise and Fall of Détente*, 130-134; David Farber, *Taken Hostage: The Iran Hostage Crisis and America's First Encounter with Radical Islam* (Princeton: Princeton University Press, 2005).

Soviet Union's own Muslim population. Or, perhaps even worse, the Kremlin worried the Afghan government's revolving leadership and policies could lead it towards an alliance with the United States. The Soviet Union perceived a crisis that directly threatened its security. The Politburo thought relations with the West were returning to confrontation regardless of their actions, so it ordered the invasion in an attempt to stabilize Afghanistan to protect its interests and security.⁹⁹

The invasion pushed President Carter to re-conceptualize U.S.-Soviet relations and marked the death knell of U.S.-Soviet détente. "This is deliberate aggression that calls into question détente and the way we have been doing business with the Soviets for the past decade," Carter told his Chief of Staff Hamilton Jordan. Following the invasion, the president held a series of high-level crisis meetings to formulate a response. On December 26, National Security Advisor Zbigniew Brzezinski advised Carter to take decisive action against the Soviet Union, explaining that the invasion, coupled with the Iranian crisis, "has led to the collapse of the balance of power in Southwest Asia, and it could produce Soviet presence right down on the edge of the Arabian and Oman Gulfs." He did not believe Moscow was responding to a local conflict in Afghanistan but seizing an opportunity to strengthen its influence and strategic interests throughout the region. There was a breach in containment. Brzezinski described the instability across the Middle East and the Horn of Africa as an "arc of crisis" in early 1979. Now the arc of crisis had the potential to become an arc of Soviet dominance. The Soviet Union's "naked"

⁹⁹ Hanhimäki, *Rise and Fall of Détente*, 134-135; Westad, "The Road to Kabul: Soviet Policy on Afghanistan, 1978-1979," in *The Fall of Détente*, ed. Odd Arne Westad (Boston: Scandinavian University Press, 1997), 118-148; Communist Party Politburo Meeting on Afghanistan, Mar. 17, 1979, in Westad, *Fall of Détente*, 301; Vladislav M. Zubok, *A Failed Empire* (Chapel Hill: The University of North Carolina Press, 2007), 259-264.

aggression likely meant SALT's ratification had to be postponed indefinitely. In the face of the ongoing crises in Iran and Afghanistan, a restrained U.S. response "will no longer be labeled as prudent but increasingly as timid." Carter had to demonstrate that he could lead and "tell the Soviets directly and very clearly that our relations will suffer," Brzezinski advised. The national security advisor reiterated his views a few days later, stating, "We have not always followed these verbal protests [of Soviet actions] up with tangible responses, the Soviets may be getting into the habit of disregarding our concern." He presented the president with a menu of U.S. response options and reminded Carter that the allies "will be looking to us for leadership."¹⁰⁰

In a long NSC meeting on January 2, 1980, the administration debated response options. The president wanted the Soviet Union to bear a significant cost for its actions, and all officials agreed that the U.S.-Soviet relationship could not continue as if the invasion had not happened. The administration settled on a series of policies intended to signal U.S. opposition to the invasion, punish the Soviets for their behavior, and secure concomitant allied action. Under the circumstances, everyone believed it would be impossible to obtain the ratification of SALT II, so the treaty was withdrawn from the Senate. They also agreed "not do to anything about the Soviet MFN [most-favored-nation]" status. In addition, Carter decided to suspend a series of bilateral agreements, seek a United Nations Security Council or General Assembly vote on the invasion, recall

¹⁰⁰ Hamilton Jordan, *Crisis: The Last Year of the Carter Presidency* (New York: G. P. Putnam's Sons, 1982), 99; Brzezinski's Report to Carter on the Soviet Afghan Intervention, Dec. 26, 1979 in Westad, *Fall of Détente*, 329-332; "The Crescent of Crisis: Iran and a Region of Rising Instability," *Time* 113, no. 3 (1979): 18; Memo, "Our Response to Soviet Intervention in Afghanistan," Brzezinski to the President, Dec. 29, 1979 in The National Security Archive's *Carter-Brezhnev Project*, eds. Svetlana Savranskaya and Malcolm Byrne, available at http://nsarchive.gwu.edu/carterbrezhnev/fall_of_detente_ebb.html (accessed 20 Jul. 2015).

the U.S. ambassador from Moscow, resume registration for the military draft, increase defense spending, freeze export licensing to the Soviet Union, and publically criticize Soviet aggression. But these actions would not be enough to demonstrate the severity with which the president viewed the Soviet transgression.¹⁰¹

There was a lengthy debate on two significant response options, in particular: a boycott of the 1980 Moscow Olympics and an embargo on U.S. grain exports to the Soviet Union. An Olympic boycott was controversial because, as Deputy Secretary of State Warren Christopher explained, the United States would be using a private, non-political event to make a political statement affecting athletes who train for years to participate in a “once in a lifetime opportunity.” Christopher did note, though, that “there was strong feeling in Europe against participating.” Counsel Lloyd Cutler believed an Olympic boycott without other measures like a grain embargo would be perceived as a weak response, but Vice President Mondale pointed out it “could capture the imagination of the American people.” Upon Brzezinski’s suggestion, the president decided to see if U.S. allies would join in a boycott—perhaps even organize an alternative games. Later in March, Carter concluded to enact the boycott. On April 22, at the urging of the administration, the U.S. Olympic Committee voted not to send a team to Moscow. When the Olympic ceremonies finally began in July, only eighty nations participated, making it the smallest games in almost twenty-five years. West Germany, Japan, and Canada joined the U.S.-led boycott, but the Olympic committees in Britain and France voted to send

¹⁰¹ NSC Meeting on Afghanistan, Jan. 2, 1980 in Westad, *Fall of Détente*, 343; Memo, “Results of the NSC Meeting,” Brzezinski to the Vice President, Secretary of State and Secretary of Defense, Jan. 2, 1980 in *Carter-Brezhnev Project*, http://nsarchive.gwu.edu/carterbrezhnev/fall_of_detente_ebb.html (accessed 20 Jul. 2015); Leffler, *Soul of Mankind*, 335.

teams, despite the objections of their governments. The *New York Times* declared it “the saddest Olympics.” Although significant European allies refused to join the boycott, the Carter administration used a symbolic action to show Moscow and the world that the cooperative U.S.-Soviet relationship of détente was buried as long as Soviet troops remained in Afghanistan.¹⁰²

The strongest demonstration of U.S. resolve came in a controversial grain embargo on the Soviet Union. Following the invasion, the longshoremen’s union threatened to boycott the loading of grain shipments destined for the Soviet Union. If the union did so before the administration reacted to the invasion, the president would appear soft. But on the other hand, a grain embargo risked hurting U.S. farmers and raised complex legal questions: would the U.S. government be required to purchase and store the grain from farmers or offer additional subsidies? Could the United States refuse to deliver grain obligated under the long-term agreement with the Soviet Union? In the NSC meeting, the vice president strongly opposed an embargo, telling the president it would hurt the United States more than the Soviet Union by damaging farmers and the U.S. balance of payments. Mondale maintained grain exports “requires the Soviet Union to spend hard currency” as opposed to investing that limited hard currency in its military buildup. On January 3, he appealed to Carter again, stating that the administration had already decided on a “pretty impressive” response and that “using food as a weapon” was

¹⁰² NSC Meeting, Jan. 2, 1980 in Westad, *Fall of Détente*, 341-342; Carter, Remarks to Representatives of U.S. Teams to the 1980 Summer Olympics, Mar. 21, 1980, *American Presidency Project*, <http://www.presidency.ucsb.edu/ws/?pid=33171> (accessed 9 Jul. 2015); Jimmy Carter, *Keeping Faith: Memoirs of a President* (New York: Bantam Books, 1982), 526; “The Saddest Olympics,” Jul. 19, 1980, *New York Times*, 16; R.W. Apple Jr., “British Olympic Committee, Rejecting Mrs. Thatcher’s Pleas, Votes to Go to Moscow Games,” Mar. 26, 1980, *New York Times*, A10; Paul Lewis, “France Says ‘Oui’ to the Moscow Olympics,” May 18, 1980, *New York Times*, E2.

immoral. Furthermore, Mondale suggested an embargo would harm Carter's political standing with Midwestern farmers in the upcoming presidential election. A grain embargo's economic costs to U.S. farmers and political costs to Carter outweighed the benefits of putting pressure on the Soviet Union over Afghanistan, an obscure place with which most Americans were unfamiliar. Mondale's arguments against a grain embargo were clear, and Ronald Reagan made the same arguments when running against Carter in the 1980 election. Nevertheless, President Carter decided a grain embargo was necessary. Under the long-term grain agreement, the United States was obligated to sell the Soviet Union eight million tons of grain but Moscow ordered an additional seventeen million tons to feed livestock. President Carter suspended the sale of those additional amounts, hoping other grain-exporters would not replace U.S. supplies in the market, in an attempt signal U.S. opposition to the invasion and punish the Soviet Union by squeezing its livestock program.¹⁰³

Why did Carter decide on this course of action? In his memoir, Brzezinski wrote "Vance's strong support for the embargo" and the Department of Agriculture's (USDA) reassurance that no grain-exporter could replace withheld U.S. grain convinced Carter to "dismiss Mondale's political concerns." Vance was typically a voice of caution within the administration, and his support likely reinforced the president's decision. Carter also feared that if the West did not forcefully condemn the invasion, the Soviet Union would not be deterred from extending its influence, whether through subversion or military

¹⁰³ NSC Meeting, Jan. 2, 1980 in Westad, *Fall of Détente*, 339-340, 348; Memo, Vice President Walter Mondale to Carter, Jan. 3, 1980, *FRUS, 1977-1980*, vol. VI, Soviet Union, ed. Melissa Jane Taylor (2013):Doc. 253, <http://history.state.gov/historicaldocuments/frus1977-80v06/d253> (accessed 20 Jul. 2015); Carter, Speech on Afghanistan, Jan. 4, 1980, Miller Center, University of Virginia, <http://millercenter.org/president/speeches/speech-3403> (accessed 10 Jul. 2015).

force, into the Persian Gulf and Indian subcontinent. A strong deterrence required multilateral efforts. As Carter later recollected, “I was determined to lead the rest of the world in making it as costly as possible. . . . To be effective, punitive action had to be broadly supported and clearly defined.” The president wanted allied cooperation in sanctions, and he believed the United States had to forego its own economic interests to do so. The West Europeans conducted far more trade with the East than did the United States, offering Moscow favorable export credits, exporting sophisticated industrial equipment, and importing Soviet energy. Key industrial sectors and jobs in Europe depended on this trade. The invasion convinced Carter that it was prudent to curb East-West trade and seek allied cooperation in tightening COCOM’s export controls in order to pressure the Soviet Union and guard against Soviet military power. The allies would be more likely to cooperate with U.S. initiatives if the administration showed a willingness to share the economic burdens of action. Since the grain trade represented America’s only substantial economic relationship with the Soviet Union, it was imperative to cut those ties to demonstrate American leadership and elicit alliance support to deter Soviet expansion.¹⁰⁴

In the January 2 NSC meeting, officials explained this reasoning to the president. Vance mentioned that without a grain embargo, “we do not believe our allies would do anything in the way of economic restrictions or penalties to the Soviet Union. . . . This would be a high price to pay but it would be necessary.” Christopher said that allied cooperation on restraining trade and credits “depends on what we do about grain.” The

¹⁰⁴ Brzezinski, *Power and Principle*, 431; Vance, *Hard Choices*, 387-390; NSC Meeting, Jan. 2, 1980 in Westad, *Fall of Détente*, 332-351; Carter, *Keeping Faith*, 472.

West Europeans and Soviets would be discussing credit renewal terms soon, and the Deputy Secretary of State thought “they were prepared not to renew them if we were similarly going to take strong action.” The president “hoped Warren Christopher was correct” and decided “to make a maximum effort to get our allies behind us,” advising officials to give “the allies a rundown on what we had decided to do” immediately following the meeting.¹⁰⁵

On January 4, the President delivered a televised address from the Oval Office to the American people explaining the crisis and outlining his response. After a few opening lines about the Iranian hostage crisis, the camera slowly zoomed in on Carter. “This invasion is an extremely serious threat to peace because of the threat of further Soviet expansion into neighboring countries,” he declared. Injecting religious morality into the address, Carter remarked, “It is a deliberate effort of a powerful atheistic government to subjugate an independent Islamic people.” A map of Afghanistan and its neighboring countries then flashed on the screen while the president explained the threat the invasion posed to the “stable, strategic, and peaceful balance of the entire world.” He listed the firm measures adopted over the previous days to signal “our deep concern” about Soviet actions. The administration’s principal punitive action was the grain embargo, and the president expressed confidence that other grain-exporting nations would not replace U.S. supplies in the market. In the State of the Union address three weeks later, Carter stated that “the Soviet invasion of Afghanistan could pose the most serious threat to the peace since the Second World War.” Under the circumstances, “business as usual with the Soviet Union” could not continue. The president then enunciated the Carter Doctrine,

¹⁰⁵ NSC Meeting, Jan. 2, 1980 in Westad, *Fall of Détente*, 339, 343-344, 350-351.

declaring the Persian Gulf vital to American interests and pledging to repel, with military force if necessary, any attempts by an outside force to gain control of the region.¹⁰⁶

A CIA intelligence assessment in January reaffirmed the need to secure multilateral cooperation without which “the United States can hurt the USSR appreciably.” The CIA advised the administration to convince other Western countries to limit Soviet access to not only grain but “steel and steel pipe, metallurgical equipment, and a broader range of oil and gas equipment” for a “prolonged period.” In a memo to the president, Brzezinski reiterated these points, noting that the U.S. embassy in Moscow forecasted the embargo contributing to “a significant decline in 1980 meat production. . . . [that would] undercut a major Brezhnev program.”¹⁰⁷ To secure international cooperation on the grain embargo, the president organized a Washington, D.C. meeting of representatives from the world’s major grain exporting countries on January 12. The European Community and the governments of Canada, Australia, and Argentina all pledged not to increase their grain trade with the Soviet Union as U.S. supplies were pulled from the market. The Soviet Union had planned to import twenty-five million tons of grain from the United States, and now the United States denied the Soviets seventeen million tons, provided other grain exporters fully cooperated. Ten days later, the Secretary of Agriculture Robert Bergland told the Senate Committee on Agriculture, Nutrition, and Forestry, “We have a solid and united western front on this matter” of

¹⁰⁶ Video of Carter’s Speech on Afghanistan, Jan. 4, 1980 is available at Miller Center, University of Virginia, <http://millercenter.org/president/speeches/speech-3403> (accessed 10 Jul. 2015); Carter, The State of the Union Address Delivered Before a Joint Session of the Congress, Jan. 23, 1980, *American Presidency Project*, <http://www.presidency.ucsb.edu/ws/?pid=33079> (accessed 10 Jul. 2015).

¹⁰⁷ Overview of Intelligence Assessment, “Impact of Economic Denial Measures on the USSR,” Jan. 1980, *FRUS*, vol. VI: Doc. 250, <http://history.state.gov/historicaldocuments/frus1977-80v06/d250>; Memo, Brzezinski to Carter, undated, *FRUS*, vol. VI: Doc. 257, <http://history.state.gov/historicaldocuments/frus1977-80v06/d257> (both accessed 21 Jul. 2015).

international cooperation.¹⁰⁸ By the end of the month, it appeared President Carter had secured multilateral support and was leading the West against the Soviet Union.

Senators from grain states criticized Carter's grain embargo, but most Americans, including U.S. farmers, supported the president for the time being. When Bergland testified before the Senate agricultural committee in January, many of the senators objected to the grain embargo. George McGovern (D-SD) claimed it damaged the country's reputation as a reliable supplier, "the best asset we have as a great power," and hurt U.S. farmers and the Soviet people rather than the Soviet leadership. Bob Dole (R-KS) questioned whether other grain exporters would abide by their commitments not to replace U.S. grain, and Rudy Boschwitz (Independent Republican-MN) told the secretary of agriculture that other suppliers could easily replace withdrawn U.S. grain on the international market, undermining the embargo. Roger Jepsen (R-IA) described Carter's response as an "ill-advised, emotionally initiated, ineffective embargo." He said Iowa farmers would suffer under the administration's actions. "As far as I am concerned," Jepsen exclaimed, "the President pulled out his six-gun, shot the American farmer right in the foot, and then said to Russia, 'Take that.'"¹⁰⁹

But Carter was determined to protect American farmers from the embargo's adverse effects. He ordered the Commodity Credit Corporation to spend \$2 billion to purchase 4.2 million tons of wheat and 9 million tons of corn by mid-summer. The USDA encouraged farmers to store extra grain until it could reenter the market at higher

¹⁰⁸ House, Committee on Agriculture, *Recent Developments Pertaining to Grain Embargo*, 96th Cong., 2nd sess., Jun. 25, 1980, p. 5, 8; NSC Meeting, Jan. 2, 1980 in Westad, *Fall of Détente*, 339; Senate, Committee on Agriculture, Nutrition, and Forestry, *Embargo on Grain Sales to the Soviet Union*, 96th Cong., 2nd sess., Jan. 22, 1980, p. 20.

¹⁰⁹ Senate Committee on Agriculture, *Embargo on Grain Sales*, p. 17-18, 19-21, 7-8.

prices after the embargo. More grain was devoted to gasohol production, and increased export-financing encouraged grain sales to international customers besides the Soviet Union. Mexico doubled its purchases of U.S. grain for 1980, and the administration pursued talks with China about increasing its consumption. Bergland explained to the Senate that, despite the embargo, agricultural exports were forecasted to break new records in volume and profits in 1980. By the end of the year, the U.S. market share of wheat and corn exports all grew but net farm income dropped by forty-one percent. The grain embargo helped cause a decline in net farm income. But there were other, more significant contributing factors. Before the embargo was instituted, the USDA had predicted a twenty percent decline in net income due to higher interest rates and fuel costs. A drought further hurt farmers during the year. American farmers were struggling before the embargo and would continue to struggle after it was lifted in April 1981.¹¹⁰

Due in part to the administration's efforts to shield farmers from the embargo and the fact that the Soviet invasion of Afghanistan was so brazen, many farmers supported the president in early 1980. The American Farm Bureau backed the embargo, and the president won a stunning 2-to-1 victory over Senator Edward Kennedy (D-MA), who was challenging Carter for the Democratic presidential nomination, in the Iowa caucuses. Kennedy had promised Iowans he "would not embargo grain in the future," a pledge Carter had also made during the 1976 campaign. Even though Carter broke his pledge,

¹¹⁰ Carter, Speech on Afghanistan, Jan. 4, 1980; Senate Committee on Agriculture, *Embargo on Grain Sales*, p. 10-13; Net Farm Income values obtained from USDA Economic Research Service, *U.S. and State-Level Farm Income and Wealth Statistics*, <http://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics.aspx> (accessed 21 Jul. 2015); Robert L. Paarlberg, "Lessons of the Grain Embargo," *Foreign Affairs* 59, no. 1 (1980): 147-149; "Agriculture 1980: Overview" in *CQ Almanac 1980*, 36th ed., 93 (Washington, DC: Congressional Quarterly, 1981), <http://library.cqpress.com/cqalmanac/cqal80-1175403> (accessed 14 Aug. 2015).

Iowans still supported him. Of Iowa's 2,531 Democratic precincts, Carter won 59 percent of the delegates to Kennedy's 31 percent. The nation's farming regions tended to stick with the president into the spring as Carter beat Kennedy again in the Wisconsin primary and Kansas caucuses in April.¹¹¹

The president's "united western front" on the grain embargo was short-lived, however. On March 7, Canada announced the sale of two million tons of grain to the Soviet Union, most of which would be delivered by October. From July 1979 to June 1980, Canada, Australia, and the European Community more than doubled their grain exports to the Soviet Union compared to the average volumes of the past seven years. As a result, Moscow obtained an additional five million tons of grain. Australia alone sold the Soviets more grain in 1980 than it did in the four prior years combined. But, as the world's second largest feed grain-exporter, Argentina did the most damage to the U.S. embargo. Between July 1978 and June 1979, Argentina only exported 1.4 million tons of grain to the Soviet Union, and the USDA expected it to export about three million tons in 1980 before the embargo. After the embargo, however, Moscow offered to pay about twenty-five percent above the U.S. grain selling price, and Argentine exporters jumped at the offer. To meet Soviet demand, Argentina shifted exports from its traditional markets in South America, Italy, Japan, and Spain to the Soviet Union. By late June, it had exported 5.5 million tons of grain and concluded a long-term grain agreement with the Soviet Union. In response to Argentine sales, Representative Charles E. Grassley (R-IA)

¹¹¹ Bill Peterson, "Bush, Carter Drew Strongly in All Parts of Iowa," Jan. 23, 1980, *The Washington Post*, A3; T. R. Reid, "Kennedy Tells Iowans He'd Never Embargo Grain," Jan. 9, 1980, *Washington Post*, A2; B. Kaufman and S. Kaufman, *Presidency of James Earl Carter*, 210.

declared, “Our grain embargo, then, has been very successful for the Argentine farmer.”¹¹²

As the multilateral character of the embargo crumbled, so too did its popular backing. In April, the American Farm Bureau withdrew its support. More and more people began calling the embargo a failure and demanded it lifted. On June 25, 1980, Bergland and Under Secretary of Agriculture Dale E. Hathaway explained recent developments on the embargo to the House Committee on Agriculture, and the committee’s representatives from farming districts attacked the administration’s defense. Tom Harkin (D-IA) told Bergland and Hathaway that his district saw administration policy as “riding a dead horse.” The Congressional Research Service, Harkin claimed, found that the Soviet Union was still able to import over thirty million tons of grain during the past year, though a USDA analyst estimated the Soviets faced a seven million ton shortfall. Tom Hagedorn (R-MN) argued the embargo “caused an unmitigated disaster to our own economy, to the well-being of the American farmer, and has done little to influence the Soviet Union’s policies.” In defense of administration policy, Hathaway claimed the embargo denied the Soviet Union eleven million tons of grain measured from October 1979 to September 1980. Moscow had to pull grain from its reserves, making its economy more susceptible to crop failures in the future. “Russians are scrounging all over the Soviet Union to move the best meats into Moscow to satisfy the demand generated by those who go to the summer Olympic games,” Bergland

¹¹² CIA and State Briefing Paper, “Soviet Efforts to Circumvent the US Grain Embargo,” Mar. 21, 1980, *Declassified Documents Reference System (DDRS)*, Doc. CK3100202340; Paarlberg, “Lessons,” 152-153; House, Committee on Agriculture, *Recent Developments*, p. 27; U.S. Department of Agriculture, *The U.S. Sales Suspension and Soviet Agriculture: An October Assessment* (Washington, D.C.: U.S. Government Printing Office, 1980), 29.

maintained. Glenn English (D-OK) derided their testimonies as “an effort to try to carve out some success in the midst of a failure.”¹¹³

In the face of declining popular support and the collapse of the agreement between major grain-exporting nations, the Carter administration maintained the embargo was working. At the end of April, a joint State-USDA options paper concluded the administration had three choices for the embargo: maintain present policy while asking other nations *not to increase* their sales; maintain the embargo while asking other nations *to cut* their sales to last year’s levels; or, *end the embargo*, permitting U.S. grain to reenter the market. On May 1, the Special Coordinating Committee found the administration, in reality, had a lack of options. Due to farmers’ mounting opposition, the SCC said continuing the embargo into 1981 was “undesirable.” But repealing the embargo “would require the US to retreat,” damaging U.S. credibility. Therefore, the SCC concluded that option two was “the preferable course,” advising the administration to continue talks with Argentina and Canada to limit grain sales. In the meeting, the officials also “agreed that the grain suspension had been effective this year” with other nations, except Argentina, cooperating with the embargo. Yet, the language of the January agreement to limit grain exports was “imprecise,” permitting those nations to push “the upper limit of ‘traditional’ sales.” Even so, the Soviet Union “would obtain only about 7 MMT of the 17 MMT we had denied them.”¹¹⁴

The Carter administration faced profound difficulties in managing the embargo and, ultimately, was unable to prevent significant trade leakage. As USDA officials

¹¹³ House, Committee on Agriculture, *Recent Developments*, pp. 13-14, 15, 7, 11, 18.

¹¹⁴ Summary of Conclusions of SCC Meeting, May 1, 1980, *FRUS*, vol. VI: Doc. 275, <http://history.state.gov/historicaldocuments/frus1977-80v06/d275> (accessed 21 Jul. 2015).

explained to the House Committee on Agriculture, state boards ran the grain trade in the other grain exporting countries. These boards, however, usually relied on private entities to sell and transmit supplies with government approval. Often times, as was the case in Argentina, the state boards refused—despite the official stance of their governments—to impose direct control over exports to certain destinations, meaning supplies were shipped to the Soviet Union directly or through other nations. Carter’s criticisms of Argentina’s human rights abuses also made it unwilling to cooperate fully. In addition, multinational firms based outside of the United States dominated the international grain trade, complicating the monitoring process. Lastly, once Argentina dropped its traditional markets to meet Soviet demand, the United States pursued Argentina’s old markets, according to Secretary Bergland. In the fall of 1980, Harvard Professor Robert L. Paarlberg argued the Carter administration pulled U.S. grain from the Soviet Union then threw the grain on the international market, letting other grain-exporters seize the opportunity to break into the Soviet market. The embargo constrained international grain supply in the short term, but in the longterm, it merely reordered the international grain trade since there was no decline in total grain supply.¹¹⁵

The Soviet Union was able to weather the grain embargo without significant difficulties. It offered above-market rates for non-U.S. grain and drew an estimated seventeen million tons of grain from its substantial reserves. Due to a lack of feed grain, it slaughtered some livestock, mostly hogs, at the start of the embargo. By June, the embargo resulted in a three percent decline in livestock feeding, though Moscow was still

¹¹⁵ House, Committee on Agriculture, *Recent Developments*, p. 5-7, 26-27; Carter, *Keeping Faith*, 477; Paarlberg, “Lessons,” 144-162.

able to feed its livestock one million tons of grain more than the previous year. In mid-July, the U.S. embassy in Moscow reported that cutbacks resulted in a decline in meat production with total meat output dropping an estimated 5.5, 10, and 15 percent in May, June, and July, respectively. Brzezinski cheerfully passed the embassy's report on to the president in August as evidence that the "embargo is substantially impacting" Soviet livestock. He predicted further declines in the coming months resulting from "a delayed harvest due to bad weather" in the Soviet Union.¹¹⁶

While Carter and Brzezinski claimed the embargo was a success, the USDA found "the economic impact more than trivial." Between July 1979 and June 1980, the Soviet Union had planned to import 37.5 million tons of grain total, of which the United States sought to deny 17 million tons. Despite the administration's best efforts, the Soviet Union imported 30.5 million tons. Compared to the levels of 1978-1979, other grain exporting nations increased their sales to the Soviet Union by 11.3 million tons total. Soviet farms slaughtered some livestock early on, but the Soviet Union still entered 1981 with a record inventory of 400,000 more cattle than the previous year. Over 1980, total meat production fell only 2.5 percent. Brzezinski had predicted bad weather would create another poor Soviet harvest, further affecting livestock herds, and Moscow did not make its planned harvest levels for 1980—a common occurrence in the planned system. Yet it did reap ten million tons of grain more than 1979, helping it increase its total livestock inventory. In 1980, the Soviet leadership also announced new agricultural incentive

¹¹⁶ Paarlberg, "Lessons," 156-157; House, Committee on Agriculture, *Recent Developments*, p. 11-14; Telegram, U.S. Embassy Moscow to State Department, Jul. 15, 1980, *FRUS*, vol. VI: Doc. 293, <http://history.state.gov/historicaldocuments/frus1977-80v06/d293> (accessed 21 Jul. 2015); Memo, Brzezinski to President, "Daily Report," Aug. 23, 1980, *DDRS*, Doc. CK3100595747.

programs aimed at increasing production to further limit the embargo's impact. In late 1977, a CIA assessment warned the Soviet Union possessed a "wide range of options" to overcome a U.S. grain embargo, and Moscow employed every option to do so.¹¹⁷

There were too many challenges and variables outside of Carter's control—ranging from difficulties securing multilateral cooperation to maintaining domestic support to the unpredictability of Soviet harvests—to using a grain embargo to place economic pressure on the Soviet Union. Of course, the grain embargo signaled the administration's objections to Soviet international behavior but it could not force a change in Soviet policy. Despite mounting evidence of the embargo's ineffectiveness, the Carter administration stayed the course. In his weekly report to the president on June 27, Brzezinski advised Carter to keep the embargo in place since lifting it would confirm "the perception that the embargo has been a failure and was an unwise move from the start." And, if Carter ended it then concluded a new grain sale to the Soviet Union, the administration's opponents would claim the president was sacrificing foreign policy and national security to please farmers, a narrow domestic constituency. As a result, Brzezinski, Bergland, and Stuart Eizenstat (domestic affairs advisor) all agreed that lifting the embargo "must be pegged to some movement on the part of the Soviet Union on Afghanistan. This would have to be part of a wider accommodation with the Soviet

¹¹⁷ Department of Agriculture, *The U.S. Sales Suspension*, 18, 29; U.S. Department of Agriculture, *Agricultural Situation: USSR Review of 1980 and Outlook for 1981* (Washington, D.C.: U.S. Government Printing Office, 1981), 5, 31, 34, 1, 4-5, 7; CIA Paper, Aug. 1977, *FRUS*, vol. VI: Doc. 40, <http://history.state.gov/historicaldocuments/frus1977-80v06/d40> (accessed 1 Jul. 2015).

Union.” The administration double downed on the embargo as a matter of credibility over Afghanistan.¹¹⁸

Alliance Disarray

Besides signaling disapproval of the invasion and punishing the Soviet Union, the embargo was to demonstrate to U.S. allies that the United States was willing to share the burden of curtailing East-West economic relations in the wake of the invasion. Yet, the West European allies, aside from Great Britain, were unwilling to follow the president’s lead. The West condemned the invasion, but what began as subtle differences in formulating a proper response to the crisis turned into diverging policies by the summer of 1980. By that time, the United States and Britain were willing to limit many aspects of the East-West relationship while France and West Germany resisted sacrificing the economic and political gains of détente. As a result, the alliance was divided in the face of Soviet aggression.

The first differences arose during the president’s telephone calls to the British, West German, and French heads of state on December 28, 1979. The British Prime Minister Margaret Thatcher and Carter agreed that NATO representatives should promptly hold a meeting to respond to the invasion and strengthen defenses. However, the West German Chancellor Helmut Schmidt and French President Valéry Giscard d’Estaing opposed a special NATO meeting since Afghanistan was outside of the treaty organization’s geographic area. France was a member of NATO but had withdrawn from its integrated military structure in 1966. Giscard did not think the West should formulate its response through a military organization. He preferred the Western nations maintain

¹¹⁸ Memo, Brzezinski to President, NSC Weekly Report #146, Jun. 27, 1980, *DDRS*, Doc. CK3100152564.

bilateral consultations over Afghanistan and focus on a United Nations response. In effect, the leaders all condemned the invasion but disagreed on the means of a coordinated Western response.¹¹⁹

These differences became more apparent at a high-level diplomatic meeting that also included delegates from Canada and Italy on December 31, 1979. Deputy Secretary of State Christopher met with his counterparts for almost six hours at the British Foreign and Commonwealth Office. According to British records, almost all of the delegates believed the Soviet invasion transformed the geopolitical landscape. The British Minister of State Douglas Hurd feared that Moscow could use Afghanistan as a “satellite” to project power into the Persian Gulf and Indian subcontinent. West German State Secretary Günther van Well stated, “Afghanistan now provided a new platform . . . to extend [Soviet] influence in the region.” The Western response had to be “framed with the wider region in mind, including the Gulf and the Horn.” The French Foreign Affairs Minister Bruno de Leusse, however, questioned if Soviet actions were “a move over a completely new threshold,” requiring an exceptional Western response. Moscow had been aiding Vietnam, Afghanistan, and African communists for years. Was the recent development a break from the past that necessitated a reevaluation of East-West relations? The French minister believed Third World nations and those bordering Afghanistan should lead in opposing Soviet actions, not the West. Afghanistan was not an “East/West quarrel.” Unlike the rest of the West, the French did not see the crisis as a

¹¹⁹ Telecon, Carter to Thatcher, Dec. 28, 1979, Thatcher MSS, Doc. ID 112219, <http://margaretthatcher.org/document/112219>; Telecon, Carter to Schmidt, Dec. 28, 1979, Thatcher MSS, Doc. ID 110472, <http://margaretthatcher.org/document/110472>; Telecon, Carter to Giscard, Thatcher MSS, Doc. ID 110471, <http://margaretthatcher.org/document/110470> (all accessed 21 Jul. 2015).

challenge to Western security interests but an isolated, regional conflict between the Soviet Union and developing nations, who looked to the West for aid.¹²⁰

In the meeting, there was also a disparity between the responses each nation considered. Only the British were willing to go as far as the United States in curtailing relations with the Soviet Union. Christopher told the delegates that Carter was reviewing “the totality of their bilateral relations,” including grain sales. Hurd specifically raised the question of restricting official credits to the Soviet Union. Britain’s credit agreement was due to expire in the coming months, and Britain was “prepared to consider this weapon . . . if all acted together.” Except for Christopher, the other delegates remained quiet on credits. In reply to these suggestions, Minister van Well stressed the need to maintain diplomatic contacts with the East. Towards these ends, Chancellor Schmidt would be visiting the East European nations sometime in the near future. French Minister de Leusse “thought that the West must be careful not to over react so as to damage their own interests.” Indeed, all of the delegates wanted to maintain arms controls and military force reduction talks with the Soviet Union, but on the matter of applying economic pressure on Moscow, the French and West Germans were hesitant to act. After the meeting, Hurd wrote to his superior that the meeting was “disappointing. US ideas were not clear, and the French (de Leusse) were determined to block any action today.” Hurd noted that the United States was reviewing all response options, including a grain embargo, but “no one else was specific” about their plans. Christopher, however, received a more positive impression, suggesting to President Carter on January 2, that the

¹²⁰ Pranay B. Gupte, “Atlantic Allied at London Parley Plan to Review Ties with Soviet,” Jan. 1, 1980, *New York Times*, 3; Foreign & Commonwealth Office (FCO) Record of Conversation, Dec. 31, 1979, Thatcher MSS, Doc. ID 118106, <http://margaretthatcher.org/document/118106> (accessed 21 Jul. 2015), pp. 3, 4-5, 8.

allies “were prepared not to renew” credit agreements if the United States took “strong action.”¹²¹

In January, British officials became increasingly worried that the alliance was dividing and feared Britain was caught between a U.S. administration determined to punish the Soviet Union and continental allies reluctant to act decisively. On January 10, the British embassy in Paris informed the Foreign Office that there was allied “solidarity” in condemning Soviet actions but not policy “alignment.” The British continually suggested NATO handle the Western response while the French and Germans insisted on using the European Community or tripartite talks. Traditionally, the French had sought to limit Britain’s involvement on the continent, and now the British embassy warned that “Franco/German line-up on Afghanistan from which Britain was clearly excluded” would harm British interests. The government wanted to support the United States *and* keep the European nation’s relations with the East in alignment, otherwise the French might “argue that Britain is inherently un-European and always lines up first with the USA.” Therefore, it was imperative to “pull France and Germany back from an attitude which begins to verge on appeasement” towards the Soviet Union, maintaining alliance unity and British interests.¹²²

Ten days after Carter announced the U.S. response, Christopher asked Thatcher to help “produce parallel action” among the allies. The next day, January 15, Thatcher

¹²¹ FCO Record, Dec. 31, 1979, Thatcher MSS, Doc. ID 118106, pp. 10, 11; Minutes, Douglas Hurd to Lord Carrington, Dec. 31, 1979, Thatcher MSS, Doc. ID 118104, <http://margaretthatcher.org/document/118104> (accessed 21 Jul. 2015); NSC Meeting, Jan. 2, 1980 in Westad, *Fall of Détente*, 343.

¹²² Telegram, U.K. Embassy Paris to FCO, Jan. 10, 1980, Thatcher MSS, Doc. ID 118175, <http://margaretthatcher.org/document/118175> (accessed 21 Jul. 2015).

called Schmidt in an attempt to elicit complementary West German policies. Thatcher feared Europe would merely condemn the invasion then return to business as usual with the Soviet Union. The Prime Minister argued Western Europe had to support the United States and suggested Britain, West Germany, and France end the “very generous credit terms” provided to the Soviet Union and restrict the flow of high technology goods to the East. Schmidt had no qualms about easy credit terms since Bonn did not have any *official* credit agreements with Moscow (Bonn did encourage private lenders to offer below market interest rates). Yet, he believed any technology transfer issues should be handled through COCOM, as opposed to taking bilateral or unilateral actions. While the two leaders did not reach any concrete agreement, they, nevertheless, committed their governments to discussing official credits and high-technology export restrictions. France, however, was recalcitrant, refusing to take any credit limiting actions. In fact, Paris and Moscow renewed their lenient credit agreement in the spring of 1980. Records from a British cabinet meeting on January 16 note, “The Germans were sympathetic to the American wish for economic measures. But the French seemed to be against these, while claiming that they were not excluded” as a part of the Western response.¹²³

While the British continued discussions with the continental governments, the Carter administration, in mid-January, froze over one thousand validated licenses for exports to the Soviet Union. The Commerce Department recently confirmed that the

¹²³ No. 10 Record of Conversation, Jan. 14, 1980, Thatcher MSS, Doc. ID 118179, <http://margareththatcher.org/document/118179> (accessed 21 Jul. 2015); Telecon, Thatcher to Schmidt, Jan. 15, 1980, Thatcher MSS, Doc. ID 118182, <http://margareththatcher.org/document/118182> (accessed 21 Jul. 2015), pp. 2, 10; Angela Stent Yergin, *East-West Technology Transfer: European Perspectives*, The Washington Papers, vol. 8, no. 75, (Beverly Hills, CA: SAGE Publications, 1980), 40-42; Letter, Thatcher to Carter, Apr. 8, 1980, Thatcher MSS, Doc. ID 112705, <http://margareththatcher.org/document/112705> (accessed 21 Jul. 2015); No. 10 Record of Conversation, Jan. 16, 1980, Thatcher MSS, Doc. ID 118186, <http://margareththatcher.org/document/118186> (accessed 21 Jul. 2015), p. 4.

Soviet Union used military trucks produced at the Kama River truck plant in the invasion. The Kama factory had been constructed with the help of American equipment and technology under a 1972 agreement. These revelations inflamed demands for a firm American response and the curtailment of East-West trade. In response, Carter ordered reluctant Commerce officials to revoke licenses for the export of spare parts to the factory.¹²⁴ While the administration reviewed export policies, Carter requested the European allies not submit to COCOM any requests to except controlled exports to the Soviet Union. All of the allies, but France, agreed to the no exceptions policy but resisted U.S. requests to tighten control policies and enlarge COCOM's control lists. The French were unwilling to place any restrictions on East-West trade while British officials called the control strengthening and expansion recommendations "too imprecise for examination in COCOM" at the present time. Thatcher and her ministers were willing to take action on technology transfer but believed U.S. plans required more explanation and depth. Chancellor Schmidt agreed with the British perspective, arguing that the proposals "had great faults," such as failing to differentiate between the Soviet Union and Eastern Europe despite the West's commitment to foster Eastern independence. The United States also proposed the West limit contracts with the Soviet Union to a maximum of \$100 million. Schmidt found such limits "ridiculous" and refused to accept any restraints on

¹²⁴ Michael Mastanduno, *Economic Containment* (Ithaca: Cornell University Press, 1992), 224-226; Clyde H. Farnsworth, "Soviet is Using Trucks U.S. Technology Built in Afghan Operations," Jan. 4, 1980, *New York Times*, A8; Steven Rattner, "Trade Aides Reported Irked on Curbs," Jan. 16, 1980, *New York Times*, D1; "U.S. Revokes Soviet License," Jan. 22, 1980, *New York Times*, D2; Richard Burt, "U.S. Curbs Technology for Soviet," Mar. 19, 1980, *New York Times*, D1.

East-West trade since “German trade with the Soviet Union was eight times the size of that of the United States.”¹²⁵

At the end of February, Under Secretary for Economic Affairs Richard Cooper, whom Carter sent to Europe to discuss credit restrictions, informed the administration that “he was getting nowhere with the allies” and that “the prospects for progress . . . were extremely dim.” The allies all feared that one of the other nations might not abide by any credit agreements and use favorable credits to undercut the others to gain advantages in the Soviet market.¹²⁶ Thatcher echoed Cooper’s report in a letter to the president on March 1. She told Carter credit and technology restrictions would send a strong signal to Moscow about its international behavior. But to be effective, all the members of COCOM had to take action, and some members were simply unwilling to do so. Although there was not “sufficient support for a ban on new official credits,” the prime minister informed the president that Britain let its credit agreement with the Soviet Union expire.¹²⁷ Thatcher was willing to back the United States because she opposed détente with the Soviet Union. Although she endorsed nuclear and conventional arms controls talks, the prime minister believed the Soviet leadership preached peaceful coexistence with the West while covertly promoting its geopolitical and ideological

¹²⁵ Defence and Overseas Policy Committee, “Afghanistan: Controls on the Transfer of Technology to the Soviet Union,” Feb. 26, 1980, Thatcher MSS, Doc. ID 116922, <http://margareththatcher.org/document/116922> (accessed 21 Jul. 2015), Annex A (Carter’s Letter), Annexes B and C, p. 3; No. 10 Record of Conversation, Mar. 28, 1980, Thatcher MSS, Doc. ID 129554, <http://margareththatcher.org/document/129554> (accessed 21 Jul. 2015), pp. 3-4.

¹²⁶ Summary of Conclusions of SCC Meeting, Feb. 28, 1980, *FRUS*, vol. VI: Doc. 263, <http://history.state.gov/historicaldocuments/frus1977-80v06/d263> (accessed 21 Jul. 2015).

¹²⁷ Letter, Thatcher to Carter, Mar. 1, 1980, Thatcher MSS, Doc. ID 112690, <http://margareththatcher.org/document/112690> (accessed 21 Jul. 2015).

interests throughout the world. Schmidt and Giscard, however, sought to protect détente from a U.S. administration bent on confrontation.¹²⁸

While the British remained committed to U.S. initiatives, the French pulled further away. On the same day the prime minister wrote her letter, the French ambassador to the United States met with Secretary Vance. In the meeting, according to the British embassy, the ambassador “raised doubts about the idea of a ‘coordinated’ response,” arguing that diplomatic channels between East and West should remain open to resolve the present crisis. A response “would be more effective,” the ambassador stated, “if there was not too much coordination.”¹²⁹ A few weeks later, the French government showed it would not place economic pressure on Moscow by signing a \$118 million deal to supply the Soviet Union with offshore-oil drilling equipment. France also renewed their bilateral credit agreement. As a further demonstration of the French government’s commitment to chart an independent foreign policy, President Giscard met with Brezhnev in Warsaw on May 19. Giscard was determined to keep in contact with the Soviet leadership, fearing that Carter’s and Thatcher’s increasingly confrontational policies might isolate the Soviet Union and minimize the prospects of a withdrawal from Afghanistan. Edmund S. Muskie, who became Secretary of State after Vance’s resignation, met with the French foreign minister a few days before the Giscard-Brezhnev meeting, but the foreign minister failed to inform Muskie about the planned visit. The Carter administration was irritated by the lack of French consultation before the meeting,

¹²⁸ Margaret Thatcher, *The Downing Street Years* (New York: Harper Collins, 1993), 87.

¹²⁹ Telegram, U.K. Embassy Washington to FCO, Mar. 1, 1980, Thatcher MSS, Doc. ID 118214, <http://margarethatcher.org/document/118214> (accessed 21 Jul. 2015).

and Muskie publically expressed disapproval of French policy, illustrating the growing rift between the United States and France.¹³⁰

As the French moved away from the United States, so too did the West Germans. President Carter likely did not have a more uneasy relationship with any other head of state than with Chancellor Schmidt. In his memoirs, Brzezinski said Schmidt “took the undisputed first place” of those international leaders he and the president disliked. They found Schmidt “patronizing,” as well as “a bully and a hypocrite.” Schmidt was friendly in private but prone to scolding U.S. officials when his aides were present, and showed no hesitation about criticizing administration policy in public. The disdain was mutual. Schmidt thought Carter was “fickle” and an “idealistic preacher.” He opposed Carter’s human right initiatives, believing that the humanitarian and political interests of dissidents and Germans living in the East were better advanced through private diplomacy. Schmidt contended the public human rights campaign encouraged Moscow to crack down on dissidents and undermined confidence-building measures between the Soviet Union and the West. As chancellor, Schmidt continued Willy Brandt’s *Ostpolitik*—using growing East-West economic and political relations as a means to pursue German interests and long-term reunification—and, as a result, was unwilling to place economic pressure on the Soviet Union after the invasion. Like Nixon before him, Carter worried *Ostpolitik* would make West Germany dependent on a stable relationship with the Soviet Union, thus, preventing Bonn from taking firm action, in concert with Washington, against Moscow in a crisis. Of course, Schmidt dismissed these fears of

¹³⁰ James O. Goldsborough, “Europe Cashes in on Carter’s Cold War,” Apr. 27, 1980, *New York Times*, SM11; Paul Lewis, “Paris Affirms Right to Meet with Soviets,” May 22, 1980, *New York Times*, A10.

German neutralism, claiming his government carefully balanced its relationship with the East and West to protect West German security and promote inter-German interests. Talk of neutralism or dependency reflected “either ignorance or malice,” Schmidt stated.¹³¹

Like Carter, Schmidt was shocked by the Soviet invasion and publically condemned it. West Germany was also the only U.S. European ally to join the Olympic boycott. Schmidt, however, rejected Carter’s other proposals. He was irritated by Carter’s “lack of regard and consideration” in formulating a Western response. He saw U.S. actions as unilateral, rather than multilateral, and amounting to a “dozen pinpricks” aimed at punishing the Soviet Union rather than promoting a Soviet withdrawal. Carter had settled on policies like curtailing East-West trade, Schmidt argued, without first checking if Paris and Bonn were willing to support these steps. Since France and West Germany would never support such policies, their governments were left with no choice but to break with the United States. In his memoir, Vance confirmed that the Europeans were “upset at what they viewed as inadequate consultations on a common Western approach before we announced far-reaching punitive steps.”¹³²

During a White House meeting with the president on March 5, Schmidt informed Carter that Bonn was only willing to support the Olympic boycott. Carter attributed Schmidt’s reluctance to endorse U.S. policy as a result of an upcoming election, and Schmidt said the meeting left him with a “depressing awareness” that the United States had no idea how to respond if Soviet troops remained in Afghanistan beyond the Olympic

¹³¹ Brzezinski, *Power and Principle*, 25, 26; Helmut Schmidt, *Men and Powers* (New York: Random House, 1989), 181, 57, 202-219, 52; Werner D. Lippert, *The Economic Diplomacy of Ostpolitik* (New York: Berghahn Books, 2011), 139-140, 151-155; John Vinocur, “The Schmidt Factor,” Sep. 21, 1980, *New York Times*, SM1.

¹³² Schmidt, *Men and Powers*, 78, 202, 203, 205; Vance, *Hard Choices*, 393.

boycott and grain embargo.¹³³ The chancellor had a similar discussion with Thatcher at the end of the month. Since the invasion, Carter lobbied NATO allies to hold a special meeting on Afghanistan dedicated to raising West European defense spending and military force contributions. Routine meetings had taken place since January, but other than condemning the invasion and a few minor actions, there was not a firm, unified NATO response. The *New York Times* ran the headline “NATO, Out to Lunch” in mid-March, illustrating the lack of alliance action, and it was not until late April that the first European NATO member, Britain, increased defense spending. Schmidt told Thatcher that he was hesitant to support further action in NATO or endorse any policies that might undermine the gains of détente over the last decade. He feared such steps could escalate East-West tensions and place the two sides on a path towards war. Schmidt “saw parallels between the present situation and July 1914,” a time of crisis leading to World War I. The chancellor and Giscard both thought the likelihood of war was increasing, prompting them to take action independent of the United States and in the interests of peace. The prime minister sympathized with Schmidt’s fears, though she stressed the need to stand behind the United States. At the end of the meeting, they agreed that the allies should hold discussions about Afghanistan at the June Group of Seven (G7) economic summit in Venice.¹³⁴

A few days after the Thatcher-Schmidt meeting, Carter wrote a letter to the prime minister expressing his concern about “disarray in the West” and the “sense of deep

¹³³ Carter, *Keeping Faith*, 500; Schmidt, *Men and Powers*, 207.

¹³⁴ “NATO. Out to Lunch,” Mar. 15, 1980, *New York Times*, 18; Drew Middleton, “Britain Increasing Military Spending,” Apr. 20, 1980, *New York Times*, 21; No. 10 Record of Conversation, Mar. 28, 1980, Thatcher MSS, Doc. ID 129554, <http://margarethatcher.org/document/129554> (accessed 21 Jul. 2015).

disappointment in the United States over the European response to date.” The president and American people expected U.S. allies to do more in support of their common security. More and more, it appeared Europe and the Soviet Union were maintaining amicable relations, despite Soviet international violations, while the superpowers headed towards confrontation. “I personally cannot accept the concept of a divisible détente,” Carter warned. In order for détente to continue, the president insisted the Soviet Union respect international principles. Carter’s concerns grew worse in the lead up to the economic summit. In December 1979, NATO decided to pursue arms control talks with Moscow while deploying intermediate-range nuclear forces in Europe to counter recent Soviet deployments. In the spring of 1980, however, Schmidt delivered public addresses proposing a moratorium on the deployments until late 1983. The chancellor hoped to entice Moscow to negotiate an arms agreement sooner and help lower tensions resulting from the Afghan crisis. The Carter administration, however, feared Schmidt was backing out of the NATO decision, undermining Western security. Schmidt denied these accusations and reaffirmed his commitment to the NATO decision after he and Carter privately discussed the matter at the 1980 Venice economic summit. The dispute, nevertheless, contributed to a general sense of uneasiness between Washington and Bonn and the perception that the Atlantic alliance was divided in the face of Soviet aggression.¹³⁵

Carter was not alone in perceiving a “divisible détente.” In early May, the Foreign and Commonwealth Office told the prime minister, “We need above all to restore the

¹³⁵ Letter, Carter to Thatcher, Apr. 7, 1980, Thatcher MSS, Doc. ID 112704, <http://margaretthatcher.org/document/112704> (accessed 21 Jul. 2015); Schmidt, *Men and Powers*, 209-217; Carter, *Keeping Faith*, 535-536.

coherence of the West.” It advised Thatcher to strengthen Western consultations over Afghanistan and common defenses, increase aid to Third World allies, and “consider measures for destabilizing states in the Soviet orbit.” The alliance’s existing institutions, such as NATO, G7, and the European Community, all had weaknesses that precluded a unified response to the present situation. Afghanistan was outside of the NATO treaty area while persistent political disagreements plagued the G7 and European Community. The office found “the vacillation, confusion, and ineptitude of the present US administration” exacerbating these institutional weaknesses, contributing to disarray. As a result of détente, the Soviets were “beginning to become dependent on the world economic system,” presenting the West with “some real economic levers (grain, credit and technology).” If only the allies could come together to use these levers. The Foreign Office recommended Thatcher “nudge NATO” towards a unified response, strengthen export controls, and maintain political discussions with Western allies. The British government desired to arrest the slide towards a divisible détente precipitated by the unilateral U.S. response and West European reluctance to sacrifice East-West economic relations. Thatcher liked Carter but believed he was “ill-suited to the presidency, agonizing over big decisions and too concerned with detail.” The Afghan crisis, along with numerous other predicaments, exposed Carter’s weaknesses after which “hard-headed realism and strong defence became the order of the day,” Thatcher recollected.¹³⁶

Although the annual G7 meetings, organized since 1975, focused on international economic policy, the heads of state usually discussed common political problems

¹³⁶ FCO Paper, “East/West Relations in the Wake of Afghanistan,” May 2, 1980, Thatcher MSS, Doc. ID 120130, <http://margaretthatcher.org/document/120130> (accessed 21 Jul. 2015); Thatcher, *Downing Street Years*, 69, 88.

informally or in a special session. Ahead of the Venice Summit, June 22-23, the governments decided to discuss Afghanistan and issue a communique opposing Soviet actions. The statement on Afghanistan was negotiated beforehand, and Carter believed “it was much tougher than he thought would be possible” in a cabinet meeting. In reality, the summit statement was merely an attempt to paper over allied disagreements and conflicting U.S. and European policies towards Moscow. In the statement, the G7 nations proclaimed their commitment to promote global economic growth based on international order and world peace. The Soviet invasion threatened this order “in which the rule of law is universally obeyed, national independence is respected and world peace is kept.” Under such circumstances, the G7 declared the “Soviet military occupation of Afghanistan is unacceptable” and “incompatible with the principles of the United Nations Charter.” Carter and Brzezinski both believed the communique was a strong denunciation of Soviet actions and a demonstration of Western unity. Although it was likely the strongest statement negotiable, “unacceptable” and “incompatible” were hardly words of resounding condemnation.¹³⁷

In addition to the equivocating communique, the heads of states’ concluding remarks revealed the disparities between the U.S. and West European views of the crisis. The leaders were allotted five minutes for their statements. Since it was an economic summit, their remarks, of course, dealt primarily with global economic issues. Yet, each leader’s comments on Afghanistan can be interpreted as a measure of how significant he

¹³⁷ Cabinet Meeting Minutes, Mar. 18, 1980, *DDRS*, Doc. CK3100148696; Venice Economic Summit Conference Statement on Afghanistan, Jun. 22, 1980, *American Presidency Project*, <http://www.presidency.ucsb.edu/ws/?pid=44640> (accessed 21 Jul. 2015); Carter, *Keeping Faith*, 538-539; Brzezinski, *Power and Principle*, 461.

or she viewed the crisis relative to other problems. Carter expounded on the challenges of the 1970s and 1980s, most of which involved the link between oil and economic development. However, the president offered forceful words on Afghanistan:

We've committed our combined strength . . . against a *ruthless power's invasion* of its nearby defenseless neighbor, which threatens the stability of a crucial area of the world for us all. The Soviet aggression in Afghanistan is a *profound assault against the laws of nations and a grave threat to the stability of that vital region.* . . . We also know that by resisting Soviet militarism and aggression in the present that we can *reopen the paths of peace, detente, accommodation* in the future.

Carter thought that as long as the Soviets remained in Afghanistan détente was impossible. Soviet actions were such a threat to stability and so morally reprehensible that superpower cooperation had to be suspended and the alliance's strengths had to be marshalled in opposition. The president's international partners, however, did not see this "grave threat." The Prime Minister of Italy Francesco Cossiga and Schmidt did not say anything about Afghanistan. Giscard, Thatcher, and the Prime Minister of Canada, Pierre Trudeau, mentioned Afghanistan in a passing sentence. Only the Foreign Minister of Japan Saburo Okita briefly reiterated Japanese opposition to the invasion, stating it "cannot tolerate such military intervention." As far as U.S. allies were concerned, the "paths of peace, détente, accommodation" remained open. Détente was divisible.¹³⁸

Chancellor Schmidt planned to meet with Brezhnev in Moscow following the summit, and the president was concerned the visit would send an impression that East-

¹³⁸ Venice Economic Summit Conference Concluding Statements of the Participants, Jun. 23, 1980, *American Presidency Project*, <http://www.presidency.ucsb.edu/ws/?pid=44646> (accessed 20 Jul. 2015), emphasis added.

West cooperation would continue despite the invasion. The administration thought a Schmidt visit would present another example of alliance disunity over East-West policy. In a private conversation with Carter, the chancellor pledged to tell Brezhnev that West Germany was “irrevocably committed” to the NATO missile deployments and the Western alliance. Schmidt also promised to try to persuade Soviet leaders to enter arms negotiations over the intermediate-range missiles and to withdraw from Afghanistan. In addition to conveying Bonn’s dedication to its allies and seeking to help resolve the crisis in East-West relations, Schmidt would tell Brezhnev he held the “same determination” to uphold West Germany’s political and economic cooperation agreements with the Soviet Union. The framework of détente would be maintained. Carter acquiesced to Schmidt’s trip, and in an interview after the Venice summit, he expressed confidence in Schmidt’s ability to impress the West’s unity and strength to Brezhnev. Attempting to hide allied disarray, Carter also told reporters that while U.S. sanctions “were the most severe,” it would be a “fruitless effort” to “enumerate the degree of the sanctions which vary among the nations.”¹³⁹

While in Moscow Schmidt conveyed all of these points to Brezhnev and other members of the Soviet leadership. But, the chancellor and Soviet General Secretary also strengthened their nations’ relationship by signing a new energy and industrial cooperation agreement. The negotiations over the agreement concluded in late May, at

¹³⁹ Brzezinski, *Power and Principle*, 463; Schmidt, *Men and Powers*, 216-218; James Reston, “Schmidt Plans to Tell Brezhnev Moscow Cannot Divide the Allies,” Jun. 24, 1980, *New York Times*, A1; Terence Smith, “Carter Now Says Soviet Contacts Can Be Fruitful,” Jun. 24, 1980, *New York Times*, A1; Memorandum of Conversation, Carter-Schmidt Venice Meeting, Jun. 21, 1980, *DDRS*, Doc. CK3100476848; Carter, Venice Economic Summit Conference Interview With Reporters Following the Conclusion of the Conference, Jun. 23, 1980, *American Presidency Project*, <http://www.presidency.ucsb.edu/ws/?pid=44648> (accessed 21 Jul. 2015).

which time Bonn sought to keep public attention away from the news. The FRG economics minister also insisted the agreement did not undermine the West's opposition to the invasion or contradict Bonn's commitment to limit the flow of strategic and military goods and technologies to the East. Under the deal, the two nations agreed to develop a 3,000 mile natural gas pipeline from Siberia to Western Europe to supply the West with 40 billion cubic meters of gas annually. The project was estimated to cost \$8 to \$11 billion and to be financed through a consortium of European banks. Over the next year, other European nations signed on to the project for the promise of Soviet gas exports in order to decrease their dependence on high-priced imported oil. West European industrial firms agreed to supply gas pipelines and turbine technologies for the project, providing a substantial economic boost to these sectors. In economic terms, the deal appeared to be in the interest of both sides, and it reaffirmed West Europe and the Soviet Union's commitment to détente and strengthened economic cooperation.¹⁴⁰

The United States, however, viewed the deal with concern. What if Western Europe became so dependent on Soviet energy that Moscow possessed leverage over the Atlantic alliance? Fears began to emerge that the Soviet Union could use the promises of economic benefits to sow discord in the West and strengthen its power and influence in Europe. Events after the invasion of Afghanistan demonstrated that U.S. allies in Europe were unwilling to act in concert with the United States, suspending the political and

¹⁴⁰ Schmidt, *Men and Powers*, 80-92; John Tagliabue, "Bonn is Cautious on Plan for Soviet Economic Tie," May 31, 1980, *New York Times*, 30; "Bonn Hopes Schmidt Visit Will Increase Soviet Trade," Jun. 30, 1980, *New York Times*, A9; "Soviet Bloc's Debts Worry Bonn Banks," Sep. 2, 1980, *New York Times*, A16; Bradley Graham, "Soviets Set Trade Pact with Bonn," May 31, 1980, *New York Times*, A1.

economic gains of détente.¹⁴¹ And Carter accepted a divisible détente at Venice. But Carter would not have to address concerns over alliance unity and the pipeline deal since he faced a resounding defeat in the 1980 presidential election. The new president, Ronald Reagan, and his advisors, however, viewed the pipeline and its strategic implications with alarm. They would do everything in their power to attempt to block the pipeline, strengthen the alliance, and push the West to reevaluate the merits of the East-West economic relationship. Where Carter had failed, Reagan was determined to succeed.

Reagan defeated Carter in the 1980 election because Americans, in general, questioned Carter's leadership abilities due to the worsening economic situation, continuing Iranian hostage crisis, and heightened Cold War tensions. The grain embargo also haunted Carter. It was meant to be the president's most dramatic display of his ability to confront Soviet aggression and lead the Atlantic alliance. But Carter failed to achieve these goals, and after the first few months of the embargo, U.S. farmers were united against it. The 1980 Republican Party Platform called for an immediate end to "Carter's ill-conceived, ineffective, and improperly implemented grain embargo," and the Reagan campaign used it as one of many issues to criticize the president's policies. In 1975, Reagan had advocated restricting grain sales to the Soviet Union on moral and national security grounds. He believed sales only strengthened the Soviet regime and helped its economy overcome its systemic problems. After Carter announced the grain embargo in early January 1980, Reagan reversed his stance, claiming the embargo unfairly forced farmers to sacrifice their well-being for foreign-policy purposes. "No one segment of the economy should be asked to bear the brunt" of U.S. actions against the

¹⁴¹ Elliot Hurwitz, "Politics of Soviet Trade," Aug. 25, 1980, *New York Times*, A23.

Soviet Union, Reagan told Iowan farmers. Instead, the candidate thought the United States should pursue a total trade embargo, or quarantine, on the Soviet Union but only if U.S. allies cooperated. Otherwise, he favored the continuation of the grain trade since a limited embargo hurt the United States more than it hurt the Soviet Union. In September, the Senate voted to prohibit the Commerce Department from using funds to enforce the embargo. Although the amendment was eventually dropped during reconciliation with a House bill, Reagan called it “a vote of no confidence in President Carter’s embargo policy” and promised to lift it. Carter accused Reagan of changing his views for political purposes, but Reagan’s promises won him the support of farmers. On Election Day, farmers, along with a majority of Americans, voted for Reagan on the hopes that he could fix the problems affecting the United States at home and abroad.¹⁴²

Conclusion

Between 1977 and mid-1979, President Carter employed economic carrots and sticks in an attempt to promote human rights in the Soviet Union and broaden U.S.-Soviet economic relations. These initiatives were a part of a larger attempt to create a more reciprocal U.S.-Soviet relationship and build enduring public support for détente. He made repeated overtures to remove barriers to expanded trade, like the Jackson-Vanik

¹⁴² B. Kaufman and S. Kaufman, *Presidency of James Earl Carter*, Ch. 13; “1980 Republican Platform Text” in *CQ Almanac 1980*, 36th ed., 91-B-121-B (Washington, DC: Congressional Quarterly, 1981) <http://library.cqpress.com/cqalmanac/cqal80-860-25879-1173725> (accessed 14 Aug. 2015); Ronald Reagan, “Russian Wheat Deal,” Oct. 1975 Radio Address, in *Reagan, In His Own Hand*, eds. Skinner, A. Anderson and M. Anderson (New York: The Free Press, 2001), 30-31; Robert Lindsey, “Limits on Grain Sale Assailed by Reagan,” Jan. 8, 1980, *New York Times*, A16; Frank Lynn, “Reagan Sees Trade As Lever On Soviet,” Jan. 17, 1980, *New York Times*, B7; “Anti-Busing Rider Draws Veto of Justice Bill” in *CQ Almanac 1980*, 210-17, <http://library.cqpress.com/cqalmanac/cqal80-1175823> (accessed 14 Aug. 2015); Douglas E. Kneeland, “Reagan Pledges Not to End Price Supports for Farmers,” Oct. 1, 1980, *New York Times*, B6; Steven R. Weisman, “Carter Asserts Reagan Shifted on Embargo,” Oct. 26, 1980, *New York Times*, 41.

amendment, while also implementing economic sanctions over Soviet human rights abuses. These policies irritated Brezhnev and his advisors, who perceived the United States interfering in Soviet internal affairs. Rather than building support for détente among the American public and broadening U.S.-Soviet cooperation, this linkage between human rights and trade bred resentment and distrust between the superpowers.

At the same time, the Dresser case revealed significant security lapses in U.S. export control system and exposed policy divisions within the executive branch. Brzezinski and the NSC favored guarding national security through tight controls that restricted exports even if similar products were widely available on the international market. Officials at the Commerce and State Departments thought these policies only prevented American businesses from competing with foreign enterprises. The Defense Department was internally divided with most senior officials supporting the export license and their subordinates opposing the decision. Tensions between these agencies over export control and trade promotion were perennial throughout the Cold War. But the Dresser case reinforced public perceptions that the U.S. export control system required significant reform and that the security risks involved in East-West trade outweighed the economic benefits. Even if the Dresser exports did not risk national security, Carter's decision to let the license stand made his human rights sanctions against the Soviet Union appear hollow. The president might not have seen inconsistencies between his human rights sanctions and the Dresser license, but opponents of détente and many Americans did.

The Soviet invasion of Afghanistan forced President Carter to reassess his economic policies. By the fall of 1979, U.S.-Soviet disagreements over human rights and Third World crises had undermined détente to a point that bilateral relations remained at one of the lowest points in recent decades. The invasion proved to be the final straw that broke détente and pushed Carter to confront Soviet external aggression. The United States returned to economic containment and instituted the grain embargo, among other measures, in an attempt to signal disapproval of the invasion, punish Moscow, and elicit allied cooperation in curtailing East-West trade. While the embargo signaled U.S. opposition, it failed to achieve the other two goals. Other grain exporting nations did not support the embargo, and Moscow offered above market rates to attract grain sellers. The Soviet Union also relied on its massive grain reserves to increase total livestock inventories by 1981. It weathered grain shortages at the start of the embargo and experienced a slight decrease in total meat production, but otherwise the Soviet Union did not experience significant difficulties.

The president instituted the embargo, in part, to demonstrate to allies in Western Europe that the United States was willing to share the economic burdens of opposing Soviet expansion and punishing Moscow for its international behavior. Western Europe traded far more with the Soviet Union than the United States did, and many West European industrial sectors relied on the East to sustain exports. They also promoted East-West trade through generous financial credits for the Soviet Union and the importation Soviet energy resources. In the wake of the invasion, the West European governments, except for Britain, were unwilling to place limits on this economic

relationship. They even went as far as reaffirming their commitments to East-West trade through an agreement to help the Soviet Union construct a new natural gas export pipeline. Overall, U.S. allies in Europe refused to sacrifice the economic and political gains of détente and sought to shield East-West economic relations from superpower confrontation. As the U.S. grain embargo failed, a divisible détente and alliance disarray emerged.

CHAPTER 3: A PRAGMATIC PRESIDENT AND A PRUDENT APPROACH TO EAST-WEST RELATIONS

At the president's first news conference on January 29, 1981, a reporter asked Reagan if he thought "the Kremlin is bent on world domination" or if détente could prevail. He responded, "Détente's been a one-way street that the Soviet Union has used to pursue its own aims," namely world revolution. Casting cautious words aside, Reagan declared the Soviets "reserve unto themselves the right to commit any crime, to lie, to cheat, in order to attain" their goals. Soviet leaders assumed Reagan would be less ideological and more pragmatic upon taking office but his rhetoric dashed those hopes. He made it clear that as long as Moscow advanced international communism and violated international norms, détente was dead. The president's remarks were reflexive, evincing his core belief in anti-communism.¹⁴³ Reagan's personal experiences and evolving political philosophy after World War II shaped his anti-communism and his understanding of U.S. power and the Cold War. This worldview led the president to oppose détente and the East-West economic relationship that emerged during it.

But during his first year in office, President Reagan pursued pragmatic Cold War economic policies. He lamented the growth of East-West economic relations during the 1970s but recognized it as a political and economic fact of life for Western Europe. The divisible détente and the failure of grain embargo in 1980 made President Reagan hesitant to take any unilateral actions that might further divide the Atlantic alliance.

¹⁴³ Ronald Reagan, "The President's News Conference," Jan. 29, 1981, *The Public Papers of President Ronald W. Reagan*, Ronald Reagan Presidential Library (RRL), <http://www.reagan.utexas.edu/archives/speeches/1981/12981b.htm> (accessed 26 Aug. 2015); Anatoly Dobrynin, *In Confidence* (New York: Random House, 1995), 481; Lou Cannon, *President Reagan: The Role of a Lifetime*, 1st Public Affairs Ed. (New York: Public Affairs, 1991), 240-242.

Rather than demanding the West end all trade with the Soviet Union—as he did before the presidency—Reagan asked allied leaders to place trade on a prudent path, one that enhanced Western security against the Soviet Union but did not sacrifice economic interests. The president lifted the grain embargo in April 1981 to signal to Moscow and U.S. allies his willingness to engage the Soviets in a constructive dialogue and relieve the burdens on U.S. farmers. At the same time, Reagan initiated a U.S. military buildup as a way to restore the military balance with the Soviet Union and compel its leaders to negotiate with the United States. In 1981, President Reagan acted as a pragmatic Cold Warrior who intended to reunite the Atlantic alliance, change Soviet international behavior, and, in the long-term, end the Cold War.

The Cold War Crusader

Ronald Wilson Reagan, born 1911 in Tampico, Illinois, was the son of a shoe salesman and devout Protestant mother. Although his father was an alcoholic, he imbued in the future president a suspicion of authority and a strong belief that “individuals determine their own destiny” through “ambition and hard work.” Reagan’s mother taught him “the value of prayer, how to have dreams and believe I could make them come true.” These values served as a foundation for his political conservatism. The Reagan family moved to Dixon, Illinois and, like most, struggled during the Great Depression. But the young Ronald pursued his dreams of higher education, graduating from Eureka College in 1932. Soon after, he landed a job as a radio sports announcer in Iowa.¹⁴⁴

¹⁴⁴ Ronald Reagan, *An American Life: The Autobiography* (New York: Simon & Schuster, 1990), 22; H. W. Brands, *Reagan: The Life* (New York: Doubleday, 2015), 9-31.

In the late 1930s, Reagan left radio broadcasting for the silver screen. Epitomizing the American Dream, the small-town boy from Dixon became a successful Hollywood B-movie actor, appearing in a total of fifty-three films. Throughout this time, he was a liberal Democrat and supporter of Franklin D. Roosevelt and the New Deal. After World War II, however, the actor began an odyssey that transformed his political views from a liberal New Dealer to a staunch anti-communist, conservative Republican. After the defeat of Nazi and Japanese aggression, Reagan, like most Americans, perceived communism as the new threat to the American way of life. In the early Cold War, Reagan came into contact with communists and learned to despise their ideology and political tactics. He joined a Hollywood citizen's organization, whose members included other prominent stars and James Roosevelt, the son of President Franklin Roosevelt. The Hollywood Independent Citizens Committee of the Arts, Sciences, and Professions (HICCASP) organized activists in support of liberal causes and denouncing fascism. In 1946, Reagan, along with Roosevelt and actress Olivia de Havilland, became disillusioned with HICCASP after the executive board refused to pass a resolution denouncing communism. For supporting the resolution, members accused them of red-baiting. Thereafter they left the organization.¹⁴⁵

In 1946, Reagan also joined the board of the Screen Actors Guild (SAG) as it was in the midst of a labor dispute between two unions representing behind-the-scenes workers. SAG decided not to choose a side in the strike, and actors who crossed the picket lines, like Reagan, faced violent harassment. Actors aboard studio buses moving through the protests faced barrages of rocks and other projectiles. In time, Reagan came

¹⁴⁵ Reagan, *American Life*, 84-85, 116, 105-115; Brands, *Reagan*, 61-64.

to detest one of the striking unions, believing it was being intransigent during negotiations and possibly under communist influence. He helped convince SAG to oppose this union, and without the support of actors, the strike collapsed. For his role in undermining the strike, Reagan later claimed someone anonymously threatened to end his movie career by throwing acid on his face. While he may have exaggerated the threat of Hollywood communist subversion, communist activists did seek to use motion pictures to promote their beliefs, and Reagan's experiences converted him into an unapologetic anti-communist. "Now I knew from firsthand experience," Reagan later wrote, "how Communists used lies, deceit, violence, or any other tactic . . . to advance the cause of Soviet expansionism. I knew from the experience of hand-to-hand combat that America faced no more insidious or evil threat than that of Communism." Acting on these beliefs, Reagan testified before the House Un-American Activities Committee (HUAC) and helped the FBI identify Hollywood stars with communist sympathies during the Red Scare in the late 1940s and early 1950s. As SAG president, Reagan also supported the blacklisting of actors and actresses who refused to cooperate with HUAC.¹⁴⁶

As his movie career floundered in the early 1950s, Reagan landed a new role as the television host of *The General Electric Theater*. In addition to hosting the weekly series, the job required Reagan to travel extensively to GE plants across the country, drumming up the worker's support for the company. These experiences were instrumental in converting Reagan to political conservatism. "Those GE tours became almost a postgraduate course in political science for me. I was seeing how government

¹⁴⁶ Reagan, *American Life*, 105-115, for quotation, see 115; Cannon, *President Reagan*, 242-247; Brands, *Reagan*, 66-71, 76-78, 97-98.

really operated and affected people in America,” he remembered. The appearances offered Reagan the opportunity to deepen his political views, sharpen his oratory skills, and hone his pro-business, small government message. Though he remained a registered Democrat, Reagan learned he was ideologically a Republican, voting for Dwight D. Eisenhower in 1952 and 1956 and Richard M. Nixon in 1960.¹⁴⁷

Reagan campaigned in support of Nixon’s failed bid for the California governorship and officially registered as a Republican in 1962. Two years later, Reagan unintentionally launched his own national political career through a televised, prime-time speech, “Time for Choosing,” in support of Republican presidential candidate Barry Goldwater. Goldwater’s prospects for winning the election were dim, but the speech elevated Reagan as the spokesman of the conservative right. In the speech, Reagan lambasted high taxes and big government programs, such as the Great Society and War on Poverty. The election, Reagan stressed, was a choice between “self-government” or “confess[ing] that a little intellectual elite in a far-distant capital can plan our lives better than we can plan them ourselves.” He also attacked the government’s recent efforts to pursue amicable relations with the Soviet Union, an immoral threat to the American way of life. Reagan hardly mentioned Goldwater, instead preaching his well-developed message of limited government and a strong national defense. In response, grassroots California Republicans recruited Reagan to run in the 1966 gubernatorial election. The former actor and GE spokesman served two terms as governor.¹⁴⁸

¹⁴⁷ Reagan, *American Life*, 129; Brands, *Reagan*, 119-128.

¹⁴⁸ Reagan, “A Time For Choosing,” Oct. 27, 1964, Televised Campaign Address for Goldwater Presidential Campaign, RRL, <http://www.reaganlibrary.gov/major-speeches-index> (accessed 7 Sept. 2015); Brands, *Reagan*, 1-6, 137-153; For an excellent analysis of grassroots California Republicanism, see Lisa

While Reagan underwent his political transformation and served as governor, U.S. foreign policy experienced a significant transformation as well. In the aftermath of the Cuban Missile Crisis, President John F. Kennedy pursued a dialogue, rather than confrontation, with Moscow in order to minimize the risks of a nuclear conflict. Yet, U.S.-Soviet relations remain stagnated as U.S. involvement in Vietnam deepened. A détente did emerge under President Nixon, during which the United States and Western Europe sought to use trade with the Soviet Union as a way to tie it into the international system and moderate its behavior. Reagan opposed détente and East-West trade from the beginning, and he would eventually ride his anti-détente, hardline message all the way to the White House. Before the presidency, Reagan was an ideological Cold Warrior.

In the early 1960s, Reagan attacked the Kennedy administration's "policy of accommodation." He argued Soviet actions did not warrant rapprochement. Eastern Europe remained under Soviet domination, Cuba was now communist, and trouble brewed in Vietnam. Reagan saw the Cold War not just as an arms race but a fundamental clash of competing value systems. The liberal policymakers downplayed the ideological aspects of the Cold War and reasoned that the superpowers' mutual interest in survival would eventually amend political differences. As a part of accommodation, the United States started selling grain to the Soviet Union. In objection of these policies, Reagan wrote:

If we truly believe that our way of life is best aren't the Russians more likely to recognize that fact and modify their stand if we let their economy come unhinged

so that the contrast is apparent? Inhuman though it may sound, shouldn't we throw the whole burden of feeding the satellites on their slave masters who are having trouble feeding themselves?

He believed it was better to let the Soviet Union fail economically and politically rather than hope the Soviet leadership would end its support for global revolution in response to dialogue and trade. These liberal policies were short-sighted, sacrificing U.S. economic leverage and national security without reciprocal Soviet deeds.¹⁴⁹

While many Americans questioned their anti-communist views after the Vietnam War, Reagan remained steadfast in his beliefs. In the era of détente, he feared “we’ve lost some of our fear of the disease” of communism. In his radio addresses, he reminded people of the oppressive nature of the Soviet system that separated lovers and prevented people from rescuing a child drowning in the river dividing East and West Berlin. “Communism is neither an ec[onomic] or a pol[itical] system,” Reagan said, “it is a form of insanity—a temporary aberration which will one day disappear from the earth because it is contrary to human nature.”¹⁵⁰ General Secretary Leonid Brezhnev, the West’s partner in détente, predicted “a decisive shift in the correlation of forces” that would permit the Soviets “to extend our will wherever we need to” by the middle of the next decade. Reagan interpreted Brezhnev’s remarks as a candid confession of hostile Soviet intentions. The Soviet leadership’s continual support for world revolution and its actions across the Third World confirmed Reagan’s suspicions from the early 1960s that détente

¹⁴⁹ Reagan, “Are Liberals Really Liberal?,” c. 1963, in *Reagan, In His Own Hand*, eds. Kiron K. Skinner, Annelise Anderson and Martin Anderson (New York: The Free Press, 2001), 438-442, for quotation, see 442.

¹⁵⁰ Reagan, “Communism, the Disease,” May 1975, *In His Own Hand*, 10-12.

was foolish. Supporters of détente ignored Soviet intentions and sacrificed American national security under the illusion that U.S. and Soviet leaders shared an interest in peace. Reagan asked, “Détente—isn’t that what a farmer has with his turkey—until thanksgiving day?” During détente’s height, he remained an unwavering Cold Warrior.¹⁵¹

As the volume of East-West trade exploded in the 1970s, Reagan’s opposition to trade also remained strong. He claimed Western ball-bearing technology granted the Soviet Union the ability to place ten nuclear warheads on the SS-18 missile. If the United States saw the Soviet Union as “hostile to the free world” then selling grain and other goods to the East only “add[ed] to our own danger.” And this trade did not just pose an economic and security problem but also a moral one. He asked his radio listeners in 1975, “Are we not helping a Godless tyranny maintain its hold on millions of helpless people?” At a Republican Leadership Conference, Reagan proposed analysts study the “moral” aspects of East-West trade and mentioned that any study “would have to involve our free world allies who are also trading with the Soviet Union.” For economic, security, and moral reasons, Reagan contended the West should “stop doing business with them.”¹⁵²

In 1979, Reagan joined the executive board of the Committee on the Present Danger to carry on his assault on détente. The committee was comprised of neoconservative thinkers and policymakers, some of whom served on the CIA Team B intelligence review. Team B was an outside group tasked with reviewing the CIA’s assessments of Soviet military intentions and capabilities. Using a specious line of

¹⁵¹ Reagan, “Intelligence,” Mar. 23, 1977 and “Letters to the Editor,” Jun. 1975, *In His Own Hand*, 118, 15, respectively.

¹⁵² Reagan, “Soviet Trade,” Jul. 9, 1979 and “The Russian Wheat Deal,” *In His Own Hand*, 74, 30-31, respectively; Letter, Reagan to David J. Holland, c. mid-1970s, in *Reagan, A Life in Letters*, eds. Kiron K. Skinner, Annelise Anderson and Martin Anderson (New York: The Free Press, 2003), 373.

argument, Team B concluded that the CIA had grossly underestimated the Soviet military threat.¹⁵³ As the successor to Team B, the committee contended that the Soviet Union's "unparalleled military buildup" was the number one threat facing the United States and the "cause of human freedom." For the Kremlin, détente was not a means to create a stable international system based on peaceful coexistence but a new strategy to spread its influence and ideology in subtle ways. To achieve its ultimate goal of a "Communist world order," Moscow sought strategic superiority over the United States. The committee claimed the Soviet military buildup created a "window of vulnerability" to U.S. strategic forces. The Soviet Union sought to promote its goal through economic means. It intended to strengthen its economy with the use of Western technology and goods. At the same time, economic integration with the West would unleash Soviet productive and technological advances with which it could "deal with the United States from a position of potentially intimidating strength." Soviet energy exports to the West could also enhance its political leverage over NATO and foster alliance drift. The committee argued that the United States needed to take immediate action to counter the Soviet threat, and it deemed Carter's response to the Soviet challenge a "failed policy." Fifty-nine members of the Committee on the Present Danger were appointed to the Reagan administration during its first term.¹⁵⁴

During the 1980 election, Reagan lambasted President Carter's foreign policy.

Days after the Soviet invasion of Afghanistan, Carter said, "My opinion of the Russians

¹⁵³ Sean Wilentz, *The Age of Reagan* (New York: Harper Collins, 2008), 153; Campbell Craig and Fredrik Logevall, *America's Cold War* (Cambridge: Belknap Press, 2009), 287, 306-307.

¹⁵⁴ Charles Tyroler, II, ed., *Alerting America: The Papers of the Committee on the Present Danger* (Washington, D.C.: Pergamon Brassey's International Defense Publishers, 1984), 3, 11-13, 172, ix-xi.

has changed more drastically in the last week than [in] the previous two and a half years.” The invasion prompted Carter to reassess his views about détente. Reagan thought Carter was foolish for thinking the Soviets had peaceful intentions before the invasion took place. Under the Carter administration, he said, “We apologize, compromise, withdraw and retreat; we fall silent when insulted and pay ransom when we are victimized.” The president had cut military spending and cancelled the development and deployment of new weapons systems, such as the B-1 bomber and neutron bomb. As a result, Reagan argued, the United States was second to the Soviet Union in military strength. SALT II was one of President Carter’s and détente’s crowning achievements—though it was never ratified—but Reagan denounced the treaty as “legitimiz[ing] a nuclear arms buildup” and Carter “seek[ing] agreements just for the sake of having an agreement.” Reagan called for a military buildup to restore American strength and promised to confront the Soviet Union over its international actions. As a part of this approach, it was necessary to abandon détente, which President Carter hoped to restore if the Soviet Union demonstrated a willingness to change its policies.¹⁵⁵ Reagan had been preaching his anti-détente message for over a decade, and to many Americans, the international events of the late 1970s, especially the Soviet invasion of Afghanistan, proved Reagan right.

From Ideology to Pragmatism

In 1980, the American people elected a crusading anti-communist who welcomed détente’s demise. The president’s harsh, anti-communist remarks at his first news

¹⁵⁵ David Binder, “Carter Says Soviet Isn’t Telling Facts about Afghan Coup,” Jan. 1, 1980, *The New York Times*, 1; Reagan, “‘State of the Union’ Speech,” Mar. 13, 1980, pp. 477, 475 and “Peace,” Aug. 18, 1980, p. 484, *In His Own Hand*; John Lewis Gaddis, *Strategies of Containment*, rev. and expanded ed. (New York: Oxford University Press, 2005), 393-394, 352.

conference should not have surprised anyone. Still, the remarks received a mix reception. Georgetown University Professor Edward Luttwak praised the comments, noting that the “U.S. is now speaking to the Russians the way the Russians have been speaking to the U.S.” A former U.S. Ambassador to Moscow, however, considered the rhetorical attacks too much since the superpowers had to cooperate in the interest of world peace. Reagan’s remarks were merely the first salvo in a rhetorical offensive, culminating in the president calling the Soviet Union an “evil empire” in March 1983. Nevertheless, the president’s rhetoric belied his actions. As Coral Bell argued, a distinction must be made between words and deeds since Reagan talked tough but pursued a less bellicose foreign policy. In 1981, despite the harsh words, Reagan’s Cold War economic deeds were pragmatic.¹⁵⁶

Reagan chose the controversial Alexander M. Haig Jr. to be Secretary of State. Haig had served as an assistant to National Security Advisor Henry Kissinger before becoming President Richard Nixon’s Chief of Staff during the height of Watergate. Though he defended Nixon, Haig escaped any wrongdoing in the affair. Like Kissinger, he also embraced linkage, the diplomatic policy of connecting progress on one issue to movement on another, sometimes disparate, matter. In the late 1970s, the Vietnam War army veteran served as the Supreme Allied Commander of NATO. During his confirmation hearing, senators repeatedly questioned Haig on his actions in the Nixon administration. The hearing consumed five days, the longest on record for a Secretary of

¹⁵⁶ “A Message for Moscow,” *Time* 117, no. 6 (1981): 31; Reagan, “Remarks at the Annual Convention of the National Association of Evangelicals in Orlando, Florida,” Mar. 8, 1983, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1983/30883b.htm>, (accessed 9 Sept. 2015); For an analysis of the “Evil Empire” speech, see Jon R. Peterson, “‘Evil Empire’: The Rhetorical Rearmament of Ronald Reagan,” (PhD diss., Ohio University, 2010); Coral Bell, *The Reagan Paradox* (New Brunswick: Rutgers University Press, 1989).

State at the time, but the Senate confirmed Haig 93-6 the day after inauguration.¹⁵⁷ As Secretary of State, Haig described himself as the “vicar” of foreign policy. He mistakenly believed the president had given him complete control over implementing U.S. policies abroad, leading to incessant conflicts between the secretary and other White House officials. Embracing a bipolar worldview, he considered the Soviet Union and its proxies responsible for turmoil in the Third World. “Our primary adversary in Vietnam was the Soviet Union,” Haig wrote. Although he saw the Soviet Union as “a deeply troubled and most vulnerable power,” Haig claimed communism was on the march, creating a “worldwide climate of uncertainty.” The Soviet Union would only respond to strong U.S. action against it and its proxies. As a contemporary *Time* article read, “His worldview can be summed up in a phrase: the Russians are coming.”¹⁵⁸

Although his worldview was similar to that of other administration officials, Haig was abrasive and unwelcomed by most of the cabinet members. Hours after inauguration, Haig wanted Reagan to sign a decision outlining the national security apparatus and granting the State Department profound control over it. Edwin A. Meese, longtime associate and counsel to the president, prevented Haig from seeing Reagan, believing the secretary was acting presumptuously. Haig was insulted by Meese’s interference in what he considered to be a vital policy matter. Supposedly, other White House officials and the president were taken aback a short time later when Haig suggested the United States

¹⁵⁷ Senate, Committee on Foreign Relations, *Nomination of Alexander M. Haig, Jr.* 97th cong., 1st sess., Jan. 9-15, 1981; “Foreign Policy 1981: Overview,” in *CQ Almanac 1981*, 37th ed., 125-28 (Washington, DC: Congressional Quarterly, 1982), <http://library.cqpress.com/cqalmanac/cqal81-1171957> (accessed 20 Aug. 2015).

¹⁵⁸ “The ‘Vicar’ Takes Charge,” *Time* 117, no. 11: 14; Alexander M. Haig, Jr., *Caveat: Realism, Reagan, and Foreign Policy* (New York: Macmillan Publishing Co., 1984), 32, 27, Ch. 2.

bomb Cuba. “Give me the word,” Haig told Reagan, “and I’ll make that island a fucking parking lot.” Aide Michael Deaver said the suggestion “scared the shit out of me” and the president. And it was not just his colleagues who disliked him, Anatoly Dobrynin, Soviet Ambassador to the United States, called Haig a “bully” and “confrontational.” From the beginning, Haig was an outlier within the administration. He conducted diplomacy in a style similar to Kissinger, emphasizing linkage, without the charisma and restraint. Nonetheless, Haig served as secretary until his resignation in June 1982.¹⁵⁹

The first problem the new administration had to tackle was the grain embargo imposed on the Soviet Union after the invasion of Afghanistan. By the summer of 1980, other grain-exporting nations had increased their sales to the Soviet Union, undermining the embargo, and Midwestern Farm Belt opposition mounted. As a candidate, Reagan vowed to lift the grain embargo on grounds that it unfairly singled out farmers for bearing the costs of punishing Moscow. Despite his campaign pledge, President Reagan was torn between arguments for and against lifting it. He hesitated to make a decision. By late April, however, intense domestic opposition and his near death during an assassination attempt convinced Reagan to lift the embargo in order to relieve farmers, reassure U.S. allies, and promote U.S.-Soviet negotiations. The lifting of the embargo revealed President Reagan’s own proclivity for pragmatic policies and intent to talk with Soviet leaders. At the same time, it showed that Haig and his approach to diplomacy were ill-suited to the Reagan administration.

¹⁵⁹ Cannon, *President Reagan*, 161, 163; Haig, *Caveat*, 76-77; Dobrynin, *In Confidence*, 482; James Graham Wilson, *The Triumph of Improvisation* (Ithaca: Cornell University Press, 2014), 11-12.

During the campaign, Reagan opposed the grain embargo because it forced farmers to shoulder the burden of countering Soviet actions. “Pigs, cows, or chickens” did not invade Afghanistan, Reagan told Iowan farmers, and “no one segment of the economy should be asked to bear the brunt” of action. But in the early stages of the campaign, Reagan did not vow to lift the embargo. Instead, as a candidate he suggested the United States elicit international cooperation in blocking *all* trade with the Soviet Union. He argued the West should “quarantine the Soviet Union until they decide to behave as a civilized nation,” similar to President Roosevelt’s quarantine of aggressive nations before World War II. Reagan told farmers he would only support a grain embargo if it was a part of a total international embargo on the Soviets. Reagan’s thinking and statements on the campaign trail reflected his long-held belief that the West should not trade with the Soviet Union. By the fall of 1980, however, the candidate pledged to lift the embargo, declaring it a failure and accusing Carter of “grandstanding” at the expense of farmers. Even though Carter pointed out that Reagan reversed his stance on the embargo, the American people sided with the presidential challenger.¹⁶⁰

During the presidential transition, Reagan vacillated on his campaign promise. When a reporter asked about it, the president-elect said he was re-examining the issue. There would not be an immediate end to the embargo. Before taking any action, Reagan thought it was necessary to study whether it was having an “effect on the Soviet Union,

¹⁶⁰ Robert Lindsey, “Limits on Grain Sale Assailed by Reagan,” Jan. 8, 1980, *New York Times*, A16; Frank Lynn, “Reagan Sees Trade as Lever on Soviet,” Jan. 17, 1980, *New York Times*, B7; For Franklin Roosevelt’s views on the use of quarantines in international affairs, see “Quarantine Speech,” Oct. 5, 1937, available at the University of Virginia’s Miller Center, <http://millercenter.org/president/speeches/speech-3310> (accessed 10 Sept. 2015); Douglas E. Kneeland, “Reagan Pledges Not to End Price Supports for Farmers,” Oct. 1, 1980, *New York Times*, B6; Steven R. Weisman, “Carter Asserts Reagan Shifted on Embargo,” Oct. 26, 1980, *New York Times*, 41.

or if that's been offset by a worse effect on our own agricultural community." American farmers feared the new president was going to break his pledge, and the American Farm Bureau urged Reagan to lift the embargo soon. In response, Reagan scheduled a cabinet meeting for February 4 to discuss it.¹⁶¹

Illinois farmer and now Secretary of Agriculture John Block welcomed the presidential review. He was a staunch opponent of the grain embargo, and Kansas Republican Senator Bob Dole, another embargo critic, recommended Reagan hire Block to run the Department of Agriculture. Block vowed to fight for the American farmer, promising to exert a "full and fair share of influence" on the agricultural export policies. He argued the embargo only hurt farmers, who were already struggling in the tough economy, and failed to accomplish its foreign policy purpose. Meese agreed with Block, suggesting the president keep his campaign promise. Domestic pressure was mounting, and it would be wise to act before the farm belt began blaming Reagan's refusal to lift it for their troubles.¹⁶²

Haig, however, was concerned about the signals sent abroad by lifting the embargo. Haig understood the president would eventually have to act due to domestic pressure, but he wanted time to reassure allies that the United States remained committed to opposing the Soviets in Afghanistan. The situation in Poland also alarmed the Secretary of State. In late 1980, striking Polish workers won the right to form the first independent labor union within the Soviet bloc, Solidarity. Poland and its communist

¹⁶¹ Steven R. Weisman, "Reagan to Restudy Grain Curb," Jan. 3, 1981, *New York Times*, 28; Douglas E. Kneeland, "Farmers Ask Reagan to Keep Vow to Lift Grain Embargo," Jan. 25, 1981, *New York Times*, 16; Ward Sinclair, "Review Set on Grain Embargo," Jan. 29, 1981, *Washington Post*, D1.

¹⁶² Cannon, *President Reagan*, 63, 256; Sinclair, "Review Set," *Washington Post*.

party appeared to be on a tenuous path of gradual liberalization, as Warsaw Pact military forces maneuvered on the Polish border ready to intervene should events get out of hand. Haig feared an end to the embargo could weaken the West's insistence that the Soviet Union not interfere in the Polish reform movement. He advised the president to let him talk with Soviet officials and attempt to secure a commitment on Poland in return for lifting the embargo. If the Soviets refused, he surmised that there had to be some bilateral issue on which the embargo could be used as negotiating leverage. Using linkage, Haig wanted to turn the embargo problem into a foreign policy victory for the new administration.¹⁶³

A report from the U.S. embassy in Moscow added weight to Haig's proposal. Upon learning that the administration would be reviewing the embargo on February 4, Chargé Jack Matlock offered his thoughts as an observer in the Soviet Union. Matlock recommended it not be lifted at this time, "domestic considerations permitting." He advised the White House to consider the embargo as a part of its overall approach to U.S.-Soviet relations. The embargo was having a "significant (if not completely measurable) impact on the Soviet economy" through "erratic deliveries," declining meat production, and inflated food import costs. It could be used as leverage in negotiations. Furthermore, maintaining the embargo, thereby sacrificing U.S. economic interests, would make Western Europe more willing to curtail their own trade with the East—an assumption former President Carter shared. Matlock made no assessment of U.S. domestic opposition, nor did he comment on the Carter administration's inability to

¹⁶³ Haig, *Caveat*, 110-113.

secure international cooperation in restricting Soviet grain imports. Nevertheless, Matlock's recommendations paralleled the Secretary of State's.¹⁶⁴

At the February 4 cabinet meeting, President Reagan put off making a decision. On the one hand, he wanted to remove the unfair burden on U.S. farmers. On the other hand, he opposed all trade with the Soviet Union and worried an end to the embargo would signal U.S. weakness. As he confided in his diary:

I've always felt it hurt our farmers worse than it hurt Soviets. . . . But now—how do we lift it without sending wrong message to Soviets? We need to take a new look at whole matter of strategy. Trade was supposed to make Soviets moderate, instead it has allowed them to build armaments instead of consumer products. Their socialism is an ec[onomic] failure. Wouldn't we be doing more for their people if we let their system fail instead of constantly bailing it out?

He informed a group of congressional members about his decision two weeks later. Kansan Republican Senator Nancy L. Kassenbaum reported that the president wanted a "quid pro quo from the Russians" before lifting the embargo else, Moscow might get the impression that the United States was "softening our stand." Democrat Thomas "Tip" O'Neill Jr., Speaker of the House of Representatives, complimented the president on considering whether lifting the embargo was good for national security, not a narrow domestic constituency.¹⁶⁵

¹⁶⁴ Matlock's Cable is attached to Memo, Richard Allen to Secretaries of State, Agriculture, Commerce and U.S. Trade Representative, Feb. 3, 1981, folder "USSR-Grain Embargo 81 1/5," box 27, Jack F. Matlock Files, RRL.

¹⁶⁵ Ronald Reagan, *The Reagan Diaries*, ed. Douglas Brinkley, vol. I (New York: Harper Collins, 2009), 16, 20; Seth S. King, "Reagan Says Grain Ban Would Be Hard to End," Feb. 18, 1981, *New York Times*, D1.

In light of the president's decision, or lack thereof, a *Washington Post* reporter declared "Carter's embargo . . . is Reagan's now," and opposition continued to grow, much of it within the president's own party. Republican Senators Jesse Helms (NC, Chairman of the Agriculture Committee), John Tower (TX, Chairman of the Armed Services Committee), and Bob Dole (KS, Chairman of the Finance Committee) all represented large farm constituencies and called for an end to the embargo. The president did not have to worry about sending the wrong message to the Soviets, advised Helms. As he explained, Reagan "should lift the Jimmy Carter embargo and say he has a Reagan embargo in his hip pocket." On March 24, 1981, the Senate adopted a non-binding resolution to repeal the embargo on April 30 unless the president certified that U.S. foreign policy required its continuation and that it would not cause an "undue adverse effect" on the agricultural community. The Senate Majority Leader, Republican Howard Baker, Jr. (TN), even voted in favor of the resolution. Two days before its adoption, Reagan told Haig the debate was "coming to a head." The secretary requested more time to "feel the vibes" with Dobrynin, and the president relented. Reagan wanted the Soviets to "show some signs of being decent," a willingness to moderate their international behavior, before lifting the embargo.¹⁶⁶

On March 30, 1981, John Hinckley shot President Reagan, who was leaving a speaking engagement at the Washington Hilton Hotel. A bullet nearly missed his heart, and surgeons saved the president's life. More than two weeks passed before Reagan

¹⁶⁶ Ward Sinclair, "Carter's Embargo on Grain to Soviet Is Reagan's Now," Feb. 28, 1981, *Washington Post*, A8; "1981 Senate Floor Votes 34-41," in *CQ Almanac 1981*, 11-S, <http://library.cqpress.com/cqalmanac/> (accessed 27 Sept. 2015); Robert G. Kaiser, "Embargo Foes Hand Reagan a Little Jolt," Mar. 25, 1981, *Washington Post*, A8; Reagan, *Diaries*, 28; Haig, *Caveat*, 113.

resumed working part-time, and the first cabinet meeting after the assassination attempt was not held for almost one month. The experience deeply affected Reagan, making him more willing to reach out to Brezhnev in the interest of easing Cold War tensions.

“Perhaps having come so close to death made me feel I should do whatever I could in the years God had given me to reduce the threat of nuclear war,” Reagan remembered. The president was moving towards removing the embargo before the attempt on his life, but he first wanted a Soviet concession. Now, however, he thought lifting the embargo would indicate his “sincerity in wanting to improve Soviet-American relations” and show U.S. allies “we were willing to take the initiative in attempting to reduce Cold War tensions. Ending the embargo would serve as a gesture of goodwill to the Soviets, hopefully precipitating an easing of tensions. The president no longer cared for linkage and sought to use personal diplomacy to accomplish his goals.¹⁶⁷

On April 18, Reagan drafted a personal letter to Brezhnev expressing his interest in negotiations. In the drafted letter, the president suggested the two leaders were letting differences over “ideology, political and economical philosophy” impede the creation of a stable, more peaceful world. He reminded Brezhnev of when they first met a decade before in San Clemente, California. At the meeting, both men expressed an understanding that people throughout the world “want the dignity of having some control over their individual destiny.” Reagan explained he was, therefore, lifting the grain embargo “with the hope that we can enter into negotiations for renewal of long-term grain sales to benefit the people of our two countries.” White House advisors and the State Department suggested revisions to the letter. Haig argued it contradicted the administration’s hardline

¹⁶⁷ Cannon, *President Reagan*, 164-165; Reagan, *Diaries*, 30-34; Reagan, *American Life*, 269, 270.

stance against Soviet actions and undermined his own attempts at linkage. But the president ignored most of the suggestions and sent his letter to Brezhnev while the State Department sent its own formal letter explaining the decision. In Reagan's final letter, he deleted the offer to discuss renewing the long-term grain agreement, instead expressing a desire for a "meaningful and constructive dialogue."¹⁶⁸

To the displeasure of Haig, events moved quickly between Reagan's drafted letter on April 18 and the lifting of the embargo on April 24. The same day Reagan drafted the letter, Secretary of Commerce H. Malcom Baldrige, Jr., in a Cable News Network interview, said the embargo could be lifted within the coming two weeks. Baldrige did reiterate that Reagan wanted "private assurances" that the Soviet Union would not intervene in Poland, but he implied the president had already decided to lift it. Although a joint White House and State Department statement denied Baldrige's comments, another administration official and Block told reporters it was only a matter of time before the embargo ended. On the *NBC Evening News*, reporter Susan Peterson covered these revelations and the mounting congressional opposition, adding more pressure on the administration to act.¹⁶⁹

Baldrige's comments infuriated Haig. Minutes from a State Department staff meeting note the secretary as saying, "this is what happens when amateurs 'muck around'

¹⁶⁸ Reagan's April 18 draft can be found in *Life in Letters*, 739-741; A revised and final version, as well as Brezhnev's response, can be found at The Reagan Files, created by Jason Saltoun-Ebin, <http://thereaganfiles.com/document-collections/letters-between-president.html> (accessed 27 Sept. 2015); A final version also in Reagan, *American Life*, 272-273; Cannon, *President Reagan*, 256-258; Reagan, *Diaries*, 32.

¹⁶⁹ Judith Miller, "Curb on Soviet Grain Purchases May End Soon, U.S. Official Says," Apr. 19, 1981, *New York Times*, 3; *NBC Evening News*, Saturday, Apr. 18, 1981, Vanderbilt University Television News Archive, Rec. Num. 516278, <http://tvnews.vanderbilt.edu/program.pl?ID=516278> (accessed 24 Aug. 2015).

with foreign policy.” By mentioning a possible Soviet commitment on Poland, Baldrige had damaged Haig’s negotiating position and likely strengthened the Soviet’s demand that any future grain agreements include a guarantee against future embargoes. In disbelief, Haig muttered, “incredible.” The secretary believed other executive agencies, aside from the NSC, had “no business” discussing the grain embargo. In an effort to control the diplomatic damage, Haig planned to meet with Dobrynin and explain the decision as a favor to the Soviets, limiting Soviet speculation that the embargo would be lifted as a result of domestic pressure.¹⁷⁰

Two NSC staffers also opposed any movement on the embargo, urging NSC advisor Richard Allen to convert Reagan to their perspective. Staffer Richard Pipes was a prominent Russian historian, neoconservative, and member of Team B and the Committee on the Present Danger. In time, he would become an influential hardliner on the NSC, but in 1981, his influence was limited. Pipes argued maintaining the embargo was important for its “political-psychological aspects.” Repealing it would undermine U.S. credibility since the Soviets remained in Afghanistan and confirm Soviet suspicions that “the Republicans are a party of businessmen who . . . will always be swayed by commercial considerations.” As far as Pipes was concerned, the embargo was “not a domestic issue” but a part of a “global strategy” to challenge the Soviet Union. Another NSC staffer, Allen J. Lenz, echoed Pipes’ argument but added that repealing it would “destroy our moral position and credibility with our Allies,” as well as attempts to obtain

¹⁷⁰ Minutes, State Department Principals Staff Meeting, Apr. 20, 1981, box 149, folder 7, Dept. of State Day File, Alexander Meigs Haig Papers (AMH), Manuscript Division, Library of Congress (LC), Washington, D.C.

Western restraint on East-West economic relations.¹⁷¹ While it is unclear if Allen conveyed these views to the president, it is clear that lifting the embargo was a contentious decision within the NSC and State Department. Prominent policymakers challenged the president's determination to make the first move (or concession, as opponents argued) in seeking a dialogue with the Soviet Union.

Reagan, however, had already made up his mind. On the evening of Saturday, April 21, Meese informed Haig that the embargo would be lifted next Friday. Aghast, Haig argued that such a timeline would not give him a chance to reassure allies about U.S. commitments. There was no "decent interval" in announcing a decision of such magnitude and "such rude haste would undermine the Administration's reputation as a responsible partner." The secretary had no choice but to support the president's decision. His talks with Dobrynin did not yield any results since the Soviet ambassador knew it was only a matter of time before Reagan responded to domestic pressure.¹⁷²

Yet Haig made an attempt to reassure U.S. allies. In letters to his West European counterparts, Haig chose to cast the decision as a response to domestic pressure rather than depicting it as a part of a presidential overture to negotiate with Soviet leaders. Continuing the embargo would "seriously jeopardize" congressional support for the president's economic program, he explained. Reagan had opposed the embargo as a candidate but had "firmly and courageously stood against" immediately lifting it due to foreign policy concerns. The secretary reiterated that the president was determined to

¹⁷¹ Memo, Richard Pipes to Allen, Apr. 20, 1981 and Memo, Allen J. Lenz to Allen, Apr. 21, 1981, folder "USSR-Grain Embargo 81 3/5," box 27, Matlock Files, RRL.

¹⁷² Haig, *Caveat*, 113.

resist the Soviets in Afghanistan or anywhere else it sought to expand its power but domestic pressure required an end to the grain embargo.¹⁷³

There is no doubt that U.S. farmers and their representatives were placing intense pressure on the administration over the embargo. But Haig overstated the influence domestic politics played in the president's decision. In late March and early April, Block testified before Congress on the administration's agricultural agenda. While some congressional members said the embargo would influence their stance on Reagan's farm bill, most lawmakers were more concerned about the cost-cutting provisions in the proposal.¹⁷⁴ The administration also faced congressional resistance on its budget proposals. On April 9, the Senate Budget Committee, with the help of three Republicans, rejected Reagan's 1982 budget. When the committee passed a revised, though similar, proposal after the embargo was lifted, Senator Daniel Patrick Moynihan (D-NY) accused the three Republicans of "barter[ing]" the budget for an end to the embargo.¹⁷⁵ President Reagan, however, did not see any connection between the embargo and his farm bill or budget. He did not mention the embargo, Congress, and those legislative proposals in his diary or his autobiography. Furthermore, the three Republicans on the budget committee—William L. Armstrong (CO), Charles E. Grassely (IA), Steven D. Symms (ID)—voted against the initial proposal due to their concerns about its projected deficits. These senators were well-known proponents of balanced budgets, and Moynihan was an

¹⁷³ Cable, D.C. to Embassy Paris, Grain Embargo, Apr. 22, 1981 (White House Distribution Date: Apr. 27, 1981), folder "France (4/2/81-4/22/81)," box 13, Exec. Secretariat, NSC: Country File: III, RRL.

¹⁷⁴ "New Farm Bill Clears by Two-Vote Margin" in *CQ Almanac 1981*, 535-48, <http://library.cqpress.com/cqalmanac/cqal81-1171658> (accessed 15 Sept. 2015).

¹⁷⁵ Irvin Molotsky, "Moynihan Links Budget Votes to Lifting of Grain Curb," Apr. 29, 1981, *New York Times*, A24.

ardent opponent of Reagan's domestic agenda. Some White House officials may have made the connection between the embargo and the administration's domestic agenda, but the president did not. As he wrote in his diary on April 24, "I'm reluctant about it [lifting the embargo] but think it will reassure our allies that while we're hard nosed about the Russians we aren't refusing to talk."¹⁷⁶

Throughout the debate, Haig worried that lifting the embargo would sacrifice U.S. credibility on other issues and weaken U.S. negotiating leverage. Subsequent events, however, showed he had little to fear. After the embargo was lifted, the West German Secretary of State Berndt von Staden told a U.S. official that his government respected Reagan's decision. He said the West German leaders and "any other politician would immediately understand" the seriousness of the political pressures against the embargo. In early April, the French also sought permission from the European Community to export up to 600,000 metric tons of surplus grain to the Soviet Union. Nevertheless, Haig resented the decision and thought it was a "misplayed" card with the Soviet Union. The United States got nothing out of the action. "I nearly choked on the words" announcing the decision to Dobrynin, Haig insisted.¹⁷⁷ In the end, the need for pragmatic policy on the embargo won out over Reagan's ideological inclination to continue curtailing trade with the Soviet Union.

¹⁷⁶ "First Budget Resolution Follows Reagan Plan," in *CQ Almanac 1981*, 247-54 <http://library.cqpress.com/cqalmanac/cqal81-1172387> (accessed 15 Sept. 2015); David A. Stockman, *The Triumph of Politics* (New York: Harper & Row, 1986), 164-169; Reagan, *Diaries*, 34.

¹⁷⁷ Cable, D.C. to Embassy Paris, French Grain Sales to the USSR, Apr. 3, 1981 (WH Dist. Date: Apr. 7, 1981), folder "France (4/2/81-4/22/81)," box 13, NSC: Country File: III, RRL; Cable, Embassy Bonn to D.C. on Lifting of the Grain Embargo, Apr. 24, 1981 (WH Dist. Date: Apr. 27, 1981), folder "Germany, FRG (1/20/81-6/30/81) (2)," box 14, NSC: Country File: III, RRL; Haig, *Caveat*, 110, 114.

The Military Buildup

While the president hoped an end to the grain embargo would entice Soviet leaders to enter into a “constructive dialogue,” he also sought to push them to the negotiating table through a military buildup. Reagan believed military preparedness and capabilities had been damaged through drastic budget cuts in the 1970s. At the same time, the Soviet Union conducted “the biggest military buildup in the history of man,” resulting in it achieving strategic parity vis-à-vis the United States.¹⁷⁸ As president, Reagan initiated his own buildup intended to restore American military power. He maintained that such a buildup would strengthen national security, and he sincerely believed it would place economic pressure on the Soviet Union to end the arms race. The buildup would compel Soviet leaders to negotiate in good faith. Since the end of the Cold War, some scholars and political pundits have contended that Reagan used the arms race to bankrupt the Soviet Union and precipitate its collapse. Although such claims are dubious, Reagan long doubted the permanency of the Soviet system due to its economic inefficiencies and oppressive nature. During the presidential transition and his first year in office, Reagan received key intelligence briefings confirming his suspicions of Soviet economic performance and reinforcing his determination to negotiate from a position of strength.

Before the presidency, Reagan often raised concerns about the decreasing military budget. By the late 1970s, the United States had cut its defense spending—measured as a percentage of gross domestic product and as a percentage of total budget allocations—to

¹⁷⁸ “1980 Ronald Reagan/Jimmy Carter Presidential Debate,” Oct. 28, 1980, RRL, <http://www.reagan.utexas.edu/archives/reference/10.28.80debate.html> (accessed 27 Sept. 2015).

the lowest point in the Cold War. In addition to this decreased spending, President Carter cancelled the development of the B-1 bomber and deployment of the neutron bomb. The United States concluded arms limitation treaties with the Soviet Union, yet Moscow embarked on a massive military buildup. It developed new weapons systems like the SS-20 theater nuclear missile, the Backfire bomber, and a new class of nuclear submarines. Reagan feared American relative power was in decline as U.S. policymakers, infatuated with the promises of détente, no longer saw the threat the Soviet Union posed to the nation. “It is plainly a buildup that is offensive in nature,” President Reagan declared in August 1981.¹⁷⁹

In his radio addresses, Reagan often described the deterioration of U.S. military capabilities and the need for a military modernization program. He recounted stories from a B-52 pilot who claimed it was a “common occurrence” for the aging strategic bomber to drop a “whole engine off it’s [sic] wing” during training exercises. The pilot said he used a crushed, empty juice can to fix the aircraft’s haywire instrument panel. Carter opted to refit the B-52 for extended service rather than develop the B-1. Reagan did not think this was a wise decision. The B-52 could only carry one-half of the B-1’s payload. It was also slower and more vulnerable to Soviet air defenses. “The B-1 is designed to go in low beneath radar, penetrating the enemy air defense system” before releasing its payload, Reagan stated. Furthermore, developing and deploying the B-1 would force the Soviets to spend more money defending against it. Reagan’s support for the B-1 is one

¹⁷⁹ Gaddis, *Strategies of Containment*, 393-394; Vladislav M. Zubok, *A Failed Empire* (Chapel Hill: The University of North Carolina Press, 2009), 242-243; Reagan, “Remarks on Signing the Economic Recovery Tax Act of 1981,” Aug. 13, 1981, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1981/81381a.htm> (accessed 17 Sept. 2015).

example of his campaign for strengthening national defense by rejecting SALT II, modernizing weapon systems, and restoring faith in the U.S. military after the tragedy of Vietnam. Reagan saw a crippled American military, and by 1980, many Americans agreed with him. A February 1980 Gallup poll found forty-nine percent of Americans thought the government spent too little on national defense, and sixty-nine percent of Americans favored increased defense spending in a November survey.¹⁸⁰

Reagan did not want to pursue a military buildup as an end unto itself. Rather, it was a means to drive hard bargains with Moscow at the negotiating table. At the heart of this ambition was the axiom of “peace through strength.” This maxim was not a platitude to Reagan. It was central to his understanding of national security and peace. Reagan and his generation were shaped by the experiences of World War II. He believed appeasement and U.S. military inferiority led to the global conflagration. Britain and France’s appeasement of Adolf Hitler at Munich only whetted his appetite for further territorial aggrandizement. Reagan thought America’s weak military invited the Japanese attack on Pearl Harbor. He drew a direct parallel between these causes of World War II and America’s relative military decline and détente in the 1970s. He feared the United States was courting World War III with its military spending cuts and SALT II. As Daniel Wirls states, Reagan sought to prevent a “nuclear Pearl Harbor.”¹⁸¹

¹⁸⁰ Reagan, “Defense III,” Sept. 11, 1979, and “B-1 Bomber,” Apr. 3, 1978, *In His Own Hand*, 108, 103-104, respectively; for Reagan’s attacks on SALT II, see *In His Own Hand*, 75-92; *The Gallup Poll, Public Opinion, 1935-1997*, CD-ROM Edition (Wilmington: Scholarly Resources, Inc., 2000), 46, 250; For an excellent analysis of Reagan and his national security principles and actions, see Chester J. Pach, Jr., “Sticking to His Guns: Reagan and National Security,” in *The Reagan Presidency*, eds. W. Elliot Brownlee and Hugh Davis Graham (Lawrence: University of Kansas Press, 2003), 85-112.

¹⁸¹ Daniel Wirls, *Buildup: The Politics of Defense in the Reagan Era* (Ithaca: Cornell University Press, 1992), 33.

In August 1980, Reagan told Chicago VFW members, “W.W.II came about without provocation. Firmness based on strong defense capability is not provocative. Weakness can be provocative simply because it is tempting to a nation whose imperialist ambitions extend to the ends of the earth.” Therefore, it was necessary to restore the U.S. military and regain the “margin of safety” for the nation. Five years earlier, Reagan expressed a similar sentiment to his listeners. He was confident more Americans would support a military buildup if they were reminded that “enough evidence of weakness or lack of willpower could tempt the Soviet Union as it once tempted Hitler & the mil[itary] rulers of Japan.” He interpreted the Soviet buildup as a drive for military superiority, at which point Soviet leaders could present the United States with an option to either surrender or face obliteration. The Carter administration had been unwilling to sacrifice détente and challenge the Soviet drive for superiority, leading to a more unstable international system as Moscow exerted its newfound strength throughout the Third World. A U.S. military buildup, Reagan argued, was imperative to deter Soviet actions and signal the United States “will not choose surrender as the way to maintain peace.”¹⁸²

But peace through strength was not merely a deterrent to conflict. It was also a way to compel the adversary to negotiate in good faith. One of the reasons Reagan opposed SALT II was because he believed the United States negotiated it from a position of weakness due to defeat in Vietnam and defense budget cuts. He declared that the Carter administration made significant concessions during talks while the Soviet Union did not. “We are willing to not count Russias Backfire bombers in their total but count our B-52’s in ours,” Reagan said. The treaty’s ceilings on nuclear warheads also

¹⁸² Reagan, “Peace,” Aug. 18, 1980 and “Peace,” April 1975, *In His Own Hand*, 483, 8- 9, respectively.

permitted the Soviet Union to have more land-based missiles than the United States.

Reagan contended SALT II further opened the “window of vulnerability” and effectively told the Soviets “that the arms race is over and that we have lost it.”¹⁸³

As a candidate, Reagan suggested the United States return to talks over SALT II after initiating its own military buildup to strengthen its negotiating position. “Once we clearly demonstrate to the Soviet leadership that we are determined to compete, arms control negotiations will again have a chance,” Reagan declared. He told the Chicago VFW members that he sought an “honest, verifiable reduction in nuclear weapons” that could only be obtained from a position of military strength. On another occasion, he was blunter: “So as far as an arms race is concerned, there’s one going on right now but there’s only one side racing.” But if the United States competed, Reagan said, the Soviets, who had already “diverted so much to military that they can’t provide for the consumer needs,” would have to turn to honest talks or face increased economic hardships.¹⁸⁴

He maintained these views as president. On October 16, 1981, President Reagan told reporters that the Soviets “had nothing to lose” during arms control talks and the United States “had nothing to threaten them with.” He was confident that the United States, with its superior economic resources, could counter the Soviet buildup, granting it leverage at the negotiating table. “If we show them the will and determination to go

¹⁸³ Coral Bell first pointed out that Reagan’s build up can be interpreted as compelling negotiations, not merely deterring conflict, *Reagan Paradox*, Ch. 4. Reagan, “SALT,” Nov. 8, 1977, *In His Own Hand*, 75; On losing the arms race, Reagan was sympathetically quoting a journalist, “SALT II,” Sept. 11, 1979, *In His Own Hand*, 63.

¹⁸⁴ George C. Wilson, “A Buildup in U.S. Forces,” Jun. 16, 1980, *Washington Post*, A1; Reagan, “Peace,” Aug. 18, 1980, *In His Own Hand*, 484; Lou Cannon, “Arms Boost Seen as Strain on Soviets,” Jun. 19, 1980, *Washington Post*, A3.

forward with a military buildup . . . they then have to weigh, do they want to meet us realistically on a program of disarmament or do they want to face a legitimate arms race,” he explained.¹⁸⁵ The president believed the subsequent course of events bared this truth, even though arms control negotiations began long before the U.S. military buildup took place. In June 1982, Strategic Arms Reduction Talks (START) opened in Geneva, and Reagan wrote to a Democratic supporter, “Negotiations . . . are now going on and I think I’m justified in saying the Soviets have come to the table only because they are convinced the alternative is an arms race they can’t win.” Arms talks broke down in 1983 but once they resumed in January 1985, Reagan wrote another letter expressing this view of strength compelling negotiations. “I feel as you do,” he stated, “that the Soviets came to the table because they finally decided it was in their best interest to do so. I also believe that [it] is our hope for reaching some agreement on arms reductions. They must be made to realize that the alternative will be an arms race which they can’t win.”¹⁸⁶

Reagan conceived of the arms race as a way to pressure the Soviet Union into negotiating an arms reduction agreement. He did not see it as a tool to strangle the Soviet economy and precipitate its collapse, as some scholars have maintained since the 1990s. Peter Schweizer, for instance, concluded that the buildup was a means to restore U.S. military power and wage “economic warfare against the Soviets.” However, Schweizer’s conclusion rests on only one source: a classified Defense Guidance Report from the mid-1980s. Paul Kengor agrees with Schweizer, maintaining that Reagan believed the Soviet

¹⁸⁵ Reagan, “Remarks and a Question-and-Answer Session,” October 16, 1981, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1981/101681b.htm> (accessed 17 Sept. 2015).

¹⁸⁶ Letter, Reagan to Irving S. Schloss, Jun. 28, 1982, *A Life in Letters*, 407; Letter, Reagan to Alan Brown, Jan. 22, 1985, *Ibid.*, 413.

system had “severe internal problems that would rip the USSR apart” and that the arms race was “another front for the economic war.”¹⁸⁷ Such claims, however, are overstated and reductionist. After the end of the Cold War, prominent administration foreign policymakers denied any plans to bankrupt the Soviet Union. Secretary of Defense Caspar Weinberger said, “I didn’t see a deliberate attempt to bankrupt them” but rather Reagan “trying to gain military strength for its own sake, for security.” Former NSC staffer and Ambassador to the Soviet Union Jack Matlock claimed “none of the key players were operating from the assumption that we were going to do the Soviet Union in, or that the purpose of the pressure was to bring them down. . . . That’s all thinking after the fact.” Instead, Matlock explained that the administration sought to place economic pressure on the Soviet Union so its leaders would negotiate. Reagan envisioned a future in which the superpowers cooperated to reduce strategic arms and the Soviet system transformed beyond communism, not one in which the Soviet Union ceased to exist.¹⁸⁸

In his pre-presidential radio addresses, letters and remarks as president, and autobiography, Reagan also never described the military buildup as a way to bankrupt the Soviet Union. In his autobiography, he did mention that he “wondered how we as a

¹⁸⁷ Peter Schweizer, *Reagan’s War* (New York: Doubleday, 2002), 142; Also see Schweizer, *Victory* (New York: The Atlantic Monthly Press, 1994), which makes the same argument but relies primarily on memoirs and interviews with hardline administration officials; Paul Kengor, *The Crusader* (New York: Regan, 2006), 237, 240.

¹⁸⁸ Weinberger quoted in Kengor, *Crusader*, 238; Matlock quoted in Beth A. Fischer, “Reagan and the Soviets: Winning the Cold War?” in *The Reagan Presidency*, 122, Fischer’s article offers a succinct review of the debates over the administration’s alleged intent to bankrupt the Soviet Union. On the military buildup, Fischer concludes that “the White House was not actively seeking to bankrupt or vanquish the USSR” but to “improve relations” (123). My analysis is in agreement with Fischer’s but further elucidates the strong relationship, in Reagan’s own mind, between the buildup and arms control negotiating leverage, which Fischer overlooks.

nation could use these [economic] cracks in the Soviet system to accelerate the process of collapse.” But he did not relate the military buildup to any initiatives designed to “accelerate” collapse, such as reversing Soviet gains in the Third World. Furthermore, his comments were likely colored by the subsequent course of events. Reagan typically discussed the buildup as a means to restore U.S. strength and leverage at the negotiating table as well as place economic pressure on the Soviet Union to embrace arms reduction talks. There is no doubt President Reagan sought to “reverse Soviet expansionism” and “promote . . . [political] change in the Soviet Union,” as National Security Decision Directive 75, one of the administration’s most famous policy directives, noted. Yet, the military buildup was not a part of this process. In sum, the military buildup was not intended to further the destruction of communism in the Soviet Union but another one of Reagan’s paramount goals: achieving a verifiable arms reduction agreement with Soviet leaders.¹⁸⁹

Reagan also thought a strong U.S. national defense would give Moscow an additional incentive to abide by any negotiated agreements since the alternative would be a return to the arms race. Laurence W. Beilenson’s *The Treaty Trap* profoundly influenced Reagan’s views on treaties and international agreements. Beilenson was a former SAG attorney and friend of Reagan’s. In his book, Beilenson argued that treaties were not a reliable mechanism to regulate international relations. After studying various historical treaties, Beilenson concluded that treaties were not eternal agreements and nations only followed treaty terms until it was no longer in their national interest to do so.

¹⁸⁹ Reagan’s *Public Papers* are available online through the RRL at <http://www.reagan.utexas.edu/> (accessed 5 Oct. 2015); Reagan, *American Life*, 238; NSDD-75, Jan. 17, 1983, RRL, <http://www.reagan.utexas.edu/archives/reference/NSDDs.html#.VhLWSJ2heUk> (accessed 5 Oct. 2015), 1.

In fact, Beilenson stated, “the only way to prevent nations from continuing to break treaties is to abrogate existing ones and to stop making new ones.” If a nation placed too much faith in a treaty, he warned, it could be slip into complacency, finding itself at risk once the treaty expired.¹⁹⁰

Reagan often mentioned Beilenson’s argument in conversations with aides and discussed it in his radio addresses. “One thing stands out sharply,” Reagan told listeners in March 1978, “no nation which put its faith in treaties but let it’s mil[itary] hardware deteriorate stayed around very long.” Over a year later, Reagan said popular faith in arms limitation agreements after the First World War lulled people into “refusing to admit” Hitler was building a war machine. As president, Reagan argued that a military buildup and strong treaty compliance verification measures would ensure the Soviet Union honored any treaties his administration concluded. As long as the United States remained committed to a strong national defense, the Soviet Union, unable to compete in the arms race economically, would embrace negotiated agreements as the means to maintain peace.¹⁹¹ In August 1988, for instance, President Reagan vetoed a defense authorization bill because it cut military spending. He maintained the bill would move “away from strength and proven success and back toward weakness and accommodation of the 1970’s.” Reagan had recently concluded the Intermediate Nuclear Forces Treaty with the Soviet Union, the first treaty to eliminate an entire class of nuclear weapons, and Third World conflicts were being settled. “The defense bill that I’ve just vetoed,” Reagan

¹⁹⁰ Laurence W. Beilenson, *The Treaty Trap* (Washington, D.C.: Public Affairs Press, 1969), 208.

¹⁹¹ Cannon, *President Reagan*, 255; Martin Anderson, *Revolution: The Reagan Legacy*, 2nd ed. (Stanford: Hoover Press Institution, 1990), 74-75; Reagan, “Treaties,” Mar. 13, 1978, *In His Own Hand*, 57; Reagan, “SALT II,” Sept. 11, 1979, *In His Own Hand*, 62.

declared, “would have placed in jeopardy all of these diplomatic and strategic advances. It would endanger progress in arms negotiations by giving away our negotiating leverage without getting a single thing in return from the Soviets.” In addition to strengthening national defense and compelling the Soviets to negotiate, Reagan saw a strong national defense as a means to foster Soviet treaty compliance.¹⁹²

But could the United States afford an arms race? Reagan’s faith in the superiority of the capitalist system convinced him it could compete with Moscow. He entered office in the midst of the worst economic crisis facing the United States and the West since the Great Depression. The Soviet Union was also mired in economic stagnation and a costly war in Afghanistan. As a result, leaders in the East and West thought their nations held positions of weakness in the Cold War. Ultimately, Western leaders made decisions that arrested and reversed capitalism’s problems while the Soviet bloc faced continual economic rot. But at the start of the decade, the future remained uncertain. As CIA Deputy Director for Intelligence Robert Gates remembered, “Most did not grasp that the West was passing through a phase, a cycle brought on by very specific causes . . . while the Soviet economic problem was systemic, eventually terminal, and could turn critical soon.” Despite the uncertainty, Reagan was confident capitalism would recover and that the United States, unlike the Soviet Union, could afford a military buildup and extended arms race. “The great dynamic success of capitalism had given us a powerful weapon in our battle against Communism—*money*. The Russians could never win the arms race; we could outspend them forever,” Reagan recollected. Capitalism’s incentive structure and

¹⁹² Reagan, “Remarks on the Veto of the National Defense Authorization Act,” August 3, 1988, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1988/080388a.htm>, (accessed 21 Sept. 2015).

capacity for technological innovation also meant the West could “maintain a technological edge over” the Soviet Union indefinitely. In an era in which a TIME magazine asked, “Can capitalism survive?,” Reagan was confident the future belonged to private enterprise, not collectivism.¹⁹³

But Reagan’s conviction in the superiority of capitalism was not based on blind faith. “While Reagan’s view of the economic failings of the Soviet Union may have been rudimentary, even primitive,” Gates later wrote, “it also happened to conform to Soviet reality.” After the election, Reagan received tangible evidence that, in the longterm, the Soviet Union could not compete with the United States and its vibrant, innovative economy. Western policymakers had always accepted the Soviet system suffered from chronic, economic difficulties. Détente’s economic relationship, in fact, was based on the notion that the Soviet Union desired access to Western goods and technologies in order to improve its own economy. But in the late 1970s, CIA intelligence analysts realized Soviet economic problems were growing more acute. A 1977 CIA study concluded that the Soviet Union was in desperate need for the productivity gains inherent in Western goods and technologies but would “avoid exploitable dependence” on the West. The West’s potential economic leverage over Moscow remained weak, but, as principal advisors in the Carter administration surmised, such leverage could grow in the 1980s as Soviet economic stagnation deepened due to declining energy production and hard

¹⁹³ Robert M. Gates, *From the Shadows* (New York: Simon & Schuster, 1996), 173; Reagan, *American Life*, 267. For a concise analysis of the economic uncertainty and leadership in confronting these economic problems, see Wilson, *Triumph of Improvisation*, Ch. 2.; For Reagan explaining his faith in capitalism, see “America’s Strength,” Dec. 22, 1976, *In His Own Hand*, 12-13; “Can Capitalism Survive?,” *Time*, Jul. 14, 1975, vol. 106, no. 2, 60.

currency shortages. By 1980, the CIA's analysis of the situation was more developed; Soviet economic difficulties were better understood.¹⁹⁴

Did Reagan understand these CIA reports? There have been substantial debates about Reagan's intellect and how well versed he was in policy matters. Although these discussions were particularly prominent during the Iran-Contra scandal, they were present throughout Reagan's political career. Even after serving two terms as governor of California, opponents suggested a former actor could only possess a superficial understanding of policy issues. Reagan's own propensity for speaking gaffes and his "aww-shucks" personality added weight to these criticisms. Most notably, Washington insider Clark Clifford called Reagan an "amiable dunce." Reagan's own aides also noticed his apparent lack of interest in hard policy. As the governor's chief-of-staff, William P. Clark wrote Reagan "mini-memos," typically a couple pages long, summarizing pending matters of business. This practice continued while Clark served as national security advisor, 1982-1983. Reagan's 1980 campaign manager William Casey also told an aide, "If you can't give it to him in one paragraph, forget it. He doesn't absorb a hell of a lot." Whereas Carter was involved in the minutiae of public and foreign policy, Reagan was content to delegate decision-making and focus on a few key policy areas, such as taxes and the Cold War. Reagan was not a traditional intellectual, but he was a capable leader whose administrative style differed from the previous president's.

¹⁹⁴ See Ch. 1 for deeper discussion of the CIA and Carter administration's analysis; CIA Paper, "The Value to the USSR of Economic Relations with the US," Aug. 1977, *Foreign Relations of the United States (FRUS)*, 1977-1980, vol. VI, Soviet Union, ed. Melissa Jane Taylor (2013):Doc. 40, <http://history.state.gov/historicaldocuments/frus1977-80v06/d40> (accessed 6 Oct. 2015); Summary of Conclusions and Minutes of a Policy Review Committee Meeting, Aug. 31, 1977, *FRUS*, 1977-1980: Doc 46, <http://history.state.gov/historicaldocuments/frus1977-80v06/d46> (accessed 6 Oct. 2015); Gates, *From the Shadows*, 173-177, for quotation see 194.

He tended to understand issues and events through anecdotes and personal connections, and policymakers who framed issues in such a manner typically exercised more influence within the administration.¹⁹⁵

While Reagan may have been uninterested in the fine details of most policy matters, he was attentive to intelligence reports like the President's Daily Brief and National Intelligence Estimates. In the words of CIA historian Nicholas Dujmovic, Reagan was an "intelligence consumer." Before the presidency, Reagan became acquainted with the CIA and its activities while serving on the President's Commission on CIA Activities within the United States, also known as the Rockefeller Commission after its chairman Nelson Rockefeller. The commission, established by President Gerald Ford, was tasked with investigating allegations of illegal, domestic CIA espionage. In his radio addresses, Reagan frequently discussed the commission and opposed increased oversight over the CIA, believing it handicapped U.S. intelligence-gathering capabilities at a time of a growing Soviet threat. As a presidential candidate, Reagan vowed to "regenerate our intelligence organizations" after their decline under the Carter administration.¹⁹⁶ In mid-November, at the direction of President Carter, the CIA began showing Reagan and Vice-President-elect George H. W. Bush the President's Daily Brief, encompassing a summary of the most recent and pressing intelligence. Analysts

¹⁹⁵ Cannon, *Governor Reagan* (New York: Public Affairs, 2003), 82, 187; Cannon, *President Reagan*, 102-114; Casey quoted in Joseph E. Persico, *Casey* (New York: Viking, 1990), 186.

¹⁹⁶ Nicholas Dujmovic, "Ronald Reagan, Intelligence, William Casey, and CIA: A Reappraisal," CIA Center for the Study of Intelligence (CSI), (2011). This article and other CIA primary documents are available through the Reagan Collection in the CIA FOIA Reading Room (hereafter, CIA RC), <http://www.foia.cia.gov/collection/reagan-collection> (accessed June 2014). The website has changed since conducting my initial research, making it more difficult to navigate. I recommend accessing the collection through the Internet Archive Wayback Machine: <http://web.archive.org/web/20130412234252/http://www.foia.cia.gov/collection/reagan-collection>. All CIA RC citations refer to the archived list.

briefed Reagan every morning, excluding the Christmas and New Year's holidays, at his home in the Pacific Palisades or during his visits to Washington, D.C. According to two analysts present at these briefings, Reagan "showed no impatience or disdain with analysis that presented a different view" than his and demonstrated a "willingness" to engage the intelligence material placed before him. His attentive interest in the daily brief continued after inauguration.¹⁹⁷

In CIA reports, as president-elect and president, Reagan received information that confirmed his views of the Soviet economy. At Blair House on December 11, 1980, Reagan was briefed specifically on Soviet economic problems and its impact on the strategic balance. The CIA estimated Soviet gross national product as sixty percent of the United States' with per capital consumption one-third of U.S. levels. Soviet defense spending, as a percentage of GNP, was estimated to be forty percent higher than the United States, reflecting the Soviet leadership's priority for defense. Yet, analysts told the incoming president that Soviet GNP growth had slowed to one percent in the last few years with future growth in serious doubt as oil and agricultural production declined and the growth of the workforce slowed dramatically. The Soviet leadership, hoping the problems would pass, had yet to show any willingness to institute deep economic reforms. But the briefers informed Reagan that the Soviet economic crisis would not pass, the "problems are too severe." The outgoing Director of Central Intelligence Stansfield Turner then told the president-elect that his administration would be presented

¹⁹⁷ For Reagan's views on the CIA, see his numerous radio address in *In His Own Hand*, 121-128; Reagan, "'State of the Union' Speech," *In His Own Hand*, 476; Richard J. Kerr and Peter Dixon Davis, "Mornings in Palisades: Ronald Reagan and the President's Daily Brief," CSI, <https://www.cia.gov/library/center-for-the-study-of-intelligence/kent-csi/vol42no5/html/v42i5a04p.htm> (accessed 22 Sept. 2015).

with opportunities arising from the floundering Soviet economy. The Soviet leadership might embrace arms negotiations to alleviate its defense burden or a U.S. military buildup could force the Soviet Union to accelerate its own defense spending, further straining its economy. In an arms race, Turner concluded, the Soviets would have to decide “how much to stretch their economy” and pursue arms negotiations. “You will face similar decisions on our side,” he said.¹⁹⁸

The intelligence assessment on which the brief was based explored these issues in greater depth. It stated that the Soviet Union’s “economic prospects are gloomier and policy choices more difficult than at any time since Stalin’s death.” Rising oil prices in the 1970s had filled Moscow’s coffers, but in the 1980s, these surplus funds would turn to deficits and debts as the Soviet Union depleted its easily accessible oil reserves and lacked adequate technology to harvest and transmit deeper supplies. “Chances for a turnaround are bleak,” the report read. As the decade progressed, it expected the Soviet leadership to face tougher decisions on resource allocations. The Kremlin would have to prioritize its investments: would it continue its military spending or invest more in agriculture, consumer products, and aid to client states in Eastern Europe and the Third World? “Simply stated, something will have to give,” the CIA concluded.¹⁹⁹

¹⁹⁸ Agenda and Memorandums for Briefing of President-Elect Reagan, Dec. 11, 1980, CIA RC, (accessed 19 Jun. 2014). Post-Cold War analysis has revealed the CIA’s understanding and estimates of the Soviet economy to be quite accurate, though, there was a tendency to overstate Soviet gross domestic and national product. As Angus Maddison states, “The CIA estimates of Soviet growth performance were made in a transparent, scholarly fashion. They are the best documented and most reasonable estimates we have” (“Measuring the Performance of a Communist Command Economy: An Assessment of the CIA Estimates for the U.S.S.R.,” *Review of Income and Wealth* 44, no. 3 (1998): 307-323).

¹⁹⁹ CIA Intelligence Assessment, “USSR: Economic Issues Facing the Leadership,” Jan. 1981, CIA RC, iii (accessed 19 Jun. 2014).

The assessment identified the weaknesses in the Soviet economy. Industrial bottlenecks plagued the economy, compromising increased investments and disrupting increased production plans. As easily accessible Soviet oil reserves depleted in the late 1970s, Moscow hoped increased natural gas production and exports would replenish its hard currency reserves. It needed the hard currency to import the superior Western goods and technologies necessary to increase its own productivity. But bottlenecks and inefficiencies prevented the Soviet Union from domestically supplying the vital gas drilling, pipes, and transmission equipment required to expand its gas sector. It was “an economy in growing disequilibrium, where problems in one sector degrade the performance in another.” Moscow sought to import these materials from the West, placing its economic well-being in a race against time to have new energy production resources operational before its oil production collapsed. All the while, the Soviet leadership did not demonstrate a willingness to reform the economy or modify spending priorities. The 1981-1985 Five-Year Plan required a 2.6 percent annual increase in defense spending. The investment was lower than the previous plan but still substantial relative to its systemic economic problems.²⁰⁰

Since the Soviet leadership resisted any serious economic reforms, the CIA argued that the future held two possibilities. On the one hand, Soviet leaders could “impose more austerity at home to support military spending.” To justify defense spending, Moscow would likely increase Cold War tensions, curtail its relations with the West, and crack down on dissidents within the Soviet bloc. On the other hand, “a new generation of leaders, less committed to the status quo, might come to power” and

²⁰⁰ Ibid., iii-iv, 3-8, for quotation see, 4.

institute reforms aimed at increasing consumption, not armaments. Yet, the assessment discounted the prospects for reform in the short term, noting that these new leaders would first have to consolidate power and battle “vested interests.” These leaders would also likely need stability in Eastern Europe and a “resurgence of détente” in order to prevail against domestic opponents of reform. At the start of the 1980s, the CIA expected the Soviet leadership to “adopt a tougher line at home” as economic problems continued to mount.²⁰¹

These CIA reports reinforced Reagan’s determination to pursue a military buildup. Upon entering office, President Reagan’s top priority was an economic recovery program aimed at stimulating the economy through tax cuts while balancing the budget and shrinking the size of the federal government. He planned to unveil this program in a televised speech in mid-February, a deadline that necessitated policymakers act quickly on the defense budget. At the end of January, Weinberger and David Stockman, director of the Office of Management and Budget, decided on a seven percent annual increase over inflation in defense spending between 1980 and 1986. There was no assessment of the defense needs; rather they decided to increase the budget arbitrarily, letting procurement orders, research and development, and other spending requests run wild. Colin Powell, Weinberger’s aide, described it as “Christmas in February.” Weinberger had actually wanted a larger spending increase, claiming that the military was in terrible shape with allies beginning to doubt U.S. power. After becoming Defense Secretary,

²⁰¹ Ibid., 7-8.

Weinberger later said, he learned the deterioration of military capabilities to be “even worse than I had thought. It was truly appalling.”²⁰²

Only later did Stockman realize that they had made their decision for an increase based on the FY 1982 budget as opposed to Carter’s FY 1980 one, which already included five percent real growth in defense spending. As a result, the proposed increase was really a 10 percent annual increase over 5 years, a total of \$1.46 trillion and double what Reagan promised during the campaign.²⁰³ Over the course of the next year, Stockman attempted to revise the spending increase downward, but Weinberger refused. Repeatedly, Stockman tried to get the president to intervene in his favor, but Reagan hesitated. The Defense Secretary often told Reagan the spending was vital to restore U.S. military capabilities, even though Stockman’s counterproposal would leave ninety-two percent of the original budget in place. In late 1981, the president, Stockman, and Weinberger agreed to trim the defense budget by only \$13 billion over 3 years. “Defense is not a budget issue. You spend what you need,” Reagan often said. In the end, Reagan chose to sacrifice any possibility of a balanced budget for a military buildup.²⁰⁴

What did the administration use this money to fund? A large portion of the budget was devoted to procuring weapons such as the M-1 tank, armored-infantry carriers, and various jet fighters. Between 1980 and 1986, spending on procurement almost tripled from \$35 to \$93 billion. In addition to funding maintenance and repairs, the administration set about enlarging the Navy to create a 600 ship fleet, including 15

²⁰² Pach, “Sticking to His Guns,” 90-93; Powell quoted in Wilson, *Triumph of Improvisation*, 20; Stockman, *Triumph of Politics*, 105-109; Caspar W. Weinberger, *In the Arena* (Washington, D.C.: Regnery Publishing, 2001), 274.

²⁰³ Stockman, *Triumph of Politics*, 108-109.

²⁰⁴ *Ibid.*, 277-299, Reagan quoted on 283.

aircraft carrier task forces. Money was also dedicated to lifting the morale of service men and women through increased enlistment bonuses and benefit packages. The most important part of the military buildup, however, focused on modernizing U.S. nuclear forces, as well as the research and development of new weapons systems. Reagan revived the B-1 bomber and wanted one hundred bombers combat-ready by 1987. He also called for the deployment of one hundred MX missiles—each capable of carrying ten independently targeted nuclear warheads—on rail tracks designed to move the missiles between various locations to decrease their vulnerability to a Soviet first strike. The president also ordered new Trident submarines. He set about modernizing each leg of the strategic triad. In 1983, he also unveiled his Strategic Defense Initiative (SDI), a space-based missile defense shield mockingly dubbed “Star Wars.” By 1987, SDI alone consumed almost ten percent of the funding for research and development. Lastly, Reagan dramatically increased the “black budget,” funds for highly classified research and development programs, such as the stealth bomber.²⁰⁵

Even though Congress granted the administration most of its defense spending requests in the early 1980s, the president’s defense program was not without its controversies. There were fierce debates over the MX mobile basing system, pushing the administration to propose a series of other basing schemes. The administration suggested storing the missiles deep underground, deploying them close to one another, or merely placing them in reinforced ICBM silos. Congress pushed back on each suggestion. In

²⁰⁵ Wirls, *Buildup*, 34-39, 161; Caspar W. Weinberger, *Fighting for Peace* (New York: Warner Books, 1990), 57; Robert David Johnson, *Congress and the Cold War* (New York: Cambridge University Press, 2006), 260; Pach, “Sticking to His Guns,” 93-96; “Reagan Defense Plan Given Final Approval” in *CQ Almanac 1981*, 311-29, <http://library.cqpress.com/cqalmanac/cqal81-1172585> (accessed 23 Sept. 2015).

1983, after two years of debate, Reagan and Congress finally agreed to procure only fifty MX missiles and deploy them in already existing silos while pursuing arms negotiations with the Soviet Union. Aside from the MX missile, some senators and representatives feared a revived B-1 program would draw limited funds away from the development of the stealth bomber. The administration intended the B-1 to be a stop-gap measure to replace the aging B-52 while a more advanced bomber was developed for service in the coming decades. Representative Jack Murtha (D-PA), for instance, suggested Congress fund the modernization of existing bombers rather than developing a new bomber that would only be in service for a relatively short time. Although most Americans supported President Carter's decision to cancel the B-1 in 1977, public and congressional attitudes had reversed by early 1981. Congress appropriated over two billion dollars for the B-1 in the FY 1982 budget. By late 1981, Reagan's military buildup was underway.²⁰⁶

In August 1981, the CIA believed Moscow was responding to Reagan's rearmament. In an intelligence memorandum, analysts argued that the Kremlin expressed "concern over a US military buildup" and pledged to "respond to an expanding American defense effort." The CIA said N.P. Lebedinsky, a deputy chairman of the Soviet State Planning Committee (Gosplan), informed an interlocutor of "eleventh-hour changes" to the 1981-1985 Five Year Plan. These changes called for "large increases" in Soviet defense industries, and the CIA described it as a response to the collapse of détente, failed ratification of SALT II, and rising Cold War tensions. Reagan's planned military buildup was likely "exacerbating these factors." Despite the plan's revisions, analysts did

²⁰⁶ "Reagan Defense Plan Given Final Approval," *CQ Almanac 1981*; Johnson, *Congress and the Cold War*, 260-282; Pach, "Sticking to His Guns," 87.

not believe the Soviet Union would achieve its production goals as almost all of the planned increases depended on the unlikely event of productivity gains in the Soviet economy.²⁰⁷

With the restoration of American strength underway and the future of the Soviet economy in doubt, the president hoped Soviet leaders would come to the negotiating table in order to relieve the burden defense spending placed on their economy. He had lifted the grain embargo as the first overture in pursuit of this larger goal. The military buildup was supposed to give Moscow an additional incentive to abide by international norms and embrace a dialogue with the United States. As he wrote a supporter in April 1982, “They are up against the wall economically, more so than at any previous time. It is my hope that this may make them more reasonable about arms reductions because their military buildup is the cause of their depression.” In another letter a few days before, Reagan reiterated his belief that the Soviets would not chose to negotiate while they were “ahead of us in number and power of [nuclear] weapons.” In order to achieve verifiable arms reduction and a lasting peace between the superpowers, Reagan maintained it was necessary to first escalate the Cold War and convince Soviet leaders that the United States could match its resurgent strength.²⁰⁸

The Need for Prudent East-West Trade

The Reagan administration knew the United States could not unilaterally strengthen Western defenses and pressure the Soviet Union to abide international norms.

²⁰⁷ Intelligence Memorandum, “Prospects for Accelerated Soviet Defense Effort,” Aug. 1981, CIA RC, (accessed 22 Jun. 2014).

²⁰⁸ Letter, Reagan to Jay Harris, Apr. 26, 1982, *A Life in Letters*, 403; Letter, Reagan to Virginia F. Adams, Apr. 21, 1982, *Ibid.*, 402.

An end to the grain embargo and a U.S. military buildup could only do so much. A divisible détente between the United States and Western Europe emerged in response to the Soviet invasion of Afghanistan. President Reagan and his advisors sought to restore Western unity. On economic relations, the administration requested the alliance place East-West trade on a “prudent” path, one that guarded against the growth of Soviet military and political power without sacrificing the West’s economic interests. These requests were contrary to Reagan’s pre-presidential stance on East-West trade. As president, though, he hoped to compromise with U.S. allies to place reasonable security restrictions on the economic relationship with the East. Administration officials developed this prudent strategy in the spring of 1981. After numerous NSC reviews, however, the president failed to approve the strategy. Though officials agreed on its general approach to trade relations, they disagreed on a specific issue: the U.S. response to the construction of a large Soviet natural gas export pipeline to the West. President Reagan failed to settle these disputes among his advisors, and these disagreements on the pipeline impeded approval of the administration’s larger strategy for East-West trade.

In the summer of 1980, Soviet and West European leaders had agreed to enter into negotiations over the construction of a 3,000 mile long natural gas export pipeline. Upon completion, the planned pipeline was to run from gas fields in Yamburg, located above the Arctic Circle in West Siberia, south to another field in Urengoy, then to Czechoslovakia. There, the pipeline would be connected to the European gas network, supplying the West with forty billion cubic meters of gas annually. To construct the pipeline, Soviet engineers and laborers would have to conquer Siberia’s frigid

temperatures and permafrost as well as traverse the Ural Mountains and countless swamps and rivers. The project was estimated to cost between \$8 and \$11 billion, primarily financed through generous West European financial credits. For the Soviet Union, the greatest obstacle to completing the project, aside from capital, was not the harsh, barren environment of West Siberia but the nation's inability to produce enough large-diameter steel pipes and powerful compressors. Although the Soviet Union was the world's largest producer of steel pipe, its pipes were inferior and more costly than Western alternatives. In 1980, the Soviets also lacked the know-how to produce the 25-megawatt compressors needed for a project of this magnitude. As a result, Moscow imported the materials from the West, and West European industrial firms, struggling during the global recession, were eager to do business.²⁰⁹

The potential rewards for the Soviet Union and Western Europe were staggering. Soviet oil production was in crisis. Production at the West Siberian oil fields, which accounted for fifty-two percent of total national oil output by 1980, was in decline. Over the past two decades, Soviet planners focused on rapidly increasing oil output as opposed to exploring for new fields, conservation, and efficient production. As a result, depleting proven reserves failed to be offset by the discovery and development of new reserves in the late 1970s. Despite being one of the world's leading oil producers, the Soviet Union had failed to develop sufficient infrastructure and efficient production methods to tap its reserves over the longterm. In addition to relying on oil to fuel its own industries, the Soviet Union depended on oil exports to the West for vital hard currency earnings. In

²⁰⁹ "Soviet Bloc's Debts Worry Bonn Banks," Sep. 2, 1980, *New York Times*, A16; Antony J. Blinken, *Ally Versus Ally* (New York: Praeger, 1987), 31-32; Thane Gustafson, *Crisis Amid Plenty: The Politics of Soviet Energy Under Brezhnev and Gorbachev* (Princeton: Princeton University Press, 1989), 160-162, 202-212.

1980, Moscow earned 62.3 percent of its hard currency from oil and gas exports. These earnings were used to import superior Western goods and technologies intended to revive the stagnated Soviet economy. The economies of Soviet client states in Eastern Europe also relied on this oil. Western and Soviet analysts both forecasted the Soviet oil industry facing irreversible decline in the 1980s. In response, Brezhnev moved to stabilize the oil sector over the shortterm through increased investments while developing natural gas to replace oil as the Soviet Union's primary energy commodity. Brezhnev called on the gas industry to increase its output by almost fifty percent between 1980 and 1985. In 1980, the proven and probable reserves of Siberia's major gas fields stood at 17.5 trillion cubic meters of gas. Urengoy alone held 7.8 trillion cubic meters, making it the world's largest field, and Soviet planners predicted it could produce 200-250 billion cubic meters of gas a year. The 1981-1985 Five Year Plan announced the development of six gas pipelines, all originating at Urengoy. One of these lines would be connected to the West, and at a later date, Soviet planners intended to connect the northern Yamburg fields to this larger network. In 1982, the CIA estimated the export pipeline had the potential to net the Soviet Union nine billion dollars in annual hard currency earnings, a substantial amount considering Moscow held a hard currency debt over \$24 billion in 1981. The Soviet leadership saw the Siberian gas fields as a panacea for Soviet energy and financial problems.²¹⁰

²¹⁰ Gustafson, *Crisis Amid Plenty*, 63-69, 139, 160-163; Bruce W. Jentleson, *Pipeline Politics* (Ithaca: Cornell University Press, 1986), 174; Intelligence Assessment, "Soviet Economic Dependence on the West," Jan. 1, 1982, CIA RC (accessed 23 Jun. 2014), 9-10; National Intelligence Council Memo, "The Soviet Bloc Financial Problem as a Source of Western Influence," Apr. 1982, CIA RC (accessed 22 Jun. 2014), 4.

Western Europe also faced an energy dilemma. The West European economies were highly dependent on Middle Eastern oil. France and Italy relied on OPEC oil for over fifty percent of their total energy consumption in 1978; West Germany almost thirty percent. These three nations imported well over ninety percent of their oil. The OPEC oil embargo of 1973 and the supply disruptions following the 1979 Iranian Revolution disrupted the European economies, as well as the global economy. Rising oil prices contributed to inflation, deepening the worst economic recession since the Great Depression. In response, the industrialized nations formed the Group of Seven (G7) to coordinate their macroeconomic policies and search for alternatives to oil. The West European nations were far more dependent on imported oil than the United States, and their governments moved to diversify their energy supplies in order to insulate their economies from unstable Middle Eastern oil.²¹¹

Natural gas was the most attractive alternative to oil. Coal was dirty, and developing mining operations was expensive. Nuclear power was feasible, but public opinion was against it. Natural gas, however, was cheaper and cleaner than oil and capable of being used in similar industrial and chemical applications, including the production of electricity and heating. Gas supplies were also indigenous to Europe. In the 1970s, the Netherlands was the world's third largest producer of natural gas, after the United States and Soviet Union, and its gas production peaked in 1976 at 53.4 billion cubic meters. Britain and Norway both worked to develop recently discovered gas fields in the North Sea. Even so, these indigenous supplies would not be able to meet West

²¹¹ Jentleson, *Pipeline Politics*, 167; Jeffrey A. Friedan, *Global Capitalism* (New York: W. W. Norton & Company, 2006), 364-370.

European gas demand. Between 1973 and 1980, the volume of natural gas consumed in Western Europe grew by almost fifty percent. Gas consumption in the residential and commercial sectors rose nearly eighty percent between 1973 and 1979. Europe simply did not have the proven reserves to satisfy this exploding demand. In the early 1980s, the Netherlands estimated that its reserves would only last another eighteen years unless it undertook conservation efforts.²¹² Furthermore, Norway hesitated to develop some of its gas fields out of fear that the commodity's low price would make the high-cost projects unprofitable. Western Europe turned to imports.²¹³

With its large proven gas reserves and desire to increase exports to the West, the Soviet Union appeared to be the most logical choice for gas supplies. France and Italy had contracted gas imports from Algeria, but in the late 1970s, Algeria suspended deliveries in an attempt to hike the price. The Iranian Revolution undermined a deal for Iranian gas, leaving no feasible supplier other than the Soviet Union. Besides, the West Europeans had already been doing business with the Soviets. In 1973, Soviet gas comprised 1.2 percent of total gas consumption in West Germany. By 1980, this amount jumped to over eighteen percent. Italian consumption followed a similar path, increasing from 10.3 percent in 1975 to 24.8 percent in 1980. Despite their ideological differences and geopolitical rivalry, the West Europeans believed the East and West had a mutual interest in developing the proposed pipeline. These governments sought economic security through an increased financial and energy relationship with Moscow. As one

²¹² In 1984, the Netherlands discovered new proven reserves extending the life of its gas industry, see Blinken, *Ally Versus Ally*, 22.

²¹³ Jentleson, *Pipeline Politics*, 164-166; Blinken, *Ally Versus Ally*, 19-23; Robert D. Hormats, "Soviet-West European Natural Gas Pipeline," *Department of State Bulletin* 44 (Dec. 1981): 49-52.

West German official stated, “No one can tell me that the Straits of Hormuz is a safer energy channel than a gas pipeline from Russia.”²¹⁴

The project would also pay substantial economic dividends for the struggling West European economies. In the late 1970s, the unemployment rate crept up across Europe. By 1982, the rate was 7.7 percent in West Germany, over 9 percent in France and Italy, and 14 percent in Britain. West European industries were particularly hard-hit. The West German electric-industrial firm AEG-Telefunken had not made a profit since 1976. Another German firm, Mannesmann Anlagenbau, projected \$52 million in losses for 1980. The French pipe manufacturer Creusot-Loire lost about \$2.5 billion between 1977 and 1980 (it would collapse in 1985). The British manufacturer John Brown Engineering faced similar challenges, and pipeline contracts had the potential to keep all of these industries afloat. A Mannesmann subsidiary and Creusot-Loire won a contract to supply twenty-one compressor stations for under one billion dollars. AEG-Telefunken and John Brown agreed to produce another 68 stations for \$500 million, and the chairman of AEG-Telefunken claimed the contract would support “20,000 to 25,000 jobs” over two years. British companies obtained at least \$75 million dollars in additional contracts. American companies, such as Caterpillar, even agreed to participate in the project, with total U.S. contracts estimated between \$300 and \$600 million. The pipeline project would help Western Europe diversify its energy supplies, but it would also benefit these industries

²¹⁴ Jentleson, *Pipeline Politics*, 165-169; Blinken, *Ally Versus Ally*, 22-32; John Tagliabue, “Bonn Needs the Business Even More Than the Gas,” Aug. 16, 1981, *New York Times*, E3.

and support tens of thousands of well-paying industrial jobs during a deep economic recession.²¹⁵

In the summer of 1980, West European and Soviet leaders announced their intention to construct the pipeline, and talks over the financing, importation agreements, and construction contracts continued throughout 1981. During his last year in office, President Carter did not question West Europe's move to increase Soviet energy imports. He merely asked U.S. allies to cooperate with the U.S. grain embargo and control high-technology exports to the Soviet Union. After Reagan's sweeping electoral victory, however, the State Department conducted an interim review, highlighting the challenges the pipeline posed to U.S. interests. The report identified the pipeline as "a most serious matter." Increased Soviet gas imports could make Western Europe vulnerable to Soviet political leverage, further weakening the Atlantic alliance. The top priority in U.S. foreign policy was to "reforge the alliance" after the disarray following Afghanistan. "In times of crisis," the report continued, "the Soviet's ability to lower the temperature in European homes would divide the West." In the climate of renewed Cold War confrontation, the State Department urged the new administration and U.S. allies to review all export licenses with Moscow "with a view to possible cancellation."²¹⁶

The Reagan administration opposed the pipeline, and less than one month after the inauguration, National Security Advisor Richard V. Allen and Haig made the decision to discuss the pipeline and East-West trade with U.S. allies at the July G7 Summit in

²¹⁵ Jentleson, *Pipeline Politics*, 188, 184-185; Blinken, *Ally Versus Ally*, 32-34, 40-41; Tagliabue, "Bonn Needs the Business," *New York Times*, E3.

²¹⁶ State Dept. Interim Report, Dec. 8, 1980, box 136, folder 4, Dept. of State Transition: Reports: Interim: 8 Dec. 1980, AMH, LC.

Ottawa. Canadian Prime Minister Pierre Trudeau wanted the summit to focus on North-South issues and, in particular, increasing the aid from industrial nations to developing countries. Carter had endorsed Trudeau's agenda before leaving office, but President Reagan and his advisors did not. Allen told Secretary of Treasury Donald T. Regan that North-South issues were "out of line with our priorities" and the administration had to move now to "reorient the agenda" towards East-West relations and international energy cooperation. The administration saw the Cold War, not North-South disputes, as the most pressing matter for the G7 nations. Allen also sent Regan a draft strategy paper outlining his staffers' views on the East-West economic relationship. Since Afghanistan, the paper stated, U.S. and West European military, political, and economic relations with the Soviet Union diverged. Despite Western opposition to the Soviet invasion and efforts to strengthen military defenses, the West continued to conduct an economic relationship with the East as if the invasion never took place. This dichotomy was more perplexing in light of the ever-present possibility that the Soviets could intervene in Poland. The Reagan administration sought a "congruence of these economic relations with the basic strategic objectives of the West." It sought a "strategic consensus" that rested on a "common perception" of the Soviet threat and a new "prudent concept of economic security." The administration did not seek a curtailment in the level of East-West trade but a dialogue with its allies to review and harmonize their military, political, and economic policies towards the East.²¹⁷

²¹⁷ Memo and attached strategy paper, Allen to Regan, Feb. 16, 1981, box 141, folder 4, Treasury Dept., Subject File, Economic Summits Ottawa, Canada, July 20-21, 1981, 1 of 4, Donald T. Regan Papers (DTR), LC.

The Cabinet Council on Commerce and Trade (CCCT) was tasked with developing this strategy of economic security for NSC review ahead of the Ottawa Summit. Regan and Commerce Secretary Baldrige headed the CCCT, which reviewed the major issues affecting certain sectors of the U.S. and international economies. The CCCT crafted its approach to East-West trade over March and April, at which point the State Department and NSC reviewed its ideas.²¹⁸ The result was “East-West Economic Relations: A Prudent Approach,” a strategy paper refining the concept of economic security and proposing a comprehensive framework to meet the challenges in East-West economic relations. The paper did not call for a total embargo on the Soviet Union and its Warsaw Pact allies. It was also not a strategy of economic warfare designed to strangle the Soviet economy and precipitate its collapse. In fact, the paper said the volume of trade with the East was irrelevant. Instead, the strategy entailed a targeted approach aimed at monitoring and controlling selected aspects of trade in order to minimize Western vulnerabilities and maximize security. To do so, it suggested the United States conduct a high-level COCOM review, assessing and strengthening the effectiveness of national export controls on high-technology goods and know-how. It cautioned against the use of foreign policy export controls unless the United States consulted with its allies since allies often claimed these controls were “sprung on them as surprises.”²¹⁹

²¹⁸ CCCT Meeting Minutes can be found in box 115, folder 3, Treasury Dept., Subject File, Cabinet Council on Commerce and Trade, Mar-Jun 1981, DTR, LC.

²¹⁹ Foreign policy controls are controls enacted for foreign policy reasons, as opposed to national security controls intended to counter a national security threat. For example, Carter used foreign policy controls to support Soviet dissidents and signal disapproval of Soviet human rights abuses. Though immoral, such abuses did not pose a national security threat to the United States (see. Ch. 1).

Furthermore, the paper claimed the West had to guard against political and economic vulnerabilities arising from trade with the East. Such vulnerabilities could grant the Soviet Union political leverage over the West in a crisis, undermining the alliance. This strategy did not mean the West Europeans could not import energy supplies from the Soviets. Rather, the strategy called on the West to ensure that a dependence on Soviet gas did not grant Moscow undue influence over Western affairs, compromising security. Unless the allies continuously reviewed the “advantages and disadvantages of various economic relationships and . . . consider[ed] measures to protect against efforts by the other party to manipulate these advantages and disadvantages,” the alliance would be vulnerable to Soviet leverage. In practice, this strategy meant the alliance had to develop safeguards against potential Soviet supply disruptions initiated in an attempt to affect alliance resolve and unity. It advised the alliance to craft “back-up emergency supply arrangements” and undertake a long-term effort to develop alternative energy supplies from more secure sources. The East-West energy trade was not incompatible with economic security, prudence merely dictated the West closely monitor the trade and cultivate safeguards to negate potential Soviet leverage. In addition, East-West economic relations could reap strategic benefits for the West. The relationship could be used to promote political change in the East, possibly by affecting the allocation of scarce resources. However, the paper did caution that such positive influence was not as “significant” as some argued during détente. Nonetheless, it was another reason to maintain the East-West economic relationship.²²⁰

²²⁰ “East-West Economic Relations: A Prudent Approach,” box 115, folder 3, Treasury Dept., Subject File, Cabinet Council on Commerce and Trade, Mar-Jun 1981, DTR, LC; A summary of the paper can also be

Overall, CCCT policymakers realized the United States, despite the wishes of neoconservatives, could not push the West to return to the harsh, economic denial measures of the early Cold War. At the same time, however, they argued it was not prudent to continue the economic strategies of détente, intended to integrate the Soviet Union into the international economic system to moderate its behavior. The invasion of Afghanistan and ongoing crisis in Poland demonstrated that this strategy of economic inducement had failed. Instead, the United States and its allies had to craft a new strategy around the concept of economic security that blended the best aspects of both approaches. The West had to pursue policies that prevented high technologies and know-how from enhancing Soviet military capabilities while prudent economic engagement promoted political change in the East and supported the development of a stable international system.

As the CCCT crafted this prudent strategy, Haig presented its basic ideas to his counterparts in Paris and Bonn. Although Bonn was not openly hostile to U.S. ideas, it stressed its determination to follow through with the pipeline negotiations. In early March, Haig “urged” Foreign Minister Hans-Dietrich Genscher to “move slowly on this project” while the situation in Poland remained uncertain. The Secretary of State understood that the pipeline deal was ultimately a “sensitive internal question” for West Germany but the United States had serious concerns over Bonn becoming dependent on Soviet gas exports and vulnerable to political manipulation. Genscher dismissed U.S. concerns, noting that the FRG had determined “acceptable and tolerable” levels of gas imports. He maintained that the Soviets could supply up to thirty percent of West German

needs without any security risks. Bonn made this case repeatedly throughout the spring of 1981. When asked if the pipeline would make the FRG “vulnerable to Soviet blackmail” in late May, Chancellor Helmut Schmidt said such fears were overblown. He contended that the FRG relied too much on Middle Eastern oil and had to diversify its energy imports. It would cost one billion dollars over ten years to bring one new coal mine into production, and nuclear power was unpopular. Natural gas was the only feasible alternative, and Schmidt reassured the public that his government would avoid the risks of depending too much on a single gas supplier.²²¹

While Bonn dismissed U.S. concerns, Paris pleaded with Washington to help the West Europeans develop alternative sources avoid a high to level of imports from the Soviet Union. In two meetings in late February, French officials expressed their concern over the pipeline to their U.S. counterparts. At the time, France relied on Soviet gas to supply five percent of its consumption. Foreign Affairs Minister Jean Francois-Poncet told Haig that the Soviets had proposed to increase that level to thirty percent. The minister said, “The question is whether this is too much and will inhibit European freedom of action, for example in a post-Polish situation.” The alliance had agreed to a series of coordinated actions to undertake in the event of a Soviet invasion of Poland. “It is hard to believe that the Europeans could implement” those measures, Francois-Poncet explained, “if they are that dependent on Soviet gas.” Paris preferred to increase Soviet supplies to a maximum of fifteen percent, and the minister asked the United States to cooperate with other West European governments in developing alternative suppliers,

²²¹ Cable, Haig-Genscher Meeting, Mar. 9, 1981 and Schmidt's Response to Questions at the National Press Club, May 22, 1981, folder “USSR-Pipeline (2/6),” box 30, Matlock Files, RRL.

such as Norway. The French Energy Director made similar remarks to a U.S. embassy official a few days before the Haig-Francois-Poncet meeting. The director recommended the United States “intervene to encourage both the Norwegians and the Nigerians,” who also had significant gas reserves, “to take a more positive attitude toward the development of their gas resources.” In early April, Francois-Poncet repeated all of these concerns to Haig.²²²

If the Reagan administration was going to affect the East-West energy trade in any fundamental way, it had to move fast. The French government warned that final negotiations over the pipeline would progress rapidly as West European businesses overwhelmingly supported the venture.²²³ The United States had to finalize its strategy and begin substantive talks with its allies to counter an agreement to import such high levels of Soviet gas and mitigate vulnerabilities to the West. As the State Department continued technical, bilateral talks with the Europeans, the president and NSC reviewed its strategy for East-West economic relations. If Reagan wanted to discuss these matters with the other heads of state at the Ottawa Summit, July 20-21, he needed a coherent proposal, not just for the pipeline, but the West’s entire economic relationship with the East. Allen described the summit as the “last opportunity” for the president to explain U.S. concerns

²²² Memcon, Haig-Francois-Poncet Meeting, Feb. 23, 1981, folder “USSR-Pipeline (2/6),” and Cable, Embassy Paris to D.C., FRG-French Joint Study on Soviet Gas Deal, Feb. 25, 1981, folder “USSR-Pipeline (1/6),” box 30, Matlock Files, RRL; Cable, Embassy Paris to D.C., Francois-Poncet Asks High-Level U.S. Approach to Norway on Natural Gas, Apr. 1, 1981, (WH Dist. Date: Apr. 7, 1981), folder “France (3/1/81-4/1/81),” box 13, NSC: Country File: III, RRL.

²²³ Memcon, Haig-Francois-Poncet Meeting, Feb. 23, 1981, and Cable, FRG-French Joint Study, Feb. 25, 1981, Matlock Files, RRL; Cable, Francois-Poncet Asks High-Level US Approach to Norway, Apr. 1, 1981, NSC: Country File: III, RRL.

over the pipeline to the allies.²²⁴ But the pipeline was merely a symptom of a larger problem in which the West had divorced trade from the military and political aspects of the East-West relationship. The administration intended to use the pipeline as an opening move to begin a dialogue over East-West trade.

In preparation for a July 6 NSC review of U.S. strategy and export controls, Allen sent the president four papers and a series of supplemental materials explaining various aspects of the export control system and policy recommendations. Allen intended NSC and State Department staffers to cooperate in drafting these reports, offering Reagan a bureaucratic consensus on these issues. The two agencies, however, were unable to reach agreements on any of the issues, prompting State Department officials to withdrawal from the discussions. Rather than offering a consensus decision, the NSC papers laid out a series of options reflecting the various agencies' perspectives. Allen told Reagan he would hear "divergent views" in the upcoming meeting.²²⁵ These disagreements were one of many that divided the president's foreign policy advisors over the course of his administration. In this instance, Reagan was unwilling to settle these disputes and finalize U.S. policy on the East-West energy trade.

All of the president's principal advisors were, like Reagan, opponents of détente and committed anti-communists. Yet, these officials sometimes championed conflicting foreign policies, especially in U.S.-Soviet relations. In general, they can be divided into two camps: hardliners and pragmatists. The hardliners were more ideological and espoused a Manichean worldview. They were typically neoconservatives who argued the

²²⁴ National Security Council Meeting Agenda and Attached Papers, Jul. 6, 1981, folder "NSC 00016 6 Jul 81," NSC: Meeting Files, RRL.

²²⁵ Ibid.

Soviet Union only responded to military strength and could not be trusted to honor any agreements, including ones controlling strategic arms. The pragmatists agreed the United States had to confront the Soviet Union over its international behavior but were more optimistic about the U.S.-Soviet relationship. They thought Moscow could be negotiated with from a position of strength. Whereas hardliners did not shy away from supporting unilateral U.S. action, pragmatists emphasized diplomacy and a multilateral approach, led by the United States, to international problems. These camps were not always clear cut and officials occasionally moved between the ranks depending on the issue at hand. Secretary of State Alexander M. Haig, for instance, was a hardliner on Third World issues but advocated pragmatic policies on East-West economic relations.²²⁶

President Reagan's "hands-off" management style and personality tended to exacerbate disputes between pragmatists and hardliners. He thought "the chief executive should set broad policy and general rules, tell people what he or she wants them to do, then let them do it. . . . [Not] peer constantly over the shoulders of the people who are in charge of a project." He believe the president should act like the chairman of a corporation, defining a vision and goals then letting subordinates implement policies to achieve those goals. This style would work well as long as the chairman resolved disputes among subordinates and reconciled contradictory policies. President Reagan, however, was not always willing to do so. One administration official remembered, "The president didn't want to come down so clearly on one side that the other side would be deeply and profoundly disappointed." He sought compromise and loathed confrontation. "He was a consensus politician, not an ideologue," wrote David Stockman. Furthermore,

²²⁶ Reagan, *An American Life*, 161; Cannon, *President Reagan*, 263-265.

Reagan rarely gave his advisors clear feedback, confounding the policymaking process. Advisors monitored the president's body language or wondered whether an anecdote indicated his approval. George P. Shultz, Haig's successor, frequently had two-hour working lunches with the president, after which he sometimes remained uncertain about Reagan's views.²²⁷ Reagan's management style and personality helped him accomplish many of his goals but on East-West economic relations, it fostered incessant disagreements between the pragmatists and hardliners and prevented the adoption of a coherent East-West economic strategy in 1981.

At the July 6 NSC review, the president and his advisors discussed U.S. export control policy in four areas: COCOM, oil and gas equipment and technology, the pipeline, and an export license for Caterpillar. Due to the complexity of these issues, Allen invited undersecretaries and assistants from the various agencies to participate. This meeting was only to serve as a discussion of the issues, and another meeting was scheduled on July 9 for Reagan to make his decisions. Everyone agreed that the United States should ask the allies to conduct a high-level review of COCOM controls with a view towards strengthening controls on high-technologies and loosening controls on end-products. One of the NSC discussion papers, sent to Reagan ahead of the meeting, recommended this policy, noting it was in agreement with the influential 1976 Bucy

²²⁷ Reagan, *An American Life*, 161; Cannon, *President Reagan*, 265, 59, 267; Stockman, *Triumph of Politics*, 9.

Report. This decision was not controversial, and the discussion quickly moved on to the other matters of business.²²⁸

On the other three issues, the administration was deeply divided. Haig, Regan, and Baldrige, all pragmatists on East-West trade, argued that the United States could not stop the pipeline but could approach U.S. allies to minimize vulnerabilities that might otherwise arise. Leading the pragmatists, Haig said he repeatedly asked Bonn to abandon the deal but “they refuse to give up on it.” The United States could not unilaterally block the pipeline deal. Haig agreed that the pipeline was a mistake but advised the president to recognize diplomatic realities. The United States required allied cooperation to prevent military critical technologies from reaching the Soviet Union. A dispute over the pipeline threatened to disrupt U.S. efforts to strengthen COCOM’s effectiveness and impede the attainment of economic security. Although the pipeline was likely to be built, Haig stated that proposing a “strong alternative [energy] program” at Ottawa could convince the allies to decrease their levels of imported Soviet energy, limiting the potential for Soviet manipulation.²²⁹

Weinberger and U.N. Ambassador Jeane J. Kirkpatrick, both hardliners, argued the United States had to block the pipeline in the interests of Western security. Kirkpatrick said Bonn and Paris already imported too much Soviet energy and claimed “our Allies already mention dependency as an inhibiting factor on their actions.” Weinberger was more vocal in his opposition. He dismissed Haig’s view that Bonn could

²²⁸ For a discussion of the Bucy Report, see Ch. 1; NSC Meeting Agenda and Papers, Jul. 6, 1981, folder “NSC 00016 6 Jul 81,” NSC: Meeting Files, RRL; NSC Meeting Minutes, Jul. 6, 1981, The Reagan Files, <http://thereaganfiles.com/document-collections/national-security-council.html> (accessed 1 Oct. 2015).

²²⁹ NSC Meeting Minutes, Jul. 6, 1981.

not be convinced to cancel the deal. “The Schmidt government is weak and may not be around long, anyway,” Weinberger said. He continued, “Our policy should be leadership – not anticipating what our Allies will say and setting our policy on that.” There was no “anticipating” an allied response, the State Department had been conducting unsuccessful bilateral talks for months. Yet, the Secretary of Defense reminded Reagan that “we sent scrap iron to Japan before World War II” and the pipeline deal was no different, it enhanced Soviet capabilities. If the United States took action, the allies would follow. Weinberger even suggested the United States could legally prevent majority-foreign-owned U.S. subsidiaries operating overseas from exporting pipeline equipment, if necessary.²³⁰

The pragmatists and hardliners, led by Haig and Weinberger, respectively, also disagreed on the last two issues. The United States needed a coherent policy on the export of oil and gas technology and equipment, and that policy had to be applied to a pending Caterpillar license to export pipelayers to the Soviet Union. President Carter had embargoed the export of some oil and gas equipment and technology to the Soviet Union in 1978. Reagan had to decide whether to maintain, lift, or expand those controls. Weinberger advised the president to expand the controls while blocking the Caterpillar license. Even though the pipelayers had no military uses, he believed it would still enhance Soviet war-making capabilities. The pragmatists took the opposite view. Baldrige explained to Reagan that the U.S. export control bureaucracy was overloaded as a result of incoherent policies. The Commerce Department had 5,000 pending license applications, of which 2,000 were legally overdue. Although it was not mentioned in the

²³⁰ Ibid.

meeting, the pragmatists' argument reflected the conclusions of the 1976 Bucy Report: the control system should be made more efficient by restricting the export of technologies (or know-how), as opposed to end-products. Congress supported this effort, but President Carter had failed to implement the recommendations. Now, Baldrige, Haig, and Regan all advised the president to carry out the Bucy Report's guidelines. The Caterpillar license presented the opportunity to apply this policy. The pipelaying equipment was an end-product with no military use and did not house high-technology. Furthermore, a Japanese company stood ready to sell the Soviets similar pipelayers if the United States blocked the license. Baldrige, Haig, and Regan said the government should not stand in the way of Caterpillar's profits when there was an alternative supplier and no security risk. Instead, the control system should focus its finite resources on restricting the export of know-how.²³¹

Reagan asked a few questions throughout the meeting but spent most of the time listening to the arguments of each side. There was no need for a decision at this meeting, but near the end, he did offer some vague words on U.S. policy. The president said, "Trade is more essential to them. But, how do we say to our own people that we must continue to sacrifice—and to our Allies—if we are not prepared to use all our weapons?" Reagan did not believe U.S. policy was "being harsh or rigid" considering "the Soviets have spoken as plainly as Hitler did in 'Mein Kampf'." The president's comments imply that he viewed trade as a weapon to wage the Cold War; such a view would be consistent with his pre-presidential arguments. But Reagan was not sympathizing with the

²³¹ Ibid.; Richard Burt, "Carter, Reacting to Trials in Soviet, Will Control Oil-Technology Sales," Jul. 19, 1978, *New York Times*, 19.

hardliners at this meeting. Instead, he was thinking out loud, asking his advisors, “At what point do we dig in our heels?”²³²

Before the July 9 meeting, Allen asked Haig and Weinberger to prepare for the president short papers elaborating on their competing proposals. These papers reveal that their proposals were incompatible. Haig argued U.S. policy should prioritize the strengthening of COCOM. The pipeline was a lesser issue, and its adverse strategic effects could be minimized through allied cooperation in developing energy alternatives. The West Europeans were committed to the pipeline and “a unilateral U.S. embargo [on pipeline equipment] would be ineffective.” He also said Reagan would have to be personally involved in convincing the other heads of state to embrace wholeheartedly the alternative energy proposals. In an additional memo, the Secretary of State urged Reagan not to let the pipeline issue obscure the larger U.S. objective of economic security:

My own position is shaped by weighing what I would like to achieve against what I believe we can actually accomplish. I think that one of our most important objectives is tightening up on technology transfers, including COCOM controls. The past record suggests that this task alone will be very difficult to accomplish. I therefore do not believe that we should be taking categorical negative positions on the sale of end-use equipment or striking a categorical opposition to the pipeline.

If the U.S. goal was congruence between the West’s economic, military, and political relations with the East, Haig advised Reagan not to draw a line in the sand on the pipeline. A U.S.-European showdown over it would result in “severely weakening the

²³² NSC Meeting Minutes, Jul. 6, 1981.

Alliance and isolating us from our Allies.” Only the Soviet Union would benefit from such a development.²³³

While Haig struck a nuanced view of U.S. goals and strategy, Weinberger appealed to the president to exercise U.S. leadership and place economic pressure on the Soviet Union. He argued that the goal of U.S. policy was to block the construction of the pipeline, or at least significantly scale back its size. The United States had to act through a “mix of leadership, incentives, pressures, and argument” to alert allies to the strategic threat of the East-West energy trade. He implied that the Europeans were blind to the deal’s strategic consequences. Not only would the pipeline increase allied dependency on Soviet gas, it would increase Soviet hard currency earnings, subsidizing the Soviet military buildup. In effect, Weinberger believed the Reagan administration had to unite the alliance behind a policy of economic warfare against the Soviet Union that sought to “sharpen the dilemma confronting the Soviets in choosing between military and civilian investment.” To achieve these ends, he advised the president that “the export control laws should be pushed as far as possible” to prevent the use of U.S. high-technologies in the pipeline’s construction. West European companies desired these technologies for commercial reasons, granting the United States leverage that “could be skillfully exploited.” Unlike Haig, Weinberger also said allied governments in Tokyo and London were willing to help the United States convince Paris and Bonn to cancel the deal. He agreed that the development of alternative energy supplies had to be explored, but in the

²³³ Memo, Allen to Haig and Weinberger, Jul. 6, 1981, folder “NSC 00016 6 Jul 81,”; Haig, “A Positive Approach: The Siberian Pipeline and West European Energy Security,” Jul. 8, 1981, and Memo, Haig to President, Jul. 8, 1981, folder “NSC 00017 09 Jul 1981 (1/3),” NSC: Meeting Files, RRL.

meantime, there had to be a firm response, unilaterally if necessary, to impede the pipeline.²³⁴

The Director of Central Intelligence, William J. Casey, supported Weinberger's contentions. A lawyer and veteran of the Office of Strategic Services (OSS), the forerunner of the CIA, Casey was well-versed in the art of economic warfare. Before joining the OSS, he served as a consultant to the Board of Economic Warfare, later describing his job as "pinpointing Hitler's economic jugular and investigating how it could be squeezed." He was a protégé of OSS leader William J. Donovan, the "Father of American Intelligence," and could have had a long, fulfilling career in the CIA after the war. Instead, Casey became a venture capitalist, helping to fund the conservative movement. A devout Catholic and capitalist, Casey was, of course, a vehement anti-communist. He served a brief time in the Nixon administration as Under Secretary for Economic Affairs, speaking in support of the economic diplomacy of détente, no doubt contrary to his personal beliefs. After serving as Reagan's 1980 campaign manager, Casey accepted the DCI position, and Reagan appointed Casey to the cabinet, an unprecedented move, granting the DCI access to the policymaking process.²³⁵

Ahead of the NSC meeting on July 9, Casey sent a memo to Reagan and the cabinet, arguing the United States should block the pipeline or at least convince the allies to delay the deal "pending a joint study of their energy security in the changing economic

²³⁴ Weinberger, "US Policy on the West Siberian Pipeline," Jul. 8, 1981, folder "NSC 00017 09 Jul 1981 (1/3)," NSC: Meeting Files, RRL.

²³⁵ Persico, *Casey*, 50-51, Ch. 6, 199-206; On William Donovan and the OSS, see "A Look Back ... Gen. William J. Donovan Heads Office of Strategic Services," *Central Intelligence Agency News & Information*, <https://www.cia.gov/news-information/featured-story-archive/gen.-william-j.-donovan-heads-oss.html> (accessed 2 Oct. 2015); William J. Casey, "Prospects and Policy on East-West Trade," *Department of State Bulletin* 68 (1973): 638-643; Tim Weiner, *Legacy of Ashes* (New York: Anchor Books, 2008): 434-435.

and political environment of the 1980s.” Echoing Weinberger’s arguments, the DCI said the pipeline would “facilitate a military buildup” and grant the Soviet Union approximately \$12 billion in hard currency at a time of declining earnings from oil exports. Western Europe was prepared to invest \$16 billion in developing a pipeline which “will cover less than 3 percent of European energy requirements.” Casey contended that European gas demand would likely decrease over the decade due to conservation efforts and the development of alternative gas sources. “The \$16 billion European investment would be better spent on alternative schemes,” such as increased U.S. coal exports and Norwegian gas, “to ensure Allied energy security,” Casey explained.²³⁶

At the start of the NSC meeting, Reagan finalized the decision to seek an allied review and strengthening of COCOM’s controls. The president, however, remained undecided on the pipeline issue, and both sides repeated their arguments. Animated, Haig said the hardliners suggested “jawboning” the allies to follow the U.S. position, but “we have been doing it. . . . They want the pipeline!” The Secretary of State pointed out the hypocrisy of a U.S. demand to cancel the pipeline, a project in West Europe’s economic interests, after “we lifted the control on three-fourths of our own trade with the Soviets when we lifted the grain embargo.” Haig did not even think the United States should ask the allies to delay the deal since they were already publically committed to it. It would be better to offer alternative energy proposals, working to minimize the pipeline’s security risks. Most of the other members—including Baldrige and Regan—favored a delay proposal, and Weinberger supported it as a way to buy time to convince the allies to

²³⁶ CIA Memo on Siberian Pipeline, Casey to Cabinet, Jul. 9, 1980, CIA RC (accessed 22 June 2014).

abandon the deal. Weinberger also repeated his calls for the president to demonstrate U.S. leadership, and Casey reiterated the information contained in his earlier memo.²³⁷

President Reagan hesitated to make a decision on the pipeline. He asked if Haig and Weinberger could meet “without bloodshed [to] work out a solution” to their disagreements. Haig was not opposed to such a meeting, but his response implied both sides were at an impasse. Reagan then asked a few questions about developing the alternative energy sources in the West, and Allen suggested the members make “one more attempt at a synthesis position.” The synthesis position never developed. At this point, the hardliners and pragmatists were unwilling to compromise, and President Reagan was unwilling to impose a decision. On July 14, days before the Ottawa Summit, Reagan wrote in his diary, “We are still meeting & stewing about East-West trade.”²³⁸

Even though the administration lacked a clear policy on oil and gas controls and a developed proposal for alternative energy sources, President Reagan laid out his East-West trade agenda for the other heads of state. During the three-day event at Chateau Montebello, outside of Ottawa, Reagan held individual meetings, in addition to participating in the multiple heads of state sessions, with Schmidt, British Prime Minister Margaret Thatcher, and the new socialist President of France Francois Mitterrand. Like previous G7 summits, international economic policy dominated these talks. Mitterrand and Schmidt complained about the rising interest rates, unleashed by the United States’ tight monetary policies, deepening France and West Germany’s economic problems. Schmidt told Reagan that West Germany had the highest interest rates “since the birth of

²³⁷ NSC Meeting Minutes, Jul. 9, 1981, The Reagan Files, <http://thereaganfiles.com/document-collections/national-security-council.html> (accessed 2 Oct. 2015).

²³⁸ Ibid., Reagan, *Diaries*, 56.

Christ” and called for a more coordinated Western response. Schmidt and Mitterrand expressed reservations about Reagan’s supply-side economic agenda and advocated Keynesian reflationary policies to attack the crisis. Though the administration publically denied it, Reagan spent a lot of energy defending his economic agenda, affirming his commitment to tackle inflation, and asking the others to give his administration time to reverse the crisis inherited from President Carter.²³⁹

Thatcher, seated next to Reagan, helped the president defend his policies.

Thatcher and Reagan were ideological kindred spirits who sought to roll back the size of government, deregulate their economies, and oppose communism. Since coming to power in 1979, Thatcher had been implementing economic policies similar to Reagan’s agenda. Thatcher’s program was highly controversial, and Reagan would face similar opposition in the coming years. But Thatcher and Reagan were determined to maintain the course, forging the closest Anglo-American partnership since Winston Churchill and Franklin Roosevelt. Both leaders had met well before becoming heads of state, but in defending their economic ideas at Ottawa, their first international summit together, they became true partners in power. Furthermore, Reagan and Thatcher were both strong opponents of détente and committed to challenging the Soviet Union over its military buildup, Third World adventures, and international behavior. When Reagan proposed a COCOM review during the first heads of state meeting, Thatcher drew a massive arrow

²³⁹ Regan's Handwritten Minutes for Ottawa P.M. Session, Jul. 20, 1981; Edwin Meese and Regan Press Briefing, Jul. 20, 1981; Meese, Beryl Sprinkle, and Robert Hormats Press Briefing, Jul. 20, 1981, all in box 141, folder 5, Treasury Dept., Subject File, Economic Summits Ottawa, Canada, July 20-21, 1981, 2 of 4, DTR, LC; G7 Record of Conversation, First Plenary Session, Jul. 20, 1981, The Margaret Thatcher Foundation, Thatcher MSS (digital collection), Doc. ID 134785, <http://www.margaretthatcher.org/document/134785> (accessed 6 Oct. 2015); For Schmidt’s views on U.S. economic policy under Carter and Reagan, see his book, *Men and Powers*, 1st American ed. (New York: Random House, 1989), 263-274.

next to it in her notes and later emphasized her support for the idea. They would have significant disagreements over some foreign and economic policy matters over the decade, but their shared values and outlook proved resilient enough to maintain the deep Anglo-American relationship.²⁴⁰

Despite the lack of a clear U.S. policy on East-West economic relations, Reagan was successful in alerting his counterparts to the need for congruence between the West's economic, military, and political relations with the East. All of the members agreed to Reagan's proposal for a high-level COCOM review, and the summit's declaration announced their intent to "consult to improve the present system of controls on trade" with the Soviet Union. It did not specifically mention COCOM at the request of Trudeau. In the declaration, the members also endorsed the Reagan administration's concept of economic security. Historian Angela Romano argues the declaration was "quite ambiguous" on East-West economic relations. The members expressed a commitment to review trade but stressed in the declaration that "there is a complex balance of political and economic interests and risks in these relations." Romano correctly contends the statement reveals the United States' and West Europe's "lack of a common approach" and intention to undertake consultations on these matters.²⁴¹

²⁴⁰ G7 Rec. of Con., Thatcher MSS, Doc. ID 134785; Thatcher's Notes on Talks, Jul. 20, 1981, Thatcher MSS, Doc. ID 121263, <http://www.margaretthatcher.org/document/121263> (accessed 6 Oct. 2015); Nicholas Wapshott, *Ronald Reagan and Margaret Thatcher* (New York: Sentinel, 2007), 146-149; Margaret Thatcher, *The Downing Street Years* (New York: Harper Collins, 1993), 157-160, 164-166; Marguerite Johnson, Bonnie Angela, and Erik Amfitheatrot, "Embattled but Unbowed," *Time* 117, no. 7: 30; For an analysis of Reagan and Thatcher's relationship, see Wapshott, *Ronald Reagan and Margaret Thatcher* and Richard Aldous, *Reagan and Thatcher* (London: Hutchinson, 2012).

²⁴¹ "Declaration Issued at the Conclusion of the Ottawa Economic Summit Conference," Jul. 21, 1981, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1981/72181b.htm> (accessed 4 Oct. 2015); Angela Romano, "G7 Summit, European Councils and East-West Economic Relations (1975-

But the declaration was also a clear endorsement of the concept of economic security, noting that the consultations were “necessary to ensure that, in the field of East-West relations, our economic policies continue to be compatible with our political and security objectives.” Since the late 1960s, West European leaders sought to expand economic relations with the Soviet Union to moderate its international behavior and stabilize the Cold War. Such trade was largely unregulated except for international and national export controls on items with undisputed military uses. After the Soviet invasion of Afghanistan, Carter had attempted to elicit allied cooperation in scrutinizing and restricting this relationship to guard against the Soviet Union’s growing military power. Aside from Britain, West European allies refused. They sought to keep this economic relationship separate from the rising Cold War tensions, leading to a divisible *détente*. At the Ottawa Summit, President Reagan convinced U.S. allies to concede that there might be an adverse relationship between the deepening East-West economic relationship and the Atlantic alliance’s security. Endorsing Reagan’s COCOM proposal, Mitterrand, for instance, said, “It would be important to state clearly what was now being sold to the Soviet Union and other countries” in the interest of security. Mitterrand’s willingness to work with Reagan on trade matters was far different than his predecessor’s hesitation to cooperate with Carter. In press briefings following the talks, administration officials also highlighted the members’ agreement to review economic relations in light of changing East-West political relationship. There were still profound divisions on these issues, but

1982),” in *International Summitry and Global Governance*, eds. Emmanuel Mourlon-Druol and Federico Romero (New York: Routledge, 2014), 212.

the declaration marked the first substantial sign of progress in the U.S.-West European dialogue over East-West trade.²⁴²

The Ottawa Summit, however, was not a resounding victory for President Reagan. The administration had initially planned to unveil a program to develop energy sources alternative to Soviet gas and obtain an allied commitment to reassess the pipeline deal. Reagan had failed to decide on oil and gas control policy and, more specifically, a concrete U.S. position on the pipeline ahead of the summit. As a result, he could not discuss these issues in a substantial way with the other heads of state. As NSC staffer Allen Lenz stated months later, “We are ill-equipped to deal with our Allies on the Siberian pipeline issue until we have set our own policy.” Reagan mentioned developing alternative sources to Schmidt, who expressed interest in the idea, but Schmidt and the other leaders were not going to abandon the pipeline for a vague American promise to help develop substitutes over the next decade. Overall, the summit was a mixed success. The administration achieved a commitment on COCOM and an endorsement of its economic security concept but the pipeline negotiations were going to be concluded before the end of the year.²⁴³

Administration officials remained divided over an oil and gas policy into the fall. For a fleeting moment, a compromise appeared to be in the making ahead of another NSC meeting scheduled for October 16. Lenz informed Allen that an anonymous General Electric (GE) representative informed government officials that GE was the sole

²⁴² “Declaration,” *Public Papers*, RRL; G7 Rec. of Con., Thatcher MSS, Doc. ID 134785; Meese, Sprinkle, and Hormats Press Briefing, Jul. 20, 1981, and Haig Press Briefing, Jul. 19, 1981, box 141, folder 5, Treasury Dept., Subject File, Economic Summits Ottawa, Canada, July 20-21, 1981, 2 of 4, DTR, LC.

²⁴³ Haig Press Briefing, Jul. 19, 1981, DTR, LC; Memo, Lenz to Allen, Oct. 16, 1981, folder “NSC 00023 16 Oct 81 (2/3),” NSC: Meeting Files, RRL.

manufacturer of rotors and shafts for turbines to be used on the Siberian pipeline. An unnamed French company was licensing the GE technology but had yet to begin producing the parts. The NSC staff believed that if the Commerce Department blocked GE's export license for the rotors and shafts, it could take the French company up to eighteen months to prepare the production process and another twenty-eight months to complete deliveries. In other words, the administration had the means to delay the pipeline's construction by at least two years and possibly almost four. In light of this information, Lenz said the departments were relaxing their positions on oil and gas policy. Previously, Defense wanted to control all oil and gas equipment and technology exports while Commerce, State, and Treasury only wanted to control technology. Now, the departments appeared to be supporting a compromise solution in which the United States only controlled equipment and technology on major Soviet energy projects. Lenz suspected Defense adopted this position because it believed it could "dominate the [bureaucratic] process and control essentially all oil and gas" exports, including those for the pipeline.²⁴⁴

The NSC meeting, however, was as inconclusive as the previous two. At the start of the discussion, Casey informed the president about a new CIA study revealing the lengths Soviet agents went to obtain high-technology from the West. "The Soviets go about the acquisition of Western technology in a very organized manner. They lay out what they need and identify where to go to get it," he commented. The CIA concluded its study a month later, and Casey forwarded it to the President through Allen. Casey

²⁴⁴ Allen explained these divisions and policy options to Reagan in a memo, Sept. 8, 1981, folder "NSC 00017 09 Jul 81 (2/3)," NSC: Meeting Files, RRL; Memo, Lenz to Allen, Oct. 16, 1981, NSC: Meeting Files, RRL.

contended this new information would convince U.S. allies to broaden and strengthen COCOM's controls. At the NSC meeting, Reagan received these comments as further evidence that "if the free world had not helped them and had let their system deteriorate, we wouldn't have the problems we have today." But the U.S. position on COCOM had already been established, as Haig pointed out. The Secretary of State urged the participants to focus on oil and gas controls, and Allen mentioned the recent revelation about GE's monopoly on the production of rotors and shafts.²⁴⁵

At this point, the discussion began to devolve into confusion. Under Secretary of Commerce Lionel H. Olmer, sitting in for Baldrige, disagreed about GE's monopoly, noting that pipeline materials would eventually be obtained elsewhere as "our Allies are generally unwilling to go along with restrictions." A U.S. denial policy would merely hurt an American company for no long-term gains. Casey countered that the United States would still succeed in denying the Soviets more efficient pipeline components. Haig interrupted, asking participants to focus on an oil and gas policy decision, not a pipeline decision. "No," said Meese, "We need specifics to make it concrete. It's silly to discuss the issue without" the pipeline. Allen then attempted to refocus the discussion by reviewing the various policy options and advisor recommendations. Shouting ensued. Sitting in for Weinberger, Deputy Secretary of Defense Frank C. Carlucci advocated a unilateral embargo on oil and gas equipment and technology. He said the United States had to "set an example" for the allies and push for their support, or else "we open up the

²⁴⁵ NSC Meeting Minutes, Oct. 16, 1981, The Reagan Files, <http://thereaganfiles.com/document-collections/national-security-council.html> (accessed 6 Oct. 2015); Cover Memo, Allen to President, Nov. 21, 1981; Cover Memo, Casey to Reagan, Nov. 21, 1981; Intelligence Assessment, "Dependence of Soviet Military Power on Economic Relations with the West," Nov. 17, 1981, CIA RC (accessed 22 Jun. 2015).

floodgates” on these items for the Soviets. Frustrated, Haig yelled, “We tighten up on technology transfers!” Allen dismissed Haig’s recommendation as being “precisely what Carter did.” Haig rebutted that Carter’s policies were an unsuccessful “knee-jerk reaction” to Afghanistan, not a sustained, methodic attempt to secure Allied cooperation in COCOM. He said a unilateral embargo would damage U.S. credibility on the COCOM issue, adding, “We are smoking opium if we think we can get Allied agreement” on denying oil and gas equipment and technology. Administration officials were also confused about how the various options would affect Caterpillar’s pending license.²⁴⁶

As the meeting reached its final minutes, President Reagan confessed, “I’m the most confused person of anyone.” He requested another options paper explaining precisely what materials the United States held a monopoly on and what the Soviets could obtain elsewhere. The president also wanted to know what effect the proposed controls would have on the U.S. economy and U.S. allies. Reagan was reluctant to make a decision without this information. Based on the experience of the grain embargo, he feared the allies would not cooperate and that U.S. policy would hurt the United States more than the Soviet Union. As he asked earlier in the meeting, “have we worked in good faith with our Allies to get their cooperation? And, if we don’t get their cooperation, at what point do we . . . simply cut off our nose to spite our face and add to our own (economic) problems by not selling?” He reiterated these thoughts at the end of the meeting, stating that “we saw a breakdown” in the grain embargo and the Soviets “were getting it without our help, while our agriculture here was in a tailspin.” Without allied cooperation, Reagan worried an embargo decision would have a similar effect on the U.S.

²⁴⁶ NSC Meeting Minutes, Oct. 16, 1981.

oil and gas manufacturing industry. He knew the West Europeans were reluctant to restrict these items, but his advisors were conflicted on whether unilateral actions could prompt the allies to reconsider. He hoped a consensus decision among his advisors and the allies would emerge, and he refused to impose a decision. The White House knew an imminent decision was necessary, U.S. export licenses were pending and the pipeline negotiations were approaching conclusion, but President Reagan sought to buy time.²⁴⁷

The agencies attempted to draft the clarified options paper Reagan requested. At the end of November, however, Allen informed the president that “irreconcilable differences in departmental perspectives” prevented a consensus on the effects of U.S. policy options. As a result, Allen forwarded Reagan NSC and State Department papers similar to those the president had received since early July. He asked the president to make a decision, noting that another NSC meeting would likely not produce a consensus due to the “sharp division of views.” Reagan still did not make a decision on oil and gas policy, though, he ordered the Commerce Department to approve Caterpillar’s license to export 200 pipelayers to the Soviet Union in early December.²⁴⁸

Even if Reagan had made a decision back in October, the administration had already missed its chance to affect the pipeline deal in a substantial way. West German, French, and British companies signed the first pipeline manufacturing contract worth one billion dollars at the end of September. An Italian company followed suit a few days later. Most of the West European governments concluded preliminary gas import agreements with Moscow by November, though the French did not finish negotiations

²⁴⁷ Ibid.

²⁴⁸ Memo, Allen to President, Nov. 28, 1981 and Memo, Lenz to James W. Nance, Dec. 11, 1981, folder “NSC 00023 16 Oct 81 (3/3),” NSC: Meeting Files, RRL.

until January 1982. Unless these agreements were modified, the Soviet Union would supply West Germany, France, and Italy with at least thirty percent of their imported natural gas by 1990.²⁴⁹

The administration made a last minute effort to shape these import agreements. It dispatched a delegation led by Under Secretary of State for Economic Affairs Myer Rashish to offer the West Europeans an ill-prepared alternative energy package. In meetings with his foreign counterparts, Rashish explained U.S. concerns about the security risks involved in importing Soviet gas. He suggested that the West delay the deal to reconsider the pipeline and ensure measures were taken to guard against vulnerabilities. Rather than importing more Soviet gas, Rashish said the United States was prepared to increase its coal exports to the Europe and aid the development of Norwegian gas supplies. The West Europeans, however, were already committed to the pipeline and thought U.S.-sponsored alternatives would take too long to develop to meet their immediate energy diversification needs. In Bonn, for example, West German Economic Minister Otto Graf Lambsdorff and his deputies reiterated their government's support for the pipeline. One deputy minister explained that West Germany already had a network of safety measures in place to weather any gas supply disruptions. This network involved flexible supply contracts with the Dutch and Norwegians, domestic gas production surge capacity and storage, and dual-fired industrial capabilities.²⁵⁰

²⁴⁹ Jentleson, *Pipeline Politics*, 184-186.

²⁵⁰ Jentleson, *Pipeline Politics*, 185-189; Cable, Embassy Bonn to D.C., US-FRG Consultations on Soviet Gas Pipeline, Nov. 5, 1981 (WH Dist. Date: Nov. 10, 1981), folder "Germany, FRG (9/1/81-12/31/81) (2)," box 14, NSC: Country File: III, RRL.

In a cable to Washington, Rashish noted that the Germans were not opposed to the alternative package. Yet, they saw it as a means to “supplement, but not replace, the Siberian pipeline.” The West Europeans were also hesitant to scrap the pipeline for U.S. coal because the United States would first have to undertake an expensive program to increase coal production and dredge ports to accommodate economical coal transports. All the while, European public opinion opposed increased coal consumption. Furthermore, the Norwegian government was reluctant to develop its gas fields rapidly.²⁵¹ Overall, the Reagan administration was unable to change West Europe’s decision on the pipeline. The administration may have been able to exercise more influence on the negotiations if Reagan had settled on a coherent export policy in July, when talks were ongoing. Instead, the White House had no strategy on how to approach the pipeline issue or any concrete alternative energy plans to offer the West European governments, who were determined to decrease their reliance on Middle Eastern oil. As a result, administration officials were left scrambling at the eleventh hour to prevent the deal through vague promises to develop alternatives.

Conclusion

Reagan’s personal experiences and political views made him a devoted anti-communist. Before the presidency, he preached about the evils of Marxist-Leninism and opposed any U.S. attempt to reach an accommodation with Moscow. Reagan saw liberal capitalism and communism as incompatible systems competing for superiority, and he believed that the Soviet Union was pulling ahead in this competition as a consequence of

²⁵¹ Cable, Bonn to D.C., US-FRG Consultations, Nov. 5, 1981, NSC: Country File: III, RRL; Jentleson, *Pipeline Politics*, 185-189.

détente. During détente, Reagan thought East-West trade propped up the deteriorating Soviet system and strengthened the Soviet Union's military capabilities. While he abandoned détente and maintained this tough rhetoric as president, Reagan pursued pragmatic policies on East-West economic relations aimed at producing a dialogue with Soviet leaders and accommodating Western Europe's interests in trade without sacrificing the Atlantic alliance's security. In 1981, the president's foreign economic policies were not a part of some larger grand strategy for the Cold War. When his advisors sought to produce a coherent strategy for East-West economic relations, President Reagan was reluctant to approve it without first obtaining a consensus among his advisors and receiving feedback from U.S. allies. But the pragmatists and hardliners within the administration could not reach a consensus on the U.S. response to the proposed Soviet natural gas export pipeline to the West. Reagan, disliking personal confrontations, refused to impose a decision, and as a result, a strategy was not adopted in time to affect the pipeline negotiations, a significant foreign policy failure for the new administration.

The president showed his reluctance to settle administrative in-fighting at other points in 1981 too. Despite his opposition to the grain embargo as a presidential candidate, he hesitated to lift it upon entering office. Haig convinced Reagan to postpone a decision, in the face of mounting domestic pressure, while he attempted to gain Soviet political concessions in return for lifting the embargo. After the assassination attempt, however, Reagan cast Haig's linkage aside, lifting the embargo and using personal diplomacy in an attempt to promote a U.S.-Soviet dialogue and reassure U.S. allies that

the new administration was not too bellicose. Reagan pursued the military buildup as another means to pressure Moscow into negotiations, and he obtained congressional support for the buildup by late 1981.

Initiating the military buildup was not President Reagan's only early success. Even though the administration was not able to affect the pipeline negotiations due to a lack of clear U.S. strategy and alternative energy proposals, it did obtain an allied commitment to review COCOM's controls and an allied endorsement of the concept of economic security at the Ottawa Summit. Reagan was determined to stand up to the Soviet Union. At the same time, though, the experience of the grain embargo made Reagan realize that the United States could not act unilaterally without upsetting alliance relations. He hesitated to adopt unilateral actions against the pipeline project in 1981. He sought a solution acceptable to all sides within the administration and abroad. Before the end of the year, however, events in Poland would force the president to act, and his decision would precipitate one of the most significant alliance disputes in the 1980s.

CHAPTER 4: WAGING ECONOMIC WAR: THE SIBERIAN PIPELINE DISPUTE

Since late 1980, Poland had been on a tenuous path towards economic and political liberalization as Solidarity, the first independent trade union within the Soviet bloc, challenged government policies and the Communist Party's monopoly on power. Afraid that Solidarity's gains would undermine the party and lead to a Soviet military intervention, the Polish government acted to stabilize the situation. On December 13, 1981, General Wojciech Jaruzelski, head of Poland's Communist Party, announced the imposition of martial law. Elite Polish police forces arrested about six thousand Solidarity activists, including key leaders of the union. The declaration of martial law surprised the Reagan administration. The United States and its allies had been closely monitoring developments in Poland, but they expected repression to come in the form of a Soviet invasion similar to past crackdowns. The West had to react to these events, and President Reagan was personally outraged, believing Moscow orchestrated martial law in Poland.²⁵²

Since entering office, Reagan had pushed U.S. allies in Europe to place East-West economic relations on a prudent path that guarded Western security against the Soviet Union without sacrificing their economic interests. While the allies endorsed the administration's concept of economic security, they refused to curtail their growing energy and financial relationship with the Soviet Union, as epitomized by the continued cooperation on the Siberian natural gas export pipeline. Reagan and many administration

²⁵² Gregory F. Domber, *Empowering Revolution: America, Poland, and the End of the Cold War* (Chapel Hill: University of North Carolina Press, 2014), 11, 41, 19-28; NSC Meeting Minutes, Dec. 21, 1981, The Reagan Files, created by Jason Saltoun-Ebin, <http://thereaganfiles.com/document-collections/national-security-council.html> (accessed 28 Dec. 2015).

officials interpreted martial law in Poland as further evidence of Moscow's refusal to abide by international norms. They believed the United States had to lead the West in finally taking a stand against Soviet actions. "I'm talking about a total quarantine on the Soviet Union. No détente!" Reagan declared to his advisors during a National Security Council (NSC) meeting. Reagan and his advisors sensed a historic strategic opportunity in the Polish crisis: the chance to help Solidarity survive the crackdown and promote liberalization in Poland, possibly rolling back Soviet domination throughout Eastern Europe. In the coming days, the president announced a series of U.S. sanctions against Poland and the Soviet Union, and the administration was confident that U.S. allies would follow suit, finally abandoning détente.²⁵³

But U.S. motives for the sanctions went even deeper than aiding the liberalization and liberation of Poland. In the tense atmosphere after martial law, administration hardliners exerted profound influence over the formulation of U.S. policies, culminating in a strategy of economic warfare against the Soviet Union. The U.S. sanctions blocked the export of U.S. oil and gas goods and technologies to the Soviet Union, some of which West European businesses contracted to use on the Siberian pipeline project. Administration hardliners hoped U.S. sanctions would stop, or at least significantly delay, the pipeline's construction while negotiators convinced the West Europeans to curtail East-West trade. Stopping the pipeline would deprive Moscow of vital hard currency

²⁵³ NSC Meeting Minutes, Dec. 21, 1981; Reagan, "Address to the Nation About Christmas and the Situation in Poland," Dec. 23, 1981, *The Public Papers of President Ronald W. Reagan*, Ronald Reagan Presidential Library (RRL), <http://www.reagan.utexas.edu/archives/speeches/1981/122381e.htm>; "Statement on U.S. Measures Taken Against the Soviet Union Concerning Its Involvement in Poland," Dec. 29, 1981, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1981/122981m.htm> (both accessed 28 Dec. 2015).

earnings later in the decade, and hardliners hoped such a development would fatally cripple the Soviet economy.²⁵⁴

While the pragmatists did not think the pipeline could be stopped, they did believe the Polish crisis and sanctions could be used to persuade the allies to limit their Soviet energy imports, develop indigenous energy sources, strengthen controls on advanced technology exports, and restrict officially guaranteed credits to the East. These pragmatists championed the prudent approach to East-West economic relations developed in 1981. President Reagan, outraged by martial law, sided with the hardliners, imposing the unilateral sanctions. But Reagan did not pursue these sanctions to squeeze the Soviet economy as an end in itself. Rather, the president sought to express disapproval over martial law and pressure the Soviet Union to modify its international behavior. Reagan and the hardliners supported the sanctions for different reason, but U.S. policy produced the same result: A U.S.-West European showdown over the Siberian pipeline.

Opportunity Beckoned in Poland

With the help of Western financial credits in the 1970s, Poland increased its imports of sophisticated Western goods in an attempt to revitalize its stagnating economy. Yet economic growth remained elusive, and these policies resulted in a substantial debt to the West, totaling about \$23 billion at the end of 1980. That summer,

²⁵⁴ Bruce W. Jentleson, *Pipeline Politics: The Complex Political Economy of East-West Energy Trade* (Ithaca: Cornell University Press, 1986), 172-176; Michael Mastanduno, *Economic Containment: CoCom and the Politics of East-West Trade* (Ithaca: Cornell University Press, 1992), 244-247. Jentleson and Mastanduno both identify these deeper motivations for U.S. sanctions. They fail, however, to draw a distinction between the views of the hardliners' and President Reagan's, as explained throughout this chapter.

the government announced consumer price increases without raising worker wages in order to help the nation meet its debt obligations and combat stagnation. Almost immediately, Polish workers protested the higher prices, and, by mid-August, the unrest spread to shipyards in Gdansk and Szczecin. In addition to higher wages and benefits, workers now demanded the government recognize their right to form independent trade unions and conduct strikes. The Polish Politburo considered suppressing the strikes but feared it would only spark deeper unrest. As a result, the party negotiated with the workers, hoping to control or co-opt the movement for free trade unions. At the end of August, the government and workers concluded the Gdansk Accords, granting Polish workers the right to form independent trade unions, to strike, and to participate in the economic reform process through an ongoing dialogue with the government. Soon after, workers founded the Independent Self-Governing Trade Union, better known as Solidarity, and elected Lech Walesa, a young electrician who led the Gdansk strike, to lead the union.²⁵⁵

President Jimmy Carter welcomed the peaceful conclusion to the strikes and the establishment of Solidarity, believing the West should “encourage the Poles to undertake a more fundamental and systematic reform of their economic system.” In a letter to allied leaders, Carter stressed that the developments in Poland “could precipitate far-reaching consequences for East-West relations and even for the future of the Soviet bloc itself.” Since the 1950s, the Soviet Union had suppressed every political and economic reform effort in Eastern Europe in order to maintain control over the region. The Polish crisis

²⁵⁵ Andrej Paczkowski and Malcolm Byrne, eds. *From Solidarity to Martial Law: The Polish Crisis of 1980-1981, a Documentary History* (New York: Central European University Press, 2007), pp. xxix, 6-13, and Docs. 4, 6, and 7; Domber, *Empowering Revolution*, 12-16.

represented a new crack in the iron curtain. The United States and its allies considered it in their interests to encourage gradual liberalization in Poland, thereby weakening Soviet domination. But the West had to be careful not to provoke a bloody Soviet crackdown.²⁵⁶

In the year before martial law, the Reagan administration sought to use every available means to aid the Polish reform movement. In particular, the United States rewarded the regime with economic aid for maintaining a peaceful dialogue with Solidarity. In early April, the Polish First Deputy Prime Minister Mieczyslaw Jagielski visited the United States, meeting with Vice President George Bush and Secretary of State Alexander Haig. Ahead of the meeting, National Security Advisor Richard Allen told Bush that the Polish leadership were moderate reformers but warned that “several hard-liners, anxious for a crackdown” waited “in the wings.” The administration considered Solidarity, with its growing membership rolls, the “*de facto* government” of Poland and sought to help stabilize the Polish economy while promoting liberalization without provoking a Soviet intervention. The United States desired “a regime not intolerable to the Russians and yet capable of further development toward democracy.”²⁵⁷

In the meeting, Jagielski explained to the vice president that the political and economic situations were inextricably linked. The people were protesting because of their economic struggles. But, he stressed, the Polish government was committed to “peacefully resolv[ing]” these tensions and reforming the Polish system. The minister requested U.S. assistance in meeting its debt obligations and \$200 million in new credits to import foods from the United States. Bush welcomed Poland’s pledge to continue

²⁵⁶ Paczkowski and Byrne, *Solidarity to Martial Law*, p. 19 and Docs. 8, 10.

²⁵⁷ Memo, Allen to Bush, Apr. 2, 1981, folder “Poland-Memoranda, 1981-83 [February-May 1981],” RAC box 3, Paula J. Dobriansky Files, RRL.

peaceful reforms and promised the United States would consider the aid request. In the meantime, Bush informed Jagielski about an impending sale of \$71 million worth of surplus dairy products to Poland. He also asked if “there is a chance that the Soviet Union will move into Poland?” To Bush and Haig’s relief, Jagielski dismissed the notion. Bush stressed that the American people would react strongly against any Soviet interference, and Haig specifically linked continued U.S. economic aid with the maintenance of peaceful reform. “If there should be either external intervention or internal repression,” Haig said, “all United States aid will be terminated at once.” Overall, the meeting was a success: the Polish regime received assurances of more economic assistance provided it kept working with Solidarity, and the Reagan administration learned that a Soviet intervention was not imminent.²⁵⁸

In early December 1981, days before the declaration of martial law, President Reagan also approved \$100 million in emergency food aid for Poland. The Polish government, Walesa, and Pope John Paul II all asked for U.S. help in keeping the Polish livestock and poultry industries afloat over the coming winter. On December 1, 1981, Haig recommended the president meet Polish requests. Outlining the stakes, he wrote, “Poland is on the verge of potentially catastrophic economic crisis—the sort of crisis that could demoralize and discredit the democratic forces and lead to the re-imposition of an inflexible Soviet-style Communist dictatorship.” A few months earlier, David Stockman, director of the Office of Management and Budget, suggested, on budgetary grounds, the United States provide no more than \$50 million in emergency aid. But the potential

²⁵⁸ Memcon, Summary of the Vice President’s Meeting with Jagielski, Apr. 2, 1981, folder “Poland-Memoranda, 1981-83 [February-May 1981],” RAC box 3, Dobriansky Files, RRL;

opportunity to undermine the Soviet bloc from within was irresistible. “It is a bloodless revolution,” Reagan told NSC members, “We don’t want to drive them back to the Soviets.”²⁵⁹

Despite reassurances from the Polish government, the United States and its allies never ruled out the possibility of a Soviet military intervention. Throughout late 1980 and 1981, it appeared Soviet troops were preparing to crush Solidarity, and the West repeatedly warned the Soviet Union not to intervene, arguing that the reform movement was an internal Polish matter. As the regime and union conducted uneasy talks in March 1981, for instance, Warsaw Pact military forces conducted training maneuvers on Polish territory. The West feared these exercises were the prelude to a crackdown. Polish Army Officer Ryszard Kuklinski often passed along information to the CIA warning of an imminent Soviet intervention and government attack on Solidarity. Each time, the president and his advisors feared the Polish experiment was about to come to a halt with the potential to precipitate a deeper crisis between the East and West. NATO even developed a menu of response options to direct Soviet interference that involved, among other measures, a general embargo on new export contracts with and the denial of new official export credits and guarantees to the Soviet Union.²⁶⁰

²⁵⁹ Memo, Haig to Pres., Dec. 1, 1981, folder “NSC 00031 10 Dec 1981 [US Assistance Program for Poland, Foreign Assistance] (1/2),” Executive Secretariat, NSC Meeting Files, RRL; Memo, Stockton to Pres., Sept. 3, 1981, folder “NSC 00021 15 Sep 1981 [Further Economic Aid to Poland, Foreign Assistance],” NSC Meeting Files, RRL; NSC Meeting Minutes, Dec. 10, 1981, Reagan Files, (accessed 12 Nov. 2015); Domber, *Empowering Revolution*, 22-24.

²⁶⁰ Paczkowski and Byrne, *Solidarity to Martial Law*, Docs. 24, 54, and 65; Domber, *Empowering Revolution*, 16-17; NSC Meeting Minutes, Mar. 26, 1981, Reagan Files (accessed 11 Nov. 2015); State Dept. Briefing Paper, “General Embargo on Exports, U.S. and Allied to the U.S.S.R.,” Jan. 7, 1982, Dept. of State Virtual Reading Room, <https://www.foia.state.gov/> (accessed 28 Dec. 2015).

NATO's contingency planning was wise. The Soviet Union had a history of crushing dissent, and the Soviet leadership saw Solidarity as a fundamental threat to communist rule. "There is truly a fully raging counter-revolution in Poland," Soviet leader Leonid Brezhnev told his fellow Politburo members in late October 1980. Brezhnev and the leaders of the other Warsaw Pact nations believed the Gdansk Accords were a mistake and urged their Polish brethren to roll back Solidarity's gains. They interpreted the crisis as a Western attempt to undermine communism. For example, Erich Honecker, the hardline communist ruler of East Germany, accused the Polish government of "capitulation" to the capitalists. Aside from the Soviet Union, Poland possessed the largest military force in the Warsaw Pact and its geopolitical position in the heart of Europe made it a vital part of the Soviet bloc's defense structure. Moscow could not sit idly by while Poland slipped into the Western sphere of influence. Before the new year, Soviet and Polish leaders decided martial law was the most appropriate means to protect communism. An internal crackdown would allow the Kremlin to maintain it was not interfering in Polish affairs. Brezhnev and his advisors also feared the use of Soviet troops in Poland, within a year after the invasion of Afghanistan, would cause irreparable damage to Soviet political and economic relations with Western Europe. Over the next year, the preparations for martial law were put in place until their execution in mid-December 1981.²⁶¹

The crackdown on Solidarity surprised the United States and its West European allies. They were so preoccupied with a potential Soviet invasion of Poland that they

²⁶¹ Paczkowski and Byrne, *Solidarity to Martial Law*, Docs. 15, 16, 22, and 81; "Political and Security Overview," Annex A, NSC Meeting Agenda, Sep. 14, 1981, folder "NSC 00021 15 Sep 1981 [Further Economic Aid to Poland, Foreign Assistance]," NSC Meeting Files, RRL.

hardly considered internal repression a possibility. When news about martial law first broke late on December 12, President Reagan was away at Camp David and Haig was in Brussels ahead of a NATO meeting. While Reagan returned to the White House, Haig stayed in Brussels to consult with the allies. After talking with allied foreign ministers and the Vatican, he wrote, “Everybody [was] a little surprised by [the] timing [of martial law] and nobody seems to have received prior warning.”²⁶² The administration immediately responded by cancelling the \$100 million in emergency food aid the president approved days earlier and suspending consideration of a larger \$740 million agricultural aid request. On December 17, while contemplating other measures, President Reagan held a news conference. “Two Decembers ago, freedom was lost in Afghanistan; this Christmas, it’s at stake in Poland,” Reagan said. The president believed Moscow was behind the suppression. He said it was “naïve” to think otherwise and interpreted the crisis as proof, much like the invasion of Afghanistan, that the Soviet Union could not be trusted to abide by international norms.²⁶³

Shocked and angered, the administration held a series of NSC meetings, December 19-23, to formulate a U.S. response. “Real rage dominated after the declaration of martial law,” said Richard Pipes, the NSC Soviet advisor. Since his inauguration, President Reagan was torn between his ideological predilections to seek a curtailment of all trade with the East and the reality that U.S. allies in Western Europe would not cooperate with any U.S. initiative to wage economic warfare against the Soviet

²⁶² Domber, *Empowering Revolution*, 20-28; Haig, “Call to the President: Points to Hit,” Dec. 13, 1981, box 182, folder 3, Dept. of State Day File, Alexander Meigs Haig Papers, Manuscript Division, Library of Congress (LC), Washington, D.C.

²⁶³ Reagan, “The President’s New Conference,” Dec. 17, 1981, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1981/121781c.htm> (accessed 13 Nov. 2015).

Union. Throughout 1981, he sought to compromise with the allies through a prudent approach to East-West economic relations that heeded security interests without sacrificing non-strategic trade. Reagan's goal was to strengthen the alliance's economic defenses against the Soviet threat. But administration officials were divided on how hard to press the allies to compromise, particularly over the planned Siberian pipeline, and Reagan failed to settle these disputes by approving a coherent strategy for East-West economic relations.²⁶⁴ The Polish crisis led to a revision of the prudent approach, linking it inextricably to events in Poland. The president and his advisors thought allies in Europe would finally abandon détente and strengthen their economic defenses. They hoped the allies would join the United States in isolating Poland and the Soviet Union economically and politically until martial law was lifted.

But would the allies cooperate with U.S. initiatives? Haig dispatched Assistant Secretary of State for European Affairs Lawrence Eagleburger to consult with allied officials on December 21. Eagleburger learned the allies agreed Moscow had a role in martial law and supported political actions against the Soviet Union and Poland. Many of the allies had already taken such steps. The Bundestag, for example, passed a resolution suspending Polish economic assistance, and all of the heads of state condemned the crackdown. But the allies did not back any economic measures against the Soviet Union at this time. The British wanted more consultations to forge a collective response, whether through NATO, the European Community, or complementary action by individual governments. Bonn adamantly opposed economic sanctions. Chancellor

²⁶⁴ Pipes quoted in Domber, *Empowering Revolution*, 46; See Ch. 3 for Reagan's approach to East-West economic relations in 1981.

Helmut Schmidt told Eagleburger that such actions would “remove all incentive for the Soviets to stay out” of Poland. Schmidt and his Foreign Minister Hans-Dietrich Genscher did “concede the need to hit the Soviets,” Eagleburger wrote, but they wanted to give Moscow time to back down before considering economic punishments.²⁶⁵

At the NSC meeting on December 22, Haig informed Reagan that the West European allies all denounced martial law but “on economic sanctions—and on some political actions—Europe would break with us.” The West had planned to respond to a direct Soviet intervention in Poland, not internal repression. The Reagan administration wanted to invoke the planned response nonetheless, but, as Haig explained, the allies “have more at stake than we do. They are closer to Poland than we are.” The allies wanted to move cautiously. Reagan faced a dilemma: to take more time to consult the allies or to take unilateral actions, hoping the allies would follow suit. As the president bluntly asked, “Those ‘chicken littles’ in Europe, will they still be ‘chicken littles’ if we lead and ask them to follow our lead?” Weinberger replied that a delayed response “will allow [the communists] to crush the movement in Poland” and that the allies could be “dragged along with our actions.”²⁶⁶

The need for leadership was the key theme running through all of these discussions. “The wheat and Olympic actions after Afghanistan were ridiculous,” Reagan said. The president wanted strong “action that addresses the Allies and solicits—not

²⁶⁵ Michael Getler, “U.S. Seeks European Support for Moves Directed at Soviet Union,” *The Washington Post*, Dec. 22, 1981, A12; Cable, Embassy Bonn to D.C., Dec. 22, 1981, and Cable, Embassy Brussels to D.C., Dec. 21, 1981, State Virtual Reading Room, <https://www.foia.state.gov/> (accessed 30 Nov. 2015); FCO Letter to No. 10, Dec. 24, 1981, The Margaret Thatcher Foundation, Thatcher MSS (digital collection), Doc. ID 122546, <http://www.margaretthatcher.org/document/122546> (accessed 30 Nov. 2015); Domber, *Empowering Revolution*, 38.

²⁶⁶ NSC Meeting Minutes, Dec. 22, 1981, Reagan Files, (accessed 28 Dec. 2015).

begs—they to join in a complete quarantine of the Soviet Union.” Reagan and his advisors thought the Polish crisis could provide the West with a moment of clarity in which the West Europeans recognized the severity of the Soviet threat and acted to undermine Moscow’s hold on Eastern Europe. The West needed to seize the initiative in the Cold War rather than haphazardly reacting to Soviet offenses in Afghanistan and Poland. “We are at a real turning point,” said Bush. Reagan believed this moment was akin to when President Franklin D. Roosevelt “asked the free world to join in a quarantine of Germany” in 1937. Reagan misunderstood Roosevelt’s intentions. Roosevelt sought to quarantine Japan, not Germany, for its aggression in China, but Reagan, nonetheless, drew a connection between the present crisis and the prelude to World War II. He insisted the United States had to seize the opportunity presented in the suppressed Polish reform movement and martial law. Reagan thought aloud, “There may not be another in our lifetime. Can we afford not to go all out?”²⁶⁷

The president’s advisors, more or less, agreed. Bush stressed the need for “world leadership” multiple times while Secretary of Defense Caspar Weinberger told Reagan, “This is not a time for [undue] prudence or caution.” Even Secretary of Commerce H. Malcolm Baldrige, Jr., a pragmatist who often opposed economic denial policies, called for strong action. Baldrige advised the president to suspend all validated export licenses for Poland and the Soviet Union while seeking at least partial allied cooperation on these measures. Although Haig was concerned about allied cooperation, he was optimistic that the allies could be brought around to the U.S. position eventually. He advised that the U.S. response be implemented in an “incremental” way rather than immediately severing

²⁶⁷ NSC Meeting Minutes, Dec. 21, 1981, Reagan Files.

all ties with Warsaw and Moscow. Reagan was not opposed to this suggestion. As the president explained, he hoped that a show of Western strength and unity, as well as threats of further reprisals, would convince the Soviets to permit a return to the peaceful dialogue between Solidarity and the Polish government. If the Soviet Union and Poland refused reconciliation, then Reagan wanted “an absolute quarantine of all trade.”²⁶⁸

Reagan decided to act unilaterally, hoping the allies would fall in line. If they did not, the president was prepared to take measures against them too. As Reagan said, “We invoke sanctions [against the Soviet Union] and those [of our Allies] who do not go along with us will be boycotted, too, and will be considered to be against us.”²⁶⁹ On the night of December 23, President Reagan delivered a televised Christmas address to the nation from the Oval Office. Reagan reminded Americans of the Soviet invasion of Afghanistan two years earlier and asked how the Polish government can “justify using naked force to crush a people who ask for nothing more than the right to lead their own lives in freedom and dignity?” The president refused to conduct “business as usual” with the Polish government and its supporters. “Make no mistake, their crime will cost them dearly in their future dealings with America and free peoples everywhere,” he said. Reagan then announced the suspension of all government-sponsored humanitarian assistance to the Polish government; U.S. aid would continue flowing through private channels. He ended the renewal of Poland’s Export-Import Bank credit insurance, suspended its civil aviation privileges and fishing rights in U.S. air and water ways, and promised to cooperate with U.S. allies in further restricting advanced technology exports to Poland. Though Reagan

²⁶⁸ Ibid.

²⁶⁹ Ibid.

did not publically announce it, he also suspended U.S.-Polish trading commissions and fairs. Reagan demanded the government lift martial law, free political prisoners, and reinstate the Polish people's rights under the Gdansk Accords. Alluding to the Marshall Plan after World War II, Reagan promised to aid the rebuilding of the "shattered Polish economy" provided the oppression ceased. He warned of further action against Poland and the Soviet Union should repression continue. Lastly, Reagan urged Americans to show their solidarity with the Polish people "by placing lighted candles in their windows," symbolically demonstrating "the light of freedom is not going to be extinguished."²⁷⁰

President Reagan also sent private letters to Jaruzelski and Brezhnev expressing dismay at the crisis, urging reconciliation, and threatening further action. He accused the Soviet Union of "repeatedly intervene[ing] in Polish affairs," in clear violation of Moscow's pledge, under the Helsinki Final Act, not to interfere directly or indirectly in another nation's internal affairs. Stating that martial law or deeper Soviet intervention would "not bring about long-term stability in Poland," Reagan urged Brezhnev to move towards "reconciliation and moderate reform." Reagan offered the Soviet leadership an ultimatum: it alone could choose to ease the present tensions or force the United States "to take concrete measures affecting the full range of our relationship." On Christmas Day, Brezhnev replied, rejecting the proposals and accusing the United States of intervening in Poland's internal affairs "for a long time." Brezhnev defended the right of

²⁷⁰ Reagan, "Address to the Nation About Christmas and the Situation in Poland," Dec. 23, 1981; Domber, *Empowering Revolution*, 33-34.

the Soviet and Polish Communist Parties to aid one another and argued the United States violated the Helsinki Act by demanding the Polish government lift martial law.²⁷¹

In response to Brezhnev's refusal to discuss a peaceful settlement to the Polish crisis, Reagan enacted sanctions against the Soviet Union. Claiming Moscow "bears a heavy and direct responsibility" for martial law, Reagan suspended Aeroflot service to the United States, the Soviet Purchasing Commission, negotiations on new maritime and long-term grain agreements, and a series of other bilateral agreements. Reagan also suspended all validated export licenses to the Soviet Union for advanced technologies. Lastly, he expanded the export control list to include goods and technologies used in the transmission of oil and natural gas, a measure the administration had debated throughout 1981. This expansion reversed the White House decision in early December to permit the export of two hundred Caterpillar pipelayers to the Soviet Union. The decision also meant General Electric could not deliver approximately 100 of the remaining 125 contracted turbine and compressor components to U.S. foreign subsidiaries and West European businesses. Although the U.S. sanctions against Poland and the Soviet Union were significant, the administration held tougher actions in reserve should the crisis deepen. The president decided not to declare Poland in default on its debts or rescind Poland's most-favored-nation trading status. He also chose not to take any action without allied consultation on Poland's application to join the International Monetary Fund.

²⁷¹ Letter, Reagan to Brezhnev, Dec. 23, 1981; Letter, Brezhnev to Reagan, Dec. 25, 1981, Reagan Files, <http://www.thereaganfiles.com/document-collections/letters-between-president.html> (accessed 28 Dec. 2015).

Lastly, Reagan did not suspend ongoing arms control negotiations with the Soviet Union.²⁷²

After announcing these unilateral actions, the administration pushed the allies to take similar steps. On December 28, Haig had lunch with British Ambassador to the United States Nicholas Henderson. The United States believed Moscow was attempting to divide the West by pushing Bonn to temper the Western response in order to maintain East-West relations. Haig argued the West had to remain united, pushing for a settlement tied to real political and economic reforms. Moscow had demonstrated restraint in Poland throughout 1980 and 1981 but as the situation continued to deteriorate, the West needed to convince the Soviet Union that a direct intervention would only further destabilize Poland and East-West relations.²⁷³ In agreement with the United States, the British government pushed the continental allies to coordinate a united response through a European foreign ministers meeting before the New Year. The French, however, blocked the meeting. Bonn opposed strong action against Poland and the Soviet Union, and as British Foreign Secretary Peter Carington said, French President Francois Mitterrand “doesn’t want to have a row with the Germans.” Mitterrand and Schmidt both condemned martial law but considered economic sanctions inappropriate at the present time. When the ministers did meet on January 4, 1982, they agreed to a communique echoing U.S.

²⁷² “Statement on U.S. Measures Taken Against the Soviet Union,” Dec. 29, 1981; NSC Meeting Minutes, Dec. 21, 1981, Reagan Files; Don Oberdorfer, “Haig Silent on Future of Allied Sanctions,” *Washington Post*, Jan. 7, 1982, A1; Domber, *Empowering Revolution*, 34; NSC Papers detailing the costs and benefits of various U.S. response options can be found in the NSC Meeting Agendas for Dec. 21, 1981, folder “NSC 00033 21 Dec 1981 [Poland, USSR, Export Controls, NATO],” and Dec. 22, 1981, folder “NSC 00034 22 Dec 1981 (2/2),” NSC Meeting Files, RRL; Senior Interdepartmental Group on International Economic Policy Paper, “Prospects for the Soviet Natural Gas Export Project,” Aug. 3, 1982, folder “NSC 00058 06 Aug 1982,” NSC Meeting Files, RRL.

²⁷³ Cable, UK Embassy in D.C. to FCO, Dec. 28, 1981, Thatcher MSS, Doc. ID 122552, <http://www.margarethatcher.org/document/122552> (accessed 30 Nov. 2015).

demands for an end to martial law, the release of political prisoners, and the return of a dialogue between Solidarity, the Catholic Church, and the government. The European Community, though, refused to institute economic measures against the Soviet Union, merely pledging “to avoid any step which could undermine” U.S. sanctions and to conduct further consultations.²⁷⁴

But the Reagan administration wanted more from the Europeans than a commitment not to undermine U.S. sanctions. On January 6, Schmidt met with Haig over breakfast at Blair House. Haig “hoped to go beyond” the communique, recognizing the extent of Soviet involvement in Poland. At the upcoming NATO Foreign Ministers meeting, Haig stressed “the allies must make it clear to the Soviets” that they have the choice to resolve the present crisis or face further sanctions. Schmidt thought the allies should remain focused on helping Poland rather than punishing Moscow, and he suggested the West do more to coordinate the flow of private humanitarian assistance to the Polish people and offer official economic aid contingent on real reforms. Schmidt stressed the necessity for maintaining arms control talks and stated that “the West needed to be realistic regarding the possibilities for change in Eastern Europe.” In his view, the

²⁷⁴ No. 10 Rec. of Conversation, Margaret Thatcher and Lord Carrington, Dec. 27, 1981, Thatcher MSS, Doc. ID 122549, <http://www.margaretthatcher.org/document/122549>; No. 10 Rec. of Conversation, Thatcher and Carrington, Dec. 30, 1981, Thatcher MSS, Doc. ID 122558, <http://www.margaretthatcher.org/document/122558>; FCO Letter to No. 10, Dec. 31, 1981, Thatcher MSS, Doc. ID 122559, <http://www.margaretthatcher.org/document/122559> (all accessed 30 Nov. 2015); “Communique Issued on the Occasion of the Informal Ministerial Discussions on Poland,” Jan. 4, 1982, in *European Political Co-operation*, 4th ed. (Bonn: Press and Information Office of the Federal Government, 1982), 303.

Soviet Union would never permit the West to “overthrow the post-World War II division of Europe.”²⁷⁵

As the discussion continued, Haig repeatedly pressed Schmidt to support stronger allied action until Schmidt objected with “considerable emotion.” At one point, the chancellor said some American interlocutors had threatened the withdrawal of U.S. military forces in West Germany should Bonn block action on Poland and the Soviet Union. Schmidt refused to “be blackmailed,” and reiterated the need to recognize the military and political reality of “Soviet domination of Eastern Europe.” He believed any Western attempt to alter the division of Europe “could very well involve a war in Europe.” Schmidt’s concerns mirrored his fears after the Soviet invasion of Afghanistan: escalating the crisis could result in a devastating war in Europe, if not World War III. He did not think the West could affect a “return to the situation” prior to martial law; The West could only press the Soviets to permit reforms to continue. Haig countered that the West could not conduct “business as usual” with Moscow unless they offered the West reciprocity. Détente was not a “one-way street” and the Soviets had to honor their obligations under the Helsinki Final Act. As the breakfast came to an end, Schmidt said he “would not stick his neck out” in support of the U.S. position, but he would also not impede a united allied response. The FRG would “move with the group.”²⁷⁶

Recognizing the dim prospects of stronger allied measures, the Reagan administration pushed NATO to adopt a political statement demanding the Polish government lift martial law, release political prisoners, and resume a dialogue with

²⁷⁵ Memcon, Secretary Haig’s Breakfast Meeting with FRG Chancellor Schmidt, Jan. 6, 1982, State Virtual Reading Room (accessed 30 Nov. 2015).

²⁷⁶ Ibid.

Solidarity and the Catholic Church. While the administration would welcome any allied measures paralleling the U.S. sanctions, it did not think such action was obtainable right then. Instead, Haig pushed U.S. allies to commit themselves not to undermine U.S. sanctions and to hold ongoing consultations, hopefully culminating in European economic measures against the Soviet Union. The British government supported U.S. objectives, and, on January 11, Haig secured a NATO communique towards these ends fairly easily. In addition, the allies suspended new credits to Poland and negotiations to reschedule Polish debts while holding any measures against the Soviet Union in abeyance. The NATO ministerial meeting was a success, overall, though extensive work remained to be done to convince U.S. allies to enact economic sanctions against the Soviet Union. But for the time being, the United States and its West European allies avoided the disarray that took place after the Soviet invasion of Afghanistan.²⁷⁷

A Strategy for Economic War

The Polish crisis coincided with the rise of hardliners within the administration who pushed the president to wage economic warfare against the Soviet Union. Their growing influence shaped the objectives and conduct of the allied follow-up consultations with grave consequences for U.S.-European and East-West relations by the summer of 1982. The president hoped the Polish crisis would affect Western Europe's perception of East-West economic relations. Once the allies proved reluctant to reassess their policies, President Reagan, on the advice of these hardliners, attempted to force U.S. allies in

²⁷⁷ Action Memorandum, H. Allen Holmes to Haig, Jan. 7, 1982, State Virtual Reading Room (accessed 30 Nov. 2015); Cable, UK NATO Delegation to FCO, Jan. 11, 1982, Thatcher MSS, Doc. ID 142425, <http://www.margaretthatcher.org/document/142425> (accessed 30 Nov. 2015); John M. Goshko, "Haig Seeks to Avoid NATO Crisis," *Washington Post*, Jan. 11, 1982, A18; Domber, *Empowering Revolution*, 40-41.

Europe to abandon the Siberian pipeline project and curtail the flow of officially guaranteed credits to the Soviet Union. The hardliners believed these policies would cripple the Soviet economy over the long term. Of course, Reagan welcomed a weakened Soviet Union and opposed the pipeline project. But he was more concerned about strengthening Western security and using economic measures to pressure Moscow to change its international behavior. If Moscow showed restraint in Poland or permitted reforms to continue, Reagan was willing to reverse U.S. actions. As allied consultations continued over the spring of 1982, the administration failed to offer the allies clear diplomatic signals about U.S. objectives. Western Europe wondered whether the United States supported the prudent approach or economic warfare against the Soviet Union. Convinced Washington preferred the latter, the allies rejected U.S. proposals. By the summer of 1982, U.S. foreign economic policy under these hardliners was adrift despite the administration propagating a clear strategy.

Foremost among these hardliners was Reagan's new national security advisor William P. Clark, Jr. Clark was one of Reagan's oldest friends and colleagues. He served as Governor Reagan's chief-of-staff until Reagan made him a Californian Supreme Court justice in 1973. Clark's court appointment was all the more remarkable considering he never finished law school; though, he did practice law for a few years. Like Reagan, Clark had been a Democrat until switching to the Republican Party in the mid-1960s, and he was also a staunch Cold Warrior. "Ideologically, they are twins," wrote one reporter. But, unlike Reagan, the Cold War was personal for Clark: His wife was a Czech refugee who fled to West Germany in the early Cold War. After Reagan became president, Clark

left the court to serve under Haig as Deputy Secretary of State. He had no knowledge of foreign affairs, a point highlighted in his confirmation hearing, but he demonstrated his ability to learn quickly and calm Haig's temper. On January 4, 1982, as a scandal befell national security advisor Allen, Reagan chose Clark as a replacement.²⁷⁸

A *TIME* magazine article noted that Clark was “driven more by his devotion to the President than by personal ambition.” During his tenure as national security advisor (Jan. 1982-Oct. 1983), Clark was the most influential foreign policy official within the administration. He was “the man with the president’s ear,” as *TIME* said. While Clark was national security advisor, President Reagan signed over ninety National Security Decision Directives (NSDD)—official national security policies—illustrating Clark’s ability to manage the bureaucratic policymaking process. Clark had such an impact due to his close relationship with Reagan and also because, unlike Allen, he had direct access to the president. After inauguration, Reagan downgraded the role of national security advisor. Past advisors, such as Henry Kissinger and Zbigniew Brzezinski, had wielded profound influence on policy at the expense of the State Department and Secretary of State. Reagan wanted to correct this imbalance so Allen reported to Edwin Meese, another longtime Reagan aide and counsel to the president. Meese was the gatekeeper, determining what the president saw and when. This arrangement frustrated Allen and hindered his ability to coordinate policy between the various agencies. Allen was not a Reagan insider like Clark. Once he resigned, the bureaucratic shackles came off the

²⁷⁸ Paul Kengor and Patricia Clark Doerner, *The Judge: William P. Clark, Ronald Reagan’s Top Hand* (San Francisco: Ignatius Press, 2007), 50-60, Chs. 6, 8; Lou Cannon, *President Reagan: The Role of a Lifetime*, 1st Public Affairs Ed. (New York: Public Affairs, 1991), 157-160; Mary McGrory, “What Clark is Not: A Careerist, an Academic, an Ideologue,” *Washington Post*, Jan. 12, 1982, A3.

national security advisor. Immediately, Clark hired other ardent Cold Warriors to serve on the NSC: Thomas C. Reed, Roger Robinson, and John Lenczowski, among others. Veteran NSC officials also benefitted from Clark's appointment. NSC Soviet advisor Richard Pipes, for example, had only attended one NSC meeting with the president under Allen. Clark, however, permitted Pipes to attend meetings often and brief Reagan directly. All of these officials thought the United States had to be more assertive in waging the Cold War, and thanks to Clark's prominence, they began to shape the foreign policy options placed before the president.²⁷⁹

Despite being in office for a year, President Reagan lacked a clear grand strategy for U.S. foreign policy. Some basic ideas and ambitions like peace through strength and anti-communism had guided the president through the challenges of 1981. But Clark set about developing a coherent strategy and placed Reed, a former Secretary of the Air Force, in charge of an interagency group to study the matter. On May 20, 1982, Reagan signed NSDD-32, approving the study's strategic policy proposals. The directive said the United States needed a multidimensional strategy that integrated its diplomatic, economic, political, and military components. NSDD-32 was the first step towards completing this plan. The strategy's security objectives were to deter a Soviet military attack and strengthen U.S. influence throughout the world by improving its existing alliances while seeking "to contain and reverse the expansion of Soviet control and military presence throughout the world." These goals were not new and had been a part

²⁷⁹ Maureen Dowd, Laurence I. Barrett, and Gregory H. Wierzynski, "The Man with the President's Ear," *TIME* 122, no. 6 (1983): 36; Steven R. Weisman, "The Influence of William Clark," *New York Times Magazine*, Aug. 14, 1983; Kengor and Doerner, *The Judge*, 143-151; Cannon, *President Reagan*, 155-156; Richard Pipes, *Vixi: Memoirs of a Non-Belonger* (New Haven: Yale University Press, 2003), 145, 176; James Graham Wilson, *The Triumph of Improvisation* (Ithaca: Cornell University Press, 2014), 30-31.

of U.S. national security strategy since the early Cold War. NSDD-32, however, expanded the scope of these of aims, stating the following objective:

To foster, if possible in concert with our allies, restraint in Soviet military spending, discourage Soviet adventurism, and weaken the Soviet alliance system by *forcing the USSR to bear the brunt of its economic shortcomings*, and to *encourage long-term liberalizing and nationalists tendencies* within the Soviet Union and allied countries.

With NSDD-32, the Reagan administration enunciated a strategy aimed at stressing the Soviet economic system in order to convince Moscow to prioritize internal liberal reforms rather than military defense and external aggression. At the least, the administration sought to pacify Soviet international behavior, and at the most, it sought to precipitate the collapse of the Soviet bloc by inflaming nationalism and economic dissatisfaction among its people. Hardliners tended to prefer the latter. “The bottom line is we are helping to encourage the dissolution of the Soviet Empire,” Reed said in April 1982. Either way, the president had adopted a strategy of economic warfare against the Soviet Union intended to strengthen America’s Cold War position.²⁸⁰

The day after Reagan approved NSDD-32, Clark delivered his first address as national security advisor at Georgetown University. The directive remained classified, but Clark said the administration had adopted a new strategy intended to “convince the leadership of the Soviet Union to turn their attention inward.” In addition to mentioning

²⁸⁰ Thomas C. Reed, *At the Abyss: An Insider's History of the Cold War* (New York: Ballantine Books, 2004), 235-237; National Security Decision Directive 32, May 20, 1982, RRL, <http://www.reagan.utexas.edu/archives/reference/NSDDs.html#.Vl8RphDouUk> (accessed 2 Dec. 2015), emphasis added in quotation; Reed quoted in Wilson, *Triumph of Improvisation*, 31.

the necessity of integrating various policy components, Clark quoted the directive, stating “We must force our principal adversary, the Soviet Union, to bear the brunt of its economic shortcomings.” President Reagan spoke in similar terms throughout the late spring of 1982. Most notably, in an address to the British Parliament on June 8, Reagan said there was a “great revolutionary crisis” in the Soviet Union as its economic system decayed. He proposed that the West work to “foster the infrastructure of democracy” throughout the globe, including the communist world where regimes had failed to legitimize their rule. Reagan was confident the West would prevail, calling for a “march of freedom and democracy which will leave Marxism-Leninism on the ash heap of history.” Through public rhetoric, the administration was making its intentions towards the Soviet Union clear.²⁸¹

Allied with other hardliners, the NSC, under Clark, wanted to stop the construction of the Siberian natural gas pipeline. With Reagan’s approval, these hardliners allegedly even employed economic and industrial sabotage against the project. At the Ottawa Economic Summit in July 1981, Mitterrand informed Reagan that French intelligence services were working with a Soviet defector, Colonel Vladimir I. Vetrov (codenamed “Farewell”), who supplied information about covert efforts to steal Western military and civilian technologies. The Farewell Dossier, as the intelligence was labeled, revealed that Soviet agents had stolen sample products and thousands of documents about Western technologies since the late 1960s. Soviet acquisition efforts were managed by

²⁸¹ Richard Halloran, “Reagan Aide Tells of New Strategy on Soviet Threat,” *New York Times*, May 22, 1982, 1; Reagan, “Address to Members of the British Parliament,” Jun. 8, 1982, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1982/60882a.htm> (accessed 2 Dec. 2015); For analyses of the administration’s rhetoric and NSDD-32, see Wilson, *Triumph of Improvisation*, 30-36, and Kengor and Doerner, *The Judge*, 166-176.

Directorate T and its operating branch, Line X. The operation consisted of two to three hundred agents—ranging from KGB officers to scientists and students studying abroad—who scoured academic journals, purchased Western goods, and visited Western facilities in search of technical know-how. One agent, for example, toured a Boeing plant with adhesive on his shoes to obtain metal shavings for analysis. By 1980, Directorate T had acquired over five thousand samples of Western technologies, almost one-half of which benefit Soviet defense industries. Using the intelligence, Soviet engineers modeled the Blackjack strategic bomber after its U.S. counterpart, the B1. They also copied Texas Instrument's integrated circuit. "Reading the material caused my worst nightmares to come true," remembered NSC staffer Gus W. Weiss.²⁸²

Amongst the Farewell Dossier, Weiss found "the Line X shopping list for still-needed technology," and he proposed to the Director of Central Intelligence William J. Casey that the West "feed" Line X faulty materials that "would appear genuine but would later fail." In a complex operation, the CIA, Defense Department, and FBI worked with NATO allies to sabotage Soviet acquisition efforts. "Contrived computer chips found their way into Soviet military equipment," Weiss claimed, "flawed turbines were installed on a gas pipeline, and defective plans disrupted the output of chemical plants and a tractor factory." Reed recounted that the United States worked with Canadian companies to supply the Soviet Union with malignant computer software "to run the

²⁸² Gus W. Weiss, "The Farewell Dossier: Duping the Soviets," *Studies in Intelligence* 39, no. 5 (1996), available online at <https://www.cia.gov/library/center-for-the-study-of-intelligence/csi-publications/csi-studies/studies/96unclass/farewell.htm> (accessed 2 Dec. 2015); Christopher Andrew and Oleg Gordievsky, *KGB: The Inside Story of its Foreign Operations from Lenin to Gorbachev* (New York: HarperCollins Publishers, 1990), 515-516, 622; CIA, "Soviet Acquisition of Western Technology," (Washington, D.C., Apr. 1982).

pumps, turbines, and valves” on the Siberian pipeline. The software was designed to misread gas pressures within the pipe until its joints and welds gave way. Reed asserted that, in the summer of 1982, “the result was the most monumental non-nuclear explosion and fire ever seen from space.” U.S. satellites apparently detected the event. The explosion measured three kilotons, and, fortunately, it occurred along a remote portion of the pipeline without any casualties. It was “cold-eyed economic warfare, put in place to inflict a price on the Soviet Union for corrupting the lofty ideals of détente,” Reed remembered.²⁸³

It is unclear if such an explosion actually occurred on the Siberian pipeline. Any evidence to corroborate Reed’s claim remains classified. At least one former Soviet official also dismissed the notion. Vasily Pchelintsev, who headed a KGB office in the Tyumen region of Siberia, said no such disaster took place on the Siberian pipeline project in the summer of 1982. In April 1982, there was a fire on a domestic natural gas pipeline in the Tyumen region, matching Reed’s assertion that the event happened in remote area without any casualties. But Pchelintsev said the fire was rather small, resulting from faulty construction, and the damage quickly repaired. Pchelintsev and the Soviet company that installed pipeline software did not know of any similar incidents on the Siberian pipeline that year. Natural gas did not begin flowing through the Siberian pipeline until early 1984, casting further doubt on Reed’s claim. Although this incident

²⁸³ Weiss, “Farewell Dossier”; Reed, *At the Abyss*, 267-269.

may not have occurred, it is clear that the United States did conduct an operation to stress the Soviet economy through sabotage.²⁸⁴

The Farewell Dossier confirmed the hardliners' suspicions that the Soviet Union had been acquiring Western technology through legal and illegal means to overcome its economic problems. Throughout 1981, advisors like Weinberger and Casey had urged President Reagan to launch an offensive against the Soviet economy to deprive it of these resources and, over time, force the Soviet leadership to decide between maintaining its military power or reforming its internal system. The Siberian pipeline project was at the center of these proposals since it planned to make use of Western technologies and credit to increase Soviet hard currency earnings through gas exports. In addition, Western Europe would come to rely more on the Soviet Union to meet its energy needs, presenting Moscow with potential leverage over the West. A January 1982 intelligence assessment found that the pipeline was the Soviet Union's only hope for substantial hard currency earnings in the late 1980s. With Soviet oil production in decline, the completed gas pipeline could earn approximately nine billion dollars annually. The assessment stated that an allied "embargo on pipe, compressors, and pipelayers would be a major setback" for the project. As Assistant Secretary of Commerce Lawrence Brady said, blocking the pipeline presented the West with the opportunity to squeeze the Soviet Union and "send economic shock waves from Eastern Europe to Cuba to Vietnam."

²⁸⁴ Anatoly Medetsky, "KGB Veteran Denies CIA Caused '82 Blast," *The Moscow Times* (English ed.), Mar. 18, 2004, available through the Internet Archive Wayback Machine: <http://web.archive.org/web/20040426162229/http://www.themoscowtimes.ru/stories/2004/03/18/014.html>; The George Washington University's National Security Archive has pending FOIA requests for more information on the Farewell Dossier and the alleged pipeline explosion, as noted on their blog, *UNREDACTED*, Apr. 26, 2013, https://nsarchive.wordpress.com/2013/04/26/agent-farewell-and-the-siberian-pipeline-explosion/#_edn2 (accessed 3 Dec. 2015); John F. Burns, "Doubts on the Soviet Pipeline," *New York Times*, Jan. 5, 1984, D1, Late City Final Ed.

President Reagan was sympathetic to these goals, but he was reluctant to act unilaterally throughout 1981, fearing the allies would never cooperate. But after imposing the oil and gas sanctions on the Soviet Union for its involvement in the Polish crisis, Reagan and the hardliners hoped the allies could be convinced to cooperate with U.S. sanctions and abandon the pipeline project.²⁸⁵

But the allies were not willing to pursue complementary action against the Soviet Union, and they were concerned about U.S. measures on oil and gas. After a preliminary discussion in the European Community on December 30, 1981, the British Foreign and Commonwealth Office (FCO) ordered its ambassador in the United States to seek clarification about the scope of U.S. sanctions. In particular, the FCO noted that the oil and gas sanctions were “the most sensitive item for EC countries, particularly France, Germany and Italy, because of its effect on the gas pipeline project.” The reach of the U.S. sanctions were unclear: did they only apply to U.S. companies or did they include foreign subsidiaries of U.S. companies and licensees of U.S. technologies? If the sanctions applied to subsidiaries and licensees, would they cover contracts already signed? If the sanctions were retroactive, then many West European businesses could not legally supply the Soviet Union with pipeline materials. Eagleburger assured the French

²⁸⁵ Intelligence Assessment, “Soviet Economic Dependence on the West,” Jan. 1, 1982, pp. 9-10, 19. This report and other CIA primary documents are available through the Reagan Collection in the CIA FOIA Reading Room (hereafter, CIA RC), <http://www.foia.cia.gov/collection/reagan-collection> (accessed June 2014). The website has changed since conducting my initial research, making it more difficult to navigate. I recommend accessing the collection through the Wayback Machine: <http://web.archive.org/web/20130412234252/http://www.foia.cia.gov/collection/reagan-collection>. All CIA RC citations refer to the archived list; Brady quoted in Mastanduno, *Economic Containment*, 250; Mastanduno offers an excellent analysis of the Reagan administration’s grand strategy in regard to economic defensive and offensive tactics, 233-265.

the sanctions would not be retroactive, but allied officials were concerned by the administration revoking Caterpillar's export license.²⁸⁶

In late January, Thatcher met with Haig to discuss the allied response to the Polish crisis. She stressed the need for allied unity and raised concerns about rumors the administration "might call Poland into default on its debts." The administration was considering this option. Thatcher also wanted to know if the United States was going to enforce its oil and gas sanctions on foreign subsidiaries and licensees of U.S. technologies, i.e. extraterritorially. The prime minister raised these issues with "unusual vehemence," as Haig said. She stated the United States "had to face the fact that the French and the Germans were never going to abandon their contracts for the Siberian Gas Pipeline." The West Europeans were irritated the administration asked them to give up valuable export deals during a deep economic recession without the United States making similar economic sacrifices. While the United States exported about \$300 million worth of industrial goods to the Soviet Union annually, the British firm, John Brown, Ltd., alone held a \$400 million contract to manufacture pipeline components. The United States also did not embargo its grain exports. Thatcher "predicted dire consequences for the Western Alliance should" the United States impose the sanctions extraterritorially and retroactively. Haig agreed with the prime minister. "There was a lack of symmetry in burden sharing," as he later said. He reassured Thatcher the United States was committed to maintaining allied unity and returned to Washington.²⁸⁷

²⁸⁶ Cable, FCO to U.K. Embassy in D.C., Dec. 30, 1981, Thatcher MSS, Doc. ID 122557, <http://www.margaretthatcher.org/document/122557> (accessed 3 Dec. 2015).

²⁸⁷ Cable, Haig to Pres., Jan. 29, 1982, Thatcher MSS, Doc. ID 109312, <http://www.margaretthatcher.org/document/109312> (accessed 4 Dec. 2015); Margaret Thatcher, *The*

The Reagan administration had to clarify the scope of U.S. oil and gas sanctions or court growing frustration within the alliance over the issue. Over the spring of 1982, President Reagan chose to risk the latter in hopes that the threat of extraterritorial sanctions would push the allies to adopt complementary economic measures against the Soviet Union. By early February, the United States not only desired an end to the pipeline project, or at least a significant delay to its completion, but also allied action restricting the flow of officially guaranteed credits to the Soviet Union. "Empire is costly," NSC staffer Norman Bailey wrote in mid-January. Commenting on two recent CIA reports, Bailey informed Clark that Soviet economic assistance to Eastern Europe had risen from \$5 billion in 1975 to more than \$18 billion in 1980. This aid was one of the many burdens stressing Soviet hard currency resources, and, as a result, Moscow relied more and more on Western credits to import valuable Western goods and technologies. Bailey said the United States and its allies could cause substantial harm to Soviet import capacity if they restricted Moscow's access to easy credit. In April 1982, a similar CIA analysis found that the Soviet bloc's total hard currency debt topped \$87 billion in 1981, of which the Soviet Union and Poland held about \$25 billion each. The CIA believed that if the West restricted credits by decreasing maturities and increasing interest rates, for example, the Soviet Union's debt service ratio could skyrocket above seventy percent by 1990.²⁸⁸

Downing Street Years (New York: Harper Collins, 1993), 253; Alexander M. Haig, Jr., *Caveat: Realism, Reagan, and Foreign Policy* (New York: Macmillan Publishing Company, 1984), 256.

²⁸⁸ Memo, Bailey to Clark, Jan. 18, 1982, folder "USSR-Economy (3/10)," box 25, Jack F. Matlock Files, RRL; National Intelligence Council Memo, "The Soviet Bloc Financial Problem as a Source of Western Influence," Apr. 1982, CIA RC, pp. 3-4 (accessed 22 Jun. 2014).

The allies appeared willing to establish some credit restriction regime. In 1978, the Organization for Economic Cooperation and Development (OECD) concluded a credit agreement setting minimum interests rates on officially guaranteed export credits to all nations. Under the Consensus, as it was known, borrowing nations were divided into three categories—relatively rich, intermediate, or relatively poor—with corresponding rate and repayment terms. The Soviet Union was placed in the intermediate category with a minimum interest rate of 11 percent and repayment between 5 to 8.5 years. After a Group of Five meeting in late January, a British official suggested to Secretary of the Treasury Donald T. Regan that the United States should consider pushing the OECD to reclassify the Soviet Union as a rich nation. The EC Foreign Ministers recently agreed to reconsider the Consensus, suggesting the allies would be willing to reclassify the Soviet Union. Doing so would require Moscow to borrow credit at an 11.25 percent rate. It would be a relatively minor increase, but as Regan wrote to an aide, it would “nevertheless [be] another needle” in the Soviet system.²⁸⁹

The administration held an NSC meeting on February 4 to review the U.S. sanctions and possible credit initiatives. An NSC paper laid out the policy options, recognizing a significant dilemma facing the United States in securing allied cooperation on its strategy of economic warfare. The West Europeans would not take similar action “unless they believe we are making corresponding sacrifices ourselves. . . . Without a

²⁸⁹ Jentleson, *Pipeline Politics*, 181; Note, Regan to Marc Leland, Jan. 25, 1982, box 151, folder 1, Treasury Dept., Subject File, Group of 5 (G5) Meetings, 1979-1982, Donald T. Regan Papers, LC; “USSR and The Export Credit Arrangement,” Undated, folder “Buckley Mission Feb-March 1982 - Present (7 of 10),” RAC box 5, Norman A. Bailey Files, RRL; NSC Paper, “Strategy on Poland: Possible Next Steps Against the U.S.S.R.,” Jan. 28, 1982, folder “NSC 00039 04 Feb 1982 [Poland, Libya, Export Controls Oil, Gas] (3/7),” NSC Meeting Files, RRL.

grain embargo, we have no hope of stopping or even suspending the pipeline or of gaining European agreement to other tough measures.” But Reagan was not willing to consider another grain embargo after lifting the previous one less than a year earlier. Furthermore, the paper explained, the administration launched its strategy, particularly the oil and gas measures against the pipeline, in response to the Polish crisis. In 1981, the United States failed to convince the allies that the pipeline was a strategic folly that weakened Western security. The Polish crisis was used, in part, as a means to secure allied cooperation with the U.S. economic strategy. But if the Polish situation improved, or the Polish regime offered superficial reforms that appeared to reverse martial law, the administration would be pushed to lift its sanctions against the pipeline. “The Europeans will only agree to sanctions if they are linked explicitly to Poland. . . . Thus, we have to be prepared to accept a reversible halt to the pipeline.” In other words, the administration’s goals to help improve the situation in Poland and stop the pipeline were contradictory. Under the circumstances, the NSC paper said the administration could hold further unilateral measures against the Soviet Union in abeyance while it attempted to persuade the allies to follow suit on existing measures. Otherwise, it presented the administration with a range of stronger unilateral options, varying from a ban on all industrial exports to a total U.S. embargo against the Soviet Union.²⁹⁰

The discussion at the February 4 NSC meeting was contentious. The pragmatists (Haig, Regan, and Baldrige) argued against the extraterritorial enforcement of U.S. sanctions while the hardliners (Weinberger and Casey) believed it was necessary. Haig

²⁹⁰ NSC Paper, “Strategy on Poland: Possible Next Steps Against the U.S.S.R.,” Jan. 28, 1982, folder “NSC 00039 04 Feb 1982 [Poland, Libya, Export Controls Oil, Gas] (3/7),” NSC Meeting Files, RRL.

explained that the Allies thought the sanctions only “hurt them and not us.” The Soviets were “surprised at our unity with our allies” in response to Poland and it was not the time to shatter that unity through “jolting actions” on the pipeline. Haig feared the administration, with its focus on the pipeline, was losing sight of the Polish situation and the larger strategic opportunities it presented. Rather than making “narrow decisions on extraterritoriality,” Haig advised the administration concentrate on limiting the Soviet Union’s access to Western credits. “Credits are the most important single factor of pressure,” Haig said. It offered the West significant leverage over Soviet actions whereas the pipeline sanctions were “short-term measures” to be reversed should the Polish situation improve. Baldrige and Regan supported Haig’s analysis. Baldrige explained that the West Europeans had the industrial and technological capacity to supply the Soviets with pipeline materials regardless of U.S. actions, and Regan supported an allied credit initiative.²⁹¹

Weinberger agreed the administration should work to restrict credits, but he thought “extraterritoriality is absolutely the minimum approach” towards the sanctions issue. “The pipeline is just as militarily significant as a plane,” he continued. In his view, the pipeline had to be stopped, the United States had to offer the allies alternatives to the pipeline, and “a total embargo [on the Soviet Union] would be effective.” Although Casey did not think the United States could stop the pipeline, he did believe extraterritoriality would “delay completion of the pipeline by something close to 3 years,” denying the Soviet Union a significant amount of hard currency later in the decade. President Reagan did not say much at the meeting, but, in the end, he chose not

²⁹¹ NSC Meeting Minutes, Feb. 4, 1982, Reagan Files (accessed 7 Dec. 2015).

to make a decision on the scope of the U.S. oil and gas sanctions. Instead, he authorized a high-level diplomatic mission to Western Europe to consult with the allies about alternatives to Soviet energy and restricting credits.²⁹²

Reagan placed hardline NSC staffer Bailey in charge of the interagency group planning the mission to Europe. But to Bailey's frustration, most of the planning, in practice, went through Walter J. Stoessel, Jr., a career diplomat and new Deputy Secretary of State. Through the interagency process, State Department officials downgraded the prominence of the pipeline and extraterritoriality in the mission's terms of reference. The oil and gas sanctions were too controversial among the allies and seeking any allied action on the issue was more likely to divide than unite the alliance. The revised terms of reference substituted the State Department's language stating the pipeline could not be stopped "by unilateral U.S. action" and removed a point advising the mission to seek government commitments not to interfere with any West European businesses that voluntarily complied with U.S. oil and gas sanctions. The mission would still discuss the pipeline in the context of the West's energy relationship with the Soviet Union but it would focus predominately on the credit initiative. The NSC was scheduled to review these terms on February 26, and State's revisions concerned Bailey. A few days before the meeting, Bailey warned Clark that the entire mission was "in peril." He did not oppose the credit initiative but thought the mission had to emphasize the pipeline sanctions for diplomatic leverage. Bailey wanted the president to approve the extraterritorial enforcement of U.S. sanctions should the mission fail. During the talks,

²⁹² Ibid.; NSDD-24, Feb. 9, 1982, RRL, <http://www.reagan.utexas.edu/archives/reference/NSDDs.html#.VmWuuRDouUk> (accessed 7 Dec. 2015).

Bailey believed the allies should be aware of this decision. He wrote, “If this is not done, of course, there is no real threat element in the negotiating position of the mission,” and the mission would fail.²⁹³

At the NSC meeting on February 26, both sides repeated the arguments about the pipeline sanctions made earlier in the month. Haig added, though, that the allies were hinting at a possible deal under which the United States did not adopt extraterritoriality in return for allied credit restraints. The Siberian pipeline, however, was an issue to be avoided in allied discussions: “If the pipeline issue becomes a test of European ‘manhood,’ they will reject our pressure,” Haig concluded. Weinberger, of course, disagreed with Haig, calling the extraterritoriality issue “overblown.” He argued that the U.S. government could not forbid U.S. companies from trading with the Soviets while allowing their foreign subsidiaries and licensees to do so. Cancelling the project might sacrifice European jobs, but Weinberger remarked, “The loss of freedom is worse.” Although these two officials remained entrenched in their positions, Casey modified his views, stating, “I have reluctantly come to agree . . . that extraterritoriality will not work. The pipeline is an accomplished fact.” The intelligence director thought the administration should still push for a construction delay, suggesting the United States declare Poland in debt default as a way to convince cautious private and official investors

²⁹³ NSDD-24, Feb. 9, 1982; Memo, Bailey to Clark, Feb. 12, 1982, folder “Buckley Mission Feb-Mar 82 (2 of 13)”; Memo with Terms of Reference Drafts, L. Paul Bremer, III to Senior Interagency Group No. 15, Feb. 22, 1982, and Memo, Bailey to Clark, Feb. 22, 1982, folder “Buckley Mission Feb-Mar 82 (3 of 13)”; Memo, Clark to Pres., Feb. 25, 1982, folder “Buckley Mission Feb-Mar 82 (4 of 13),” all in RAC box 5, Bailey Files, RRL.

not to lend credit to the Soviet bloc and thereby the pipeline project. The Polish default option failed to gain substantial traction among policymakers though.²⁹⁴

President Reagan approved the terms of reference for the mission to Europe, but he was also supposed to make a decision on extraterritoriality. He chose to postpone a decision until the mission returned and revealed he misunderstood the extent of U.S. and West European involvement in the pipeline project:

I must take the blame for having been careless. At the time that I announced the sanctions, I believed that the United States was the dominant factor in what went into the production of the pipeline. Now, Maggie Thatcher has made me realize that I have been wrong. I now realize that the important factors are the subsidiaries and licensees of U.S. corporations.

Since late 1981, the pragmatists repeatedly told Reagan that foreign subsidiaries of U.S. companies and West European licensees of U.S. technologies were the principal contributors to the pipeline project. But, in his outrage over martial law, Reagan instituted the oil and gas sanctions, linking the U.S. position on the pipeline to the Polish situation and complicating the administration's agenda for East-West economic relations. On the one hand, if Reagan adopted extraterritoriality, the allies would likely break with the United States. On the other hand, if Reagan announced the sanctions only applied to U.S. businesses, he would appear weak as many Americans pressed the president to institute stronger measures against Poland. The AFL-CIO, for instance, demanded the administration embargo grain sales to the Soviet Union and force Poland to default on its debt. In the face of this dilemma, Reagan thought it was better to hold a decision in

²⁹⁴ NSC Meeting Minutes, Feb. 26, 1982, Reagan Files (accessed 28 Dec. 2015).

abeyance while the mission pursued allied action on credits and a diplomatic resolution to the pipeline issue.²⁹⁵

From Credit Talks to Extraterritoriality

The Undersecretary of State for International Security Affairs James L. Buckley headed the mission to Western Europe. The delegation included other undersecretaries from the Defense, Commerce, and Treasury Departments as well as Bailey. Their immediate goal was to secure a temporary allied moratorium on new official credits to the Soviet Union while consultations continued to establish a mechanism to monitor and restrict the credit flows over the long term. The moratorium excluded credits already committed to the pipeline project, and the delegation was to avoid making or implying any linkages between the pipeline sanctions and credit initiative. The mission's scope paper explained beforehand that the West Europeans would likely request assurances that extraterritoriality would not be invoked. U.S. officials were not permitted to give such assurances, "nor would we wish to draw a link between an agreement on credit restraints and relaxation of our measures." It was okay if the allies mistakenly drew the connection themselves, however, as "it would work to our general advantage." The pipeline issue was simply too contentious and discussing it at-length would likely jeopardize a credit agreement.²⁹⁶

²⁹⁵ Ibid.; Seth S. King, "Haig and Labor Unit at Odds on Sanctions Against Soviets," *New York Times*, Feb. 20, 1982, 6.

²⁹⁶ "Scope Paper for Buckley Trip," Draft No. 4, Mar. 11, 1982, folder "Buckley Mission Feb-Mar 82 (9 of 13)," RAC box 5, Bailey Files, RRL. Although this paper is a draft, it is likely similar to the final version that Clark sent to Reagan as a memo attachment on the same day. Clark's memo is in the same folder as the draft paper. The final version of the scope paper was not present.

In 1981, commercial credits made up approximately eighty percent of new borrowing by the Soviet Union and ninety percent for Eastern Europe, excluding Poland. How could a moratorium on new official credits affect a financial relationship dominated by private money? The Reagan administration argued that official credits and government-backed credit guarantees were essential to Moscow financing long-term, capital-intensive projects, such as the pipeline. Often, these official credits and guarantees let the Soviet Union borrow money at below market rates, in effect, subsidizing the Soviet economy. Without these guarantees, private lenders would not finance these ventures. Through a new credit moratorium and a follow-up mechanism designed to monitor and restrict the East-West financial relationship, the Reagan administration intended to deprive the Soviet system of the soft capital it needed to revitalize its energy production and exports. The administration also knew it had to strike a balance in this credit war. The Soviet bloc owed a substantial debt to Western banks and governments. “If we squeeze the Soviets too hard...we risk our ability to be repaid,” a report said. The United States wanted to end the generous financial terms while creating a net flow of financial resources from East to West without courting a Soviet bloc default. Reagan and his advisors believed these easy credit policies were a relic of *détente*, no longer compatible with the confrontational East-West relationship.²⁹⁷

At the same time, however, these guarantees supported vital West European industrial exports. In 1982, the Soviet Union planned to import \$33 billion worth of goods and technologies. Four billion dollars in new Western credit guarantees were

²⁹⁷ “Restricting Credit to the Soviet Union and the COMECON Countries,” Mar. 11, 1982, folder “Buckley Mission Feb-Mar 82 (9 of 13),” RAC box 5, Bailey Files, RRL.

expected to finance seventy-five percent of West European steel and machine tool industrial exports to the East. “These credits are thus essential to these industries’ exports,” one report concluded. The Reagan administration pushed credit restraints because it wanted congruence between the West’s strategic and economic stance towards the Soviet Union. The West Europeans had endorsed the administration’s concept of economic security at the Ottawa Summit in July 1981 but resisted concrete actions on East-West economic relations, despite developments in Poland. In an attempt to convince the allies, the administration now argued credit restraints were financially prudent. The mission was instructed to tell allied counterparts that the Soviet bloc was “an increasingly poor credit risk” as the bloc economies remained stagnated and debts mounted. “Extending official credits/guarantees under such circumstances which serve as an implicit stamp of approval for private banks does not constitute responsible policy,” read the scope paper. In light of the Soviet Union’s slipping creditworthiness, the United States said it was foolish to offer Moscow below market interest rates and unrestricted credit volumes.²⁹⁸

The Buckley mission to Europe, March 13-23, began an allied dialogue about the East-West financial relationship. The delegation found a “general agreement” amongst the allies that the credit policies of the past were “fundamentally misguided” and worth revising. Although the West Europeans agreed to continue consultations over credit policy and hoped to conclude talks ahead of the June G7 summit in Versailles, they refused to implement a moratorium on new official credits for various reasons. All of the

²⁹⁸ “Impact on Western Europe and Japan of Credit Restraints on Soviet Union,” Mar. 11, 1982, folder “Buckley Mission Feb-Mar 82 (9 of 13),” RAC box 5, Bailey Files, RRL; “Scope Paper for Buckley Trip,” Draft No. 4, Mar. 11, 1982.

allies feared others might cheat on credit restraints in an attempt to increase their relative market shares in the East. Aside from this concern, the mission found the British and Italian governments the most willing to work towards an allied consensus. The West German and French governments, however, raised significant impediments to a deal.²⁹⁹

A few days before the mission left the United States, President Reagan met with West German Foreign Minister Genscher. Reagan and Genscher primarily discussed the U.S.-FRG security relationship and NATO. Halfway through the conversation, the president mentioned the upcoming mission to Europe and the credit initiative, calling it a “historic opportunity” to influence the Soviet Union and the Polish situation. Genscher responded that the FRG would not wage “economic warfare” against the Soviet Union but was “ready to work” with the allies on a reasonable credit policy.³⁰⁰ In Bonn, however, Buckley and his team found the West Germans less forthcoming. After the meeting, the U.S. delegation reported that future negotiations with the FRG would likely be “lengthy and frustrating.” West German State Secretary Hans Werner Lautenschlager of the Foreign Ministry supported raising the Soviet Union’s interest rate in the OECD and exchanging East-West financial information among the allies. As the minister and his aides pointed out, though, Bonn did not offer any nation official credits or official credit guarantees. The Hermes Credit Insurance Company, a private institution, and other commercial banks financed and guaranteed, usually at market rates, German exports. Occasionally, Moscow obtained below market interest rates. In those cases, German

²⁹⁹ “Report of the Interagency Mission to Europe,” Mar. 24, 1982, folder “Buckley Mission Feb-Mar 82 (12 of 13),” RAC box 5, Bailey Files, RRL.

³⁰⁰ Cable, D.C. to Embassy Bonn, Mar. 24, 1982, folder “Buckley Mission Feb-Mar 82 (11 of 13),” RAC Box 5, Bailey Files, RRL.

exporters simply charged the Soviets more money for their products then transferred the difference over to the banks and guarantors. The Soviets knew of this practice but were willing to pay a higher price for the superior quality of West German goods. West Germany was the Soviet Union's largest Western trading partner, and the Reagan administration estimated that Hermes provided about one-third of the new credits and guarantees going to the Soviets annually. The West German government, of course, approved of Hermes' policies. The French and British, though, refused to participate in any credit regime unless Hermes instituted restrictions too.³⁰¹

Buckley and his team asked Bonn to restrict Hermes' actions, arguing it amounted to subsidizing the Soviet economy. Lautenschlager and his aides countered that any limits on Hermes credits would undermine West Germany's trade with the Soviet Union. In such a case, Bonn insisted the allies not discuss East-West credit policy but rather all trade, including U.S. grain sales, with the Soviet Union. The U.S. delegation argued that grain sales were conducted on commercial terms, to which their German counterparts claimed Hermes operated on the same basis. Bonn also believed trade with the East derived significant political benefits, creating a more stable international system and contributing towards their long-term goal of German reunification. It was not prepared to cast *Ostpolitik* aside, despite the Soviet Union's recent misbehavior. The credit talks in

³⁰¹ Cable, Embassy London to D.C., Mar. 17, 1982, folder "Buckley Mission Feb-Mar 82 (10 of 13)," RAC box 5, Bailey Files, RRL; Background Paper, "The Role of Official Credits in Transactions with the USSR and Eastern Europe," Mar. 10, 1982, folder "Buckley Mission Feb-Mar 82 (6 of 13)," RAC box 5, Bailey Files, RRL.

Bonn remained at an impasse. Buckley noted his counterpart's commitment to revise the OECD Consensus and made his way to Paris, hoping for productive negotiations.³⁰²

In Paris, the mission enjoyed a "warmer atmosphere," but the French also obstructed U.S. efforts. Unlike the West Germans, the French traded with the East for commercial, as opposed to political, benefits, and French officials expressed a keen interest in restricting official credits to the East in order to limit their exposure to the Soviet bloc's growing debt. The French Foreign Minister Claude Cheysson and his aides also explained their government supported U.S. attempts to bring East-West economic relations into line with the West's strategic stance towards the Soviet Union. "Whereas the Germans spent most of their time telling us steps which we were proposing posed enormous problems for them," the delegation informed Haig, "the French stated their case with a less negative cast and gave impression of trying to find solutions." The meeting was not without problems though. Cheysson informed Buckley that, due to a February 1980 French-Soviet protocol, France could not take any action limiting medium or long-term credits. The protocol was a five-year agreement under which the French offered the Soviets below market interest rates on official credits between 1980 and late 1981. Since then, Paris charged the OECD Consensus rate. Instituting a moratorium on new official credits, however, would violate the agreement. Although the protocol tied their hands on limiting official credits, French officials supported raising rates in the OECD and exchanging information about their financial relationship with the East. They opposed, however, a U.S. proposal to create an international institution to monitor and restrict East-West credit flows—a COCOM for finance—preferring the matter be handled

³⁰² Cable, Embassy London to D.C., Mar. 17, 1982.

through existing organizations. Lastly, the French stressed the need for “burden sharing,” which the U.S. delegation interpreted as a “code word for U.S. grain sales.”³⁰³

Buckley and his team met with British and Italian officials towards the end of their mission. These governments were more receptive to U.S. proposals, though, they still opposed a moratorium. Buckley learned that the Italian government had placed its involvement in the Siberian pipeline project on a temporary hold, hoping the allies would agree to develop alternative gas sources in the West. Like in Paris, U.S. officials found the Italians concerned about the Soviet bloc’s mounting debt problems.³⁰⁴ The British, however, were the most forthcoming despite their reluctance to move fast on the credit initiative. Ahead of their meetings, British officials learned the other West European governments opposed the moratorium. Therefore, London did not want to offer so much support for U.S. proposals that it broke with the continental governments. At all costs, though, it sought to avoid further U.S. unilateral measures that divided the alliance. The British government was more willing than the other allies to restrict credits to the Soviet Union, but they believed the matter had to be studied further while talks continued, minimizing any chance for alliance disunity.³⁰⁵

³⁰³ Cable, Embassy London to D.C., Mar. 17, 1982, folder “Buckley Mission Feb-Mar 82 (10 of 13),” RAC box 5, Bailey Files, RRL; Background Paper, “The Role of Official Credits in Transactions with the USSR and Eastern Europe,” Mar. 10, 1982; Cable, U.K. Embassy in Paris to FCO, Mar. 17, 1982, Thatcher MSS, Doc. ID 142835, <http://www.margaretthatcher.org/document/142835> (accessed 9 Dec. 2015).

³⁰⁴ Cable, Embassy Brussels to D.C., Mar. 19, 1982, folder “Buckley Mission Feb-Mar 82 (10 of 13),” RAC box 5, Bailey Files, RRL.

³⁰⁵ Letter, Jonathan Rees to Francis Richards, Mar. 15, 1982, Thatcher MSS, Doc. ID 142836, <http://www.margaretthatcher.org/document/142836>; FCO letter to No. 10, Mar. 18, 1982, Thatcher MSS, Doc. ID 137888, <http://www.margaretthatcher.org/document/137888> (both accessed 9 Dec. 2015); Cable, Embassy Brussels to D.C., Mar. 19, 1982, folder “Buckley Mission Feb-Mar 82 (10 of 13),” RAC box 5, Bailey Files, RRL.

Buckley reported that FCO Deputy Under Secretary Thomas Bridges “cautioned us to pursue a long term policy and not a short term one since we would expend a large amount of political capital for naught.” The British suggested the allies conduct joint studies on the East-West financial relationship that demonstrated a link between easy credit and the Soviet Union’s ability to enhance its economic and military position. Such linkage could persuade the West Germans to support the credit initiative. Like the other allies, the British raised concerns over the East’s debt, and, afterwards, Buckley reported the debt issue granted the East “reverse leverage” over the West. The West Europeans all hesitated to take strong action on credits, fearing restrictions might trigger a wave of defaults across the Soviet bloc.³⁰⁶

While debriefing the president and NSC, Buckley noted that the mission failed to achieve an allied moratorium on new credits, but he was confident further negotiations could produce an agreement ahead of the Versailles economic summit. Again, President Reagan chose to defer action on extraterritoriality while the allied consultations continued.³⁰⁷ Reagan was becoming increasingly frustrated over the lack of allied action against the Soviet Union. The Polish crisis had revealed, in the president’s view, the Soviet Union’s continued hostility towards the West, and despite this threat, the Western governments and creditors were aiding the failing Soviet economy and importing more Soviet energy. After a briefing on March 26, Reagan confided in his diary that the

³⁰⁶ Cable, Embassy Madrid to D.C., Mar. 23, 1982, folder “Buckley Mission Feb-Mar 82 (10 of 13),” RAC box 5, Bailey Files, RRL; “Report of the Interagency Mission to Europe,” Mar. 24, 1982; NSC Meeting Minutes, Mar. 25, 1982, Reagan Files (accessed 10 Dec. 2015).

³⁰⁷ NSC Meeting Minutes, Mar. 25, 1982.

Soviets “are in very bad shape & if we can cut off their credit they’ll have to yell ‘Uncle’ or starve.”³⁰⁸

Reagan may have exaggerated the Soviet Union’s vulnerability to credit restrictions, but Moscow was already facing tough resource allocation decisions without Western action. The Soviet leadership, for instance, recognized its limited ability to offer economic assistance to its Polish brethren. In the fall of 1980, Moscow cut back its oil exports to Eastern Europe in order to sell more oil on the international market, generating additional hard currency to lend to Warsaw. In the spring of 1981, Poland requested an additional \$700 million in aid from the Soviet Union, to which Politburo official Ivan Arkhipov told his fellow members, “Of course, we cannot find that kind of sum.” Days before the declaration of martial law, the Soviet Politburo also considered sending Poland food supplies from its own state reserves and withdrawing supplies from other Third World allies. In early 1982, Brezhnev told his compatriots that the Soviet Union was “at the limits of our abilities in terms of assistance to the Poles, yet they are submitting new requests. Perhaps we still have to do something, but we can no longer afford major advances.” Soviet resources were already being severely stretched, and the Soviet Union was relying more and more on Western finance to develop its economy and provide for its citizens.³⁰⁹

During allied follow-up talks in April and May, Buckley shared the latest CIA estimates on Soviet hard currency earnings. The estimates demonstrated Moscow was decreasing aid to Eastern Europe and the Third World while cutting industrial imports

³⁰⁸ Ronald Reagan, *The Reagan Diaries*, ed. Douglas Brinkley, vol. I (New York: Harper Collins, 2009), 118.

³⁰⁹ Paczkowski and Byrne, *Solidarity to Martial Law*, Docs. 17, 38, 81, and 94.

from the West. The Soviets simply lacked the resources to maintain past levels of East-West trade and foreign assistance. In these meetings, however, West European officials questioned the assumptions behind the CIA study and recommended they study the matter further before acting. The allies did not want to politicize their export financing by deliberately discriminating against Moscow. Buckley consistently argued the Soviet Union should not be treated as just another nation but a security threat. In the course of these discussions, Buckley and his aides realized the allies were more open to the argument that Moscow's credit was slipping. He told West German officials that under various scenarios, Soviet debt-service ratio could range between 68 to 116 percent by 1990. It was a "Poland in the making." Under such circumstances, it was financially prudent for the West to discriminate against the Soviet Union.³¹⁰

To limit Moscow's access to credits, the United States proposed various restriction schemes in addition to revising the OECD Credit Consensus. One idea involved limiting each nation's credit commitment to past averages then reducing those commitments annually by a predetermined percentage. Another proposal would have prescribed each nation a ratio between credits and its total trade with the Soviet Union.³¹¹ But the West Europeans found these ideas too complicated, and Buckley wrote that there was "no sense of enthusiasm, to say the least, for our proposal, although there are signs of understanding that something needs to be done." By late April, a compromise appeared to

³¹⁰ Memo, Maurice C. Ernst to Buckley, Apr. 19, 1982, and Draft Memo, H. Allen Holmes and Robert Hormats to Buckley, Apr. 23, 1982, folder "Buckley Mission Apr 1982 - Present (4 of 10)," RAC box 5, Bailey Files, RRL; Paper, "Suggested Possible German Arguments (with U.S. Responses)," Undated, and Draft Cable, D.C. to Embassies in Europe, Apr. 3, 1982, folder "Buckley Mission Apr 1982 - Present [1983] (2 of 10)," RAC box 5, Bailey Files, RRL.

³¹¹ Paper, "U.S. Thoughts on Possible Mechanisms for Allied Control of Officially-Supported Credits to the U.S.S.R.," Undated, folder "Buckley Mission Apr 1982 - Present (4 of 10)," RAC box 5, Bailey Files, RRL.

be in the making after a West German official suggested the OECD simply require a larger down payment on individual transactions. Under the Consensus, borrowers were required to make a minimum fifteen percent down payment, using cash or a private loan, with official credits covering the remainder. Although the United States preferred its more elaborate schemes, Buckley was enthusiastic about the proposal, believing an agreement was about to be concluded. Soon after, Bonn walked back their suggestion, claiming the United States needed to contribute more to the burden-sharing by limiting grain sales. All the while, Paris cited its protocol with Moscow as an excuse not to act on credits.³¹²

The administration wanted a credit agreement before the Versailles Economic Summit, June 4-6. With time running out, Haig and Buckley wanted the president's approval to offer the West Europeans U.S. flexibility on existing pipeline sanctions, possibly lifting them after the summit, in return for allied willingness to limit credits, limit imports of Soviet natural gas, abandon construction of a planned second strand of the pipeline, and develop alternative gas supplies in Europe. Haig and Buckley had hinted at such a trade with their allied counterparts throughout the talks; now they wanted to make an explicit offer.³¹³ To both pragmatists and hardliners, it appeared likely that the West Europeans would concede to the last three points. European gas demand had been

³¹² Memo, Buckley to Mission Members, Apr. 26, 1982; Cable, Embassy Paris to D.C., Apr. 24, 1982; Memo, Buckley to Clark, Apr. 28, 1982; Cable, Embassy Bonn to D.C., Apr. 29, 1982; Memo, Buckley to Mission Members, Apr. 29, 1982, all in folder "Buckley Mission Apr 1982 - Present (7 of 10)," RAC box 5, Bailey Files, RRL; Treasury Paper, "Preliminary Analysis of Alternative Proposal," May 5, 1982, folder "Buckley Mission Apr 1982 - Present (8 of 10)," RAC box 5, Bailey Files, RRL; Cable, FCO to U.K. Embassy in D.C., May 25, 1982, Thatcher MSS, Doc. ID 137513, <http://www.margaretthatcher.org/document/137513> (accessed 15 Dec. 2015).

³¹³ NSC Meeting Agenda, May 22, 1982 and "East-West Trade Policy," Undated, folder "NSC 00050 24 May 82 (1/2)," NSC Meeting Files, RRL; NSC Meeting Minutes, May 24, 1982, Reagan Files (accessed 15 Dec. 2015).

declining, leading many U.S. and West European officials wondering whether the second strand was necessary. At the same time, the Norwegian government was more willing to explore gas development talks with the allies, and revised estimates concluded there was enough gas in the North Sea to meet European demand for thirty years.³¹⁴

As the president weighed the options at the NSC meeting on May 24, the hardliners voiced their opposition to the State Department's proposed trade. Casey and Deputy Secretary of Defense Frank C. Carlucci, who sat in for Weinberger, argued that an allied credit control agreement did not justify lifting the pipeline sanctions. Maintaining the sanctions might sacrifice American jobs and hurt American companies, but, as Carlucci said, "Martial law continues in Poland and we should continue our pressure." Pipes wrote a memo to the president a few days earlier also arguing that lifting the pipeline sanctions without any Soviet or Polish concessions would damage U.S. credibility. If anything, Reagan needed to take stronger actions as he threatened to do in his December statements should Moscow and Warsaw refuse to reverse martial law. The sanctions were imposed in response to the Polish crisis. Since Polish oppression continued, so too should the sanctions. While Carlucci and Pipes highlighted the sanctions' connections to the Polish crisis, Casey hoped the sanctions would compel the allies to abandon the second pipeline strand and develop West European alternatives. Casey told Reagan that if the West continued helping the Soviet Union develop its energy supplies, then his successors "will confront a situation where Europe obtains 50 percent

³¹⁴ CIA Paper, "Western Alternatives to Soviet Natural Gas: Prospects and Implications," May 20, 1982, CIA RC; Memo, E. Allan Wendt to Agencies, Apr. 16, 1982, folder "Buckley Mission Apr 1982 - Present [1983] (3 of 10)," RAC box 5, Bailey Files, RRL; Memo, Michael A. Ledeen to Eagleburger, Apr. 6, 1982, folder "Buckley Mission Apr 1982 - Present [1983] (2 of 10)," RAC box 5, Bailey Files, RRL.

of its gas supplies from the Soviet Union” while Moscow “earned 80 percent of its hard currency earnings from gas sales.” The sanctions granted the United States some leverage over the course of events, and he advised the president to use that leverage to delay the pipeline’s construction, stop the second strand, and push the allies to develop secure alternatives.³¹⁵

At the end of the meeting, Reagan decided not to adopt the State Department’s proposal. As he explained, “I felt all along that we imposed the sanctions because of Poland and that credit controls were to be a *quid pro quo* for our not applying extraterritoriality.” The situation in Poland had not changed, and if the president moved to relax the sanctions, “we will lose all credibility.” Reagan chose to hold the extraterritoriality in abeyance pending the developments of the Versailles Summit. Yet the president clearly favored the hardliners’ approach. “We should tell [the allies],” Reagan stated, “we will help you with North Sea energy resources—O.K. have your pipeline, but no second pipeline, and develop Norway.” But unlike his hardline advisors, he did not favor waging economic warfare against the Soviet Union. Rather, Reagan wanted Moscow to modify its international behavior, to let the Polish people choose their own destiny. “We are willing to help the Russians if they straighten up and fly right. We want deeds and they can begin with Poland,” he concluded. Reagan and the hardliners envisioned different ends to U.S. policy. The hardliners did not think the Soviet Union was capable of reforming its system and joining the community of nations, thus U.S.

³¹⁵ NSC Meeting Minutes, May 24, 1982; Pipes, *Vixi*, 179-180.

policy was intended to contribute to Soviet burdens. Reagan, though, hoped it was capable of reform.³¹⁶

Days before the Versailles Summit, Buckley conducted one last follow-up meeting in Paris. Afterwards, he wrote it was “now up to the President to persuade the Summiters to approve restraints on official credits,” noting the odds of success as fifty-fifty. Only the British were ready to commit to an agreement. The other allies continued expressing their interest in restraints but insisted the matter be studied further. Reagan wanted a G7 communique committing the allies to restricting credits to the Soviet Union and an agreement on a restraint mechanism. If agreement proved impossible, the administration sought, at the very least, an allied pledge to monitor the flow of credits to the East and conduct follow-up consultations. The administration anticipated the French being the most resistant to the success of U.S. goals. With France as the host, Mitterrand did not want to appear to be restricting export subsidies for French companies at a time of high unemployment. Although the West Germans were still hesitant to regulate Hermes, the administration believed they had become more accommodating after their counterproposal to increase down payments in the OECD.³¹⁷

U.S. officials could not have been more right about French intransigence. After it became clear the allies would not reach a consensus on a credit restraint mechanism, Reagan and his aides pushed for language in the communique in which members pledged

³¹⁶ NSC Meeting Minutes, May 24, 1982.

³¹⁷ Memo, Buckley to Mission Members, May 29, 1982 and Cable, Embassy Paris to D.C., May 28, 1982, folder “Buckley Mission Apr 1982 - Present (9 of 10),” RAC box 5, Bailey Files, RRL; Cable, U.K. Embassy in Paris to FCO, May 28, 1982, Thatcher MSS, Doc. ID 137519, <http://www.margaretthatcher.org/document/137519> (accessed 14 Dec. 2015); “Allied Credit Restraints to Soviet Union,” Jun. 1, 1982, folder “Buckley Mission Apr 1982 - Present (9 of 10),” RAC box 5, Bailey Files, RRL.

to monitor credit flows and consider “restrictions.” Once the allies rejected “restrictions,” U.S. officials substituted the word “limiting.” During the two final heads of state sessions on June 6, Reagan, Haig, and Thatcher quarreled with the other leaders over the statement’s wording. Mitterrand opposed language calling on the allies to limit credits “in light of commercial prudence.” Schmidt and Canadian Prime Minister Pierre Trudeau supported Mitterrand, fearing the statement would lead to “arbitrary cutbacks in credit,” according to one U.S. official. Hours later, the leaders settled on revised language. In addition to covering the summit’s other issues, the communique made the following announcement on East-West economic relations:

Taking into account existing economic and financial considerations, we have agreed to handle cautiously financial relations with the U.S.S.R. and other Eastern European countries, in such a way as to ensure that they are conducted on a sound economic basis, including also the need for commercial prudence in limiting export credits. The development of economic and financial relations will be subject to periodic ex-post review.

Although the administration got less than it had hoped for, the communique marked a step forward in the process of bringing East-West economic relations in line with allied strategic and military objectives. At the 1981 Ottawa Summit, the West endorsed the Reagan administration’s concept of economic security; now it announced the first procedural steps to reevaluate the East-West economic relationship.³¹⁸

³¹⁸ Henry Nau, “Report on East-West Credit at the Versailles Summit,” Jun. 9, 1982, folder “Buckley Mission Apr 1982 - Present (10of 10),” RAC box 5, Bailey Files, RRL; No. 10 Rec. of Conversation, Third Plenary Session at Versailles Summit, Jun. 6, 1982, Thatcher MSS, Doc. ID 137727, <http://www.margarethatcher.org/document/137727> (accessed 15 Dec. 2015); “Communique Issued at the

Yet, the ambiguous statement obscured the fact that the United States and the West Europeans held contesting views on the likely outcome of these credit reviews. These differences became apparent shortly after the summit. The Reagan administration interpreted the communique as the allies consenting to limit export credits, future consultations were merely a formality. As a White House statement noted, “We have agreed to exercise prudence in financial relations with the Soviet Union, including limiting export credits.” The West Europeans, however, objected, arguing credit limitations were not a foregone conclusion. Days after the summit, West German Finance Minister Manfred Lahnstein publically suggested East-West economic relations would not change, declaring, “We will continue to work with the East European countries and the Soviet Union as usual.” In an interview one week after the summit, Mitterrand also dismissed any notion that the communique signified a new East-West financial relationship. The French were willing to revise the OECD Credit Consensus and share financial information. But Mitterrand considered any further allied action unnecessary, reiterating his opposition to “an economic COCOM.” The French president implied the United States sought an economic war against the Soviet Union. “We are not going to wage any kind of [economic] war on the Russians,” he continued, “It could lead to a real war.”³¹⁹

Conclusion of the Versailles Economic Summit Conference,” Jun. 6, 1982, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1982/60682c.htm> (accessed 15 Dec. 2015); Robert D. Putnam and Nicholas Bayne, *Hanging Together: Cooperation and Conflict in the Seven-Power Summits* (Cambridge: Harvard University Press, 1987), 135-140.

³¹⁹ “Statement Following the Conclusion of the Versailles Economic Summit Conference,” Jun. 6, 1982, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1982/60682b.htm> (accessed 15 Dec. 2015); Lahnstein quoted in Putnam and Bayne, *Hanging Together*, 137; Jim Hoagland, “France Refuses to Wage Economic War on Soviets,” *Washington Post*, Jun. 15, 1982, A1.

In return for agreeing to incorporate the credit language in the communique and continue consultations, the allies expected the administration to lift the oil and gas sanctions, or at least permit West European companies to use U.S. components on the project. Since March, Haig and Buckley had implied there was a link between credits and the sanctions. It was not until the May 24 NSC meeting that President Reagan discounted such linkage, specifying that credit restraints were linked to the administration not invoking extraterritoriality. With Versailles over, Reagan and the NSC again considered the sanctions and extraterritoriality. Clark scheduled the meeting for June 18. Conveniently for the hardliners, Haig and Stoessel were both unable to attend, leaving Eagleburger to represent the State Department. Casey explained to the president that the oppression in Poland continued unabated and the Soviet Union showed no sign of modifying its behavior. When he announced the sanctions, Reagan promised to take stronger action unless Poland, with Soviet acquiescence, lifted martial law, released political prisoners, and restored its dialogue with Solidarity and the Catholic Church. Reagan hoped such stronger action would come in the form of allied measures, particularly credit restrictions. In the administration's view, the allies had been unwilling to cooperate and now appeared to be undermining the commitments outlined in the Versailles communique.³²⁰

Under these circumstances, the hardliners argued the president had no choice but to invoke extraterritoriality. By extending the sanctions to cover U.S. subsidiaries in foreign countries and licensees of U.S. technologies, the administration hoped to push the

³²⁰ Haig, *Caveat*, 313; NSC Meeting Minutes, Jun. 18, 1982; Reagan's Concluding Remarks at NSC Meeting, recorded by Pipes, both at the Reagan Files (accessed 15 Dec. 2015).

allies to adopt its confrontational view of East-West economic relations while further delaying the pipeline's construction, punishing the Soviet Union. Weinberger even held out hope the pipeline could still be stopped completely. Eagleburger, with Baldrige's support, maintained the sanctions should be lifted all together since the pipeline "can't be stopped" and invoking extraterritoriality would likely cost the United States any allied cooperation on credit controls. President Reagan sided with the hardliners, choosing to extend the sanctions overseas. In 1981, General Electric had delivered components for about twenty-five turbines and compressors to U.S. subsidiaries in Europe and West European businesses. Under extraterritoriality, these foreign subsidiaries and companies would be violating U.S. law if they shipped the finished products to the Soviet Union. Reagan knew extraterritoriality would be controversial but explained that he made a "plea to the Allies" at Versailles to stand united through action on credits and the pipeline. Reagan was not asking for public moves but "quiet diplomacy," telling Moscow that "there is no way of improving the lot of the Soviet people and end[ing] the [economic] strain" unless the Soviet Union abided by international norms. He desired "concrete deeds" demonstrating the Soviet Union had abandoned its goals of a "global Marxist state." The allies refused the president's request, and he thought it was time to "stand on principle." Reagan believed U.S. credibility over Poland and the administration's East-West strategy was at stake. Until the Soviet Union was willing to change its international behavior, Reagan declared, "they can build their damn pipeline without our help."³²¹

³²¹ NSC Meeting Minutes, Jun. 18, 1982; Reagan's Concluding Remarks at NSC Meeting, recorded by Pipes.

Conclusion

By late 1981, the Reagan administration had been unable to convince the allies to place East-West economic relations on a prudent path. The imposition of martial law in Poland renewed U.S. hopes that the West would reassess its economic relationship with the East. President Reagan saw the Polish crisis as further evidence that the Soviet Union could not be trusted to abide by international norms. As the allies remained reluctant to impose economic measures against the Soviet Union, Reagan moved forward with unilateral sanctions intended to signal disapproval over martial law and pressure Moscow to abandon its aggressive behavior. These sanctions inextricably linked the Siberian pipeline project and the Polish crisis.

These events coincided with the rise of Cold War hardliners, led by Clark, within the administration. These individuals sought to use the Polish crisis and sanctions as a means to launch an economic war against the Soviet Union. With NSDD-32, President Reagan approved this strategy of economic warfare, intended to stress the Soviet economic system until Soviet leaders prioritized internal reform or the superpower collapsed under the weight of its “economic shortcomings.” Stopping, or delaying, the pipeline was at the center of this strategy since it served as Moscow’s most significant future source of hard currency earnings. To achieve their goals, hardliners were willing to go to extraordinary lengths, including attempting to force U.S. subsidiaries in Europe and licensees of U.S. technology to obey U.S. export controls.

Although Reagan opposed the pipeline project and approved the strategy of economic warfare, he never accepted that the ends of U.S. policy were to precipitate a

collapse of the Soviet Union. The president wanted to push Moscow to modify its international behavior. Reagan wanted the Soviet leadership to demonstrate their peaceful intentions, preferably in Poland, at which point, he was willing to accept Soviet admittance into the community of nations. Reagan still thought the pipeline was foolish, but he did not subscribe to the policy of economic warfare, despite approving NSDD-32. Reagan and the hardliners disagreed on the goals of U.S. economic strategy and policy. Nevertheless, they supported the same policies. Yet, as shown in the next chapter, Reagan had no qualms about abandoning this strategy once the allies promised to take more action to strengthen the West's economic defenses.³²²

As a part of strengthening those defenses, Reagan and his advisors also wanted allied credit restraints. These initiatives also became linked to the pipeline sanctions as U.S. negotiators sought to use the threat of extraterritoriality as leverage, forcing an allied agreement. Despite their fears of the East's mounting debts, the allies refused to take action on credits without further studying the East-West financial relationship. The West Europeans also wanted the United States to share the burdens of action by restricting its grain trade with the Soviet Union. After the failure at Versailles, Reagan believed he had no choice but to approve extraterritoriality, punishing the Soviet Union for the continued repression in Poland. Reagan hoped an allied credit initiative would make such a move unnecessary. The hardliners wanted extraterritoriality regardless. Now Reagan courted a

³²² In his article, historian Alan P. Dobson has drawn the same distinction between Reagan's and the hardliners' views of the sanctions and economic warfare. Relying on memoirs and secondary literature, Dobson's analysis focuses predominately on the development of NSDD-75, signed in January 1983, and subsequent events. As a result, Dobson overlooks the significant role the Siberian pipeline served in the hardliners' strategy. My research also uses recently declassified administration documents to shed further light on these issues (Dobson, "The Reagan Administration, Economic Warfare, and Starting to Close Down the Cold War," *Diplomatic History* 29, no. 3 (2005): 531-556).

trade dispute over the pipeline with the allies in order to maintain the credibility of his policies towards Poland and the Soviet Union.

CHAPTER 5: “ALL IN THE FAMILY”: REUNITING THE ALLIANCE

On September 1, 1982, British Prime Minister Margaret Thatcher sat down for a televised interview with a journalist from the British Broadcasting Corporation. In the past weeks, some allied governments ordered West European companies to ship contracted pipeline components to the Soviet Union in defiance of U.S. sanctions. The United States announced retaliatory action against these companies, but Thatcher wanted the British firm John Brown Ltd. to fulfill its contracts too. “We make a contract, we make a deal, we keep it unless there’s some overriding reason,” Thatcher told the journalist. Thatcher and the other allied heads of state believed the pipeline project would not enhance the Soviet Union’s military power and maintained these existing contracts had to be honored. Thatcher revealed that the pipeline fiasco and recent U.S. retaliatory measures made her “feel . . . deeply wounded by a friend.”³²³

The Reagan administration had sought to use the Polish crisis to push U.S. allies to follow its lead on East-West economic relations, but it only widened the gap between U.S. and West European approaches. Until the summer of 1982, allied debates over East-West economic relations took place behind closed doors with the occasional public appeal on both sides. Now the alliance was in crisis as the United States and West Europeans publically fought over the pipeline and contract sanctity. Alexander Haig resigned in the midst of this crisis, and the pragmatic George P. Shultz became the new secretary of state. Once the allies defied U.S. sanctions, administration hardliners realized the United States could not force the West Europeans to abandon the Siberian pipeline

³²³ Margaret Thatcher, TV Interview for the BBC, Sep. 1, 1982, Thatcher MSS (digital collection), Doc. ID 104815, <http://www.margaretthatcher.org/document/104815> (accessed 5 Jan. 2016).

without further straining alliance relations, benefitting the Soviet Union. On the verge of a trade war, the United States and the West Europeans reached a settlement. The Reagan administration lifted its sanctions in return for the West conducting a series of studies on East-West economic relations.

Since this agreement contained no binding commitment to act on the outcome of these studies, the Reagan administration sought to shape the studies' conclusions and pressure the allies to act. A transition took place in the way the administration pushed its East-West agenda. Since 1981, the United States employed congenial public and private appeals for action at the highest levels of government. Reagan was personally involved in these efforts, but these tactics failed to achieve satisfactory results and divided the alliance. The allied studies moved the debate out of the public eye to a lower bureaucratic level. Between early 1982 and late 1983, the administration obtained a revised OECD Credit Consensus that raised interest rates for the Soviet Union and negotiations over the COCOM control list progressed. Although the United States wanted more OECD action on credits, members refused, and the administration dropped its proposals since market forces began moving to limit the East's access to credits.

While the United States did not achieve all of its goals on the credit issue, it had more success on limiting the allies' dependence on Soviet energy imports and strengthening the strategic embargo. The allied studies, concluded by the summer of 1983, found that the West Europeans would have to import more Soviet gas in the 1990s to meet projected demand unless they developed alternative indigenous sources. Since 1981, the Reagan administration argued that higher levels of Soviet gas imports posed a

strategic and economic threat to Western security, and now the allies agreed. As a result, the West moved to develop secure alternatives and strengthen its ability to weather any potential gas import disruptions. At the same time, the allies compromised on measures to tighten the strategic embargo. In addition to COCOM members reforming their national export control systems, they expanded the multilateral control list to cover new sophisticated technologies. COCOM also streamlined its procedures and de-controlled less sensitive technologies to alleviate enforcement burdens.

The Reagan administration did not accomplish all of its objectives for East-West economic relations, but it demonstrated an ability to compromise with the allies in these technical discussions, producing acceptable results. Success came at a cost however. Irritated over the administration's attempt to enforce sanctions extraterritorially, U.S. businesses and allied governments lobbied Congress to curtail the executive's authority to impose foreign policy export controls. Not only did these sanctions create a public crisis within the alliance, they damaged the reputation of U.S. businesses as reliable suppliers in the international market. As a result, Congress revised the Export Administration Act in 1985, extending oversight over the executive's ability to impose these controls.

Resolving an Escalating Crisis

The June 18, 1982 decision to extend the sanctions overseas surprised U.S. allies in Western Europe. After Versailles, Reagan had toured Europe, delivering speeches to the British Parliament, West German Bundestag, and NATO council. At each stop, the president praised the alliance's shared political outlook and ability to cooperate in their

common defense. The West Europeans saw the extraterritoriality decision as anathema to the alliance values Reagan had preached one week earlier. West German Economic Minister Otto Graf Lambsdorff said the decision “rekindled earlier [European] concerns about the president’s attitudes toward the Soviet Union and East-West trade.” The Reagan administration was attempting to impose its views of East-West economic relations on the allies. Rather than treating the alliance as an equal partnership, the United States was trying to dominate it. The U.S. ambassador in Paris expressed concern over the state of U.S.-French relations after Versailles, and in a private conversation at the end of June, Mitterrand told former President Richard Nixon that U.S. sanctions would fail. Mitterrand was dismayed not just about extraterritoriality but also U.S. monetary policies that raised inflation rates across the West. On top of everything else, the United States and the European Community had ongoing trade disputes over their respective agricultural and steel policies. Tensions over these economic policies had been boiling beneath the surface for years, but the extraterritoriality decision exacerbated disputes, precipitating a public break amongst the allies over the pipeline and the sanctity of contracts.³²⁴

Thatcher and her ministers thought the remaining GE components would be sent to John Brown provided they supported U.S. credit initiatives at Versailles. “In light of agreement at Versailles on credit,” noted one British official, “there is no further obstacle

³²⁴ Lou Cannon, *President Reagan: The Role of a Lifetime*, 1st Public Affairs Ed. (New York: Public Affairs, 1991), 413-415; Cable, Embassy Bonn to D.C., Jun. 25, 1982, folder “Germany, FRG (1/1/82-9/30/82) (3),” Exec. Secretariat, NSC: Country File, III, Ronald Reagan Presidential Library (RRL); Cable, Embassy Paris to D.C., Jun. 24 and Jun. 29, 1982, folder “France (6/3/82-7/6/82),” Box 13, NSC: Country File, III, RRL; Memo with Attached U.S.-E.C. Economic Relations Reports, David E. Pickford to Agencies, Jul. 2, 1982, folder “U.S.-E.C. Economic Relations, 07/01/1982-07/12/1982,” RAC Box 5, Dennis C. Blair Files, RRL.

to release of components.” Thatcher later said extraterritoriality came “out of the blue.” Without the GE components, John Brown could lose about \$200 million and cut 2,000 jobs. The company would likely have to close its engineering division in Clydebank, Scotland, where unemployment already reached 20 percent. One British trade official explained it was “difficult to deny the charge that the United States was, by its extra-territorial imposition of sanctions, causing unemployment in Europe.” The Reagan administration had not considered “the wider economic, social and political effects of its actions.” Thatcher wanted GE to honor its contract with John Brown, and she had raised this issue with Reagan repeatedly since January.³²⁵

Now, in an Oval Office meeting with the president and his advisors on June 23, Thatcher voiced her concerns about the sanctions and John Brown again. Reagan explained “his decision had been based squarely on principle and that Western credibility was on the line” in Poland. Since the administration was attempting to force the allies to make economic sacrifices, Thatcher asked whether the United States would forego negotiating a new grain agreement with the Soviet Union or implement a grain embargo. Clark responded that the administration had yet to make a decision about the grain agreement while Bush said an embargo would not hurt the Soviet Union. At this point, Reagan “suggested that John Brown was perhaps in better shape than had been depicted.”

³²⁵ Memo, Francis Richards to A.J. Coles, Jun. 8, 1982, Thatcher MSS, Doc. ID 124388, <http://www.margaretthatcher.org/document/124388> (accessed 16 Dec. 2015); Margaret Thatcher, *The Downing Street Years* (New York: Harper Collins, 1993), 256; Cable, Embassy London to D.C., Jul. 9, 1982, folder “United Kingdom 1982 (05/01/1982-07/31/1982),” RAC Box 6, Blair Files, RRL; Bruce W. Jentleson, *Pipeline Politics: The Complex Political Economy of East-West Energy Trade* (Ithaca: Cornell University Press, 1986), 189-190; Letter, Thatcher to Reagan, Jan. 29, 1982, Thatcher MSS, Doc. ID 123178, <http://www.margaretthatcher.org/document/123178>; Letter, Thatcher to Reagan, Apr. 5, 1982, Thatcher MSS, Doc. ID 122939, <http://www.margaretthatcher.org/document/122939> (both accessed 16 Dec. 2015); Memo, John Whitlock to Secretary of State for Trade, Nov. 23, 1982, PJ 8/7 666449: Siberian Pipeline Dispute between the U.K. and U.S.A., The National Archives of the U.K.

U.S. officials recently met with John Brown representatives and concluded that the company could “weather” the lost sales. Stoessel reported that John Brown was a “highly diversified” company and that its holding company, in a worst case scenario, could keep the engineering division “afloat.”³²⁶ Although the two leaders failed to reach a settlement at this meeting, Thatcher remained committed to resolving the matter without a public rift within the alliance. On July 30, she wrote President Reagan reiterating her “serious concern” about John Brown. While Reagan thought the United States had to stand on principle over Poland, Thatcher wrote, “I believe, as a matter of principle, that existing commercial contracts should be honored.” One week earlier, Polish leader Wojciech Jaruzelski announced his intention to release over one thousand political prisoners. Martial law remained in effect, but Thatcher hoped the alliance would review its objectives in light of the announcement, implying it might present Reagan with an opportunity to abandon extraterritoriality. Nevertheless, the pipeline dispute continued.³²⁷

The extraterritoriality decision also infuriated Haig, but it was only the latest dispute between the secretary of state and administration hardliners. Haig always had a contentious relationship with other White House officials as he sought to protect the State Department’s influence in the making of foreign policy from the Defense Department and NSC. He thought of himself as the “vicar” of U.S. foreign policy, though he never

³²⁶ Memcon, Thatcher and Reagan Meeting, Jun. 23, 1982, Thatcher MSS, Doc. ID 136353, <http://www.margarethatcher.org/document/136353> (accessed 16 Dec. 2015), although Thatcher’s comments are redacted, the content of her comments is apparent based on the responses of the president and other officials; Cable, D.C. to Embassy London, Jul. 10, 1982, folder “United Kingdom 1982 (05/01/1982-07/31/1982),” RAC Box 6, Blair Files, RRL.

³²⁷ Letter, Thatcher to Reagan, Jul. 30, 1982, Thatcher MSS, Doc. ID 122942, <http://www.margarethatcher.org/document/122942> (accessed 17 Dec. 2015); Memo, Richard Pipes to William Clark, Jul. 21, 1982, folder “Poland-Memoranda, 1981-83 [May-September 1982],” RAC Box 3, Paula J. Dobriansky Files, RRL.

dominated the policy process, despite his wishes. In his quest to assert influence, Haig often threatened to resign when things did not go his way. Typically, Reagan would calm the intemperate secretary and the ‘crisis’ would pass. In a meeting with Reagan on June 24, Haig accused National Security Advisor William Clark of deliberately undermining his authority and threatened, once again, to resign. This time, however, Reagan accepted his resignation. The president was tired of Haig’s tantrums and the disruptions they caused. “Al didn’t want anyone other than himself, me included, to influence foreign policy,” Reagan later wrote. The vicar had fallen. Clark and the other hardliners knew it was only a matter of time before Haig was forced out, and they already had a suggestion for the new secretary of state. On June 25, Reagan announced Haig’s resignation and nominated George P. Shultz for the position.³²⁸

While Shultz had little foreign policy experience compared to Haig, he was not new to working in the federal government. After spending some time as an academic economist, Shultz joined the Nixon administration as the first director of the Office of Management and Budget. Later, Nixon appointed Shultz as Secretary of Labor and Secretary of Treasury. In all of these positions, Shultz demonstrated his ability to act in the best interests of the nation. Thereafter, Shultz headed Bechtel, a construction corporation, and advised Reagan on economic matters during the 1980 campaign. Shultz was not one of Reagan’s long-time friends, like Clark and Weinberger, but the two men would forge a strong partnership over the coming years. Shultz respected the president’s

³²⁸ “The ‘Vicar’ Takes Charge,” *Time* 117, no. 11: 14; Leslie H. Gelb, “Haig-Clark Feud Emerging Over Foreign Policy,” *The New York Times*, Jun. 22, 1982, A18; Alexander M. Haig, Jr., *Caveat: Realism, Reagan, and Foreign Policy* (New York: Macmillan Publishing Company, 1984), 310-316; Cannon, *President Reagan*, 163-171; Reagan, *An American Life* (New York: Simon & Schuster, 1990), 360; Reagan, *The Reagan Diaries*, ed. Douglas Brinkley, vol. I (New York: Harper Collins, 2009), 139.

views yet felt he could be candid with Reagan, and Reagan welcomed Shultz's professional, sensible demeanor. The Senate confirmed the nomination with little controversy in mid-July, and the new secretary got to work.³²⁹

Shultz was an opponent of economic sanctions, in general, and the pipeline sanctions and extraterritoriality, in particular. "As an economist," he later wrote, "I was skeptical of the effectiveness of sanctions, especially when applied unilaterally." In an increasingly global market, one nation alone could not prevent another nation from acquiring certain goods. Unilateral U.S. sanctions might delay the pipeline but the needed components would be obtained elsewhere, and the United States' reputation as a reliable supplier would be tarnished. On the whole, Shultz regarded the pipeline dispute as a distraction from more pressing matters facing the alliance and East-West relations. In the fall of 1983, the United States and its allies were scheduled to deploy intermediate-range nuclear missiles in Western Europe unless the Soviet Union agreed to remove similar missiles from Eastern Europe. Arms control negotiations over the fate of these weapons would be entering a critical phase in the coming year. The West had to remain strong and unified as it talked to the Soviets. "The pressing need for coherence and unity in the alliance would be practically impossible to manage, I knew, unless we could dissipate the acrimonious atmosphere with the Europeans created by the pipeline dispute," Shultz remembered.³³⁰

³²⁹ George P. Shultz, *Turmoil and Triumph* (New York: Charles Scribner's Sons, 1993), 18-22, 26-34, 8; Cannon, *President Reagan*, 170-171; James Graham Wilson, *The Triumph of Improvisation* (Ithaca: Cornell University Press, 2014), 64-65; Don Oberdorfer, "Shultz Takes Office, and Full Plate, at State," *Washington Post*, Jul. 17, 1982, A1.

³³⁰ Shultz, *Turmoil and Triumph*, 137, 5.

As Shultz settled into his new job, the West Europeans escalated the crisis. On July 13, the U.S. Ambassador to France Evan G. Galbraith reported that “the strategic impact of our pipeline sanctions is not widely understood.” French officials could not fathom why the administration insisted on blocking the pipeline, even if doing so meant sowing alliance discord. Galbraith explained that the pipeline would strengthen Soviet industrial and military capacities through increased hard currency earnings. “Our policy need not be characterized as economic warfare; it is simply a decision not to bail [the Soviets] out of their trouble or support their expansion,” he said. Although the French government did not accept the U.S. rationale, Galbraith believed French companies would not circumvent U.S. extraterritorial sanctions. Back in February, an Alsthom-Atlantique official had told Galbraith that violating extraterritoriality would result in years of litigation, damaging the company’s reputation and relationship with U.S. suppliers. By early August, however, Mitterrand ordered Alsthom-Atlantique, Creuset-Loire, and Dresser-France (a U.S. subsidiary) to honor their contracts with the Soviet Union by shipping the pipeline materials, defying U.S. law. Likewise, the British government invoked the Protection of Trading Interests Act, regarding U.S. sanctions as a threat to their commercial interests and ordering John Brown to honor its Soviet contracts. The Italian government followed suit.³³¹

On July 30, Reagan announced a one-year extension of the U.S.-Soviet grain agreement, further irritating U.S. allies in Western Europe. The administration claimed

³³¹ Cable, Embassy Paris to D.C., Jul 13, 1982, folder “USSR-Economy (5/10),” Box 25, Jack F. Matlock Files, RRL; Cable, Embassy Paris to D.C., Feb. 19, 1982, folder “NSC 00043 26 Feb 1982,” NSC Meeting Files, RRL; Glenn Frankel, “France Orders Firms to Build Pipeline,” *Washington Post*, Jul. 23, 1982, A1; Antony J. Blinken, *Ally Versus Ally* (New York: Praeger, 1987), 105-107.

grain sales did not help the Soviet Union since they required Moscow to spend hard currency on imports. Cancelling the agreement or instituting an embargo would only hurt American farmers. But the West Europeans only saw hypocrisy. The Soviet agricultural sector struggled to feed its people, and U.S. grain sales, in effect, helped the Soviet Union overcome this economic deficiency. “It was more than a little ridiculous for Washington to sell the Soviets grain and ask them to pay in hard currency while telling us that the pipeline was a strategic disaster because it gave Moscow too much hard currency,” said West German Chancellor Helmut Schmidt. In the midst of a deep economic recession, the West European leaders saw the pipeline exports as imperative to sustaining their industrial sectors and political support. If they forced companies to cancel the contracts, workers would protest. The grain decision only reinforced the allies’ determination to defy extraterritoriality.³³²

As the pipeline dispute escalated, Shultz attempted to ease tensions in a meeting with the French ambassador to the United States on July 31. The ambassador reiterated French concerns about bilateral relations due to the pipeline sanctions, as well as U.S. monetary policies and the ongoing U.S.-E.C. steel and agricultural disputes. In response, Shultz emphasized that even though there were difficulties at the present time, “there are still much broader areas of cooperation and agreement” that should not be overlooked. Both nations remained committed to the Atlantic security alliance and shared political

³³² “Statement on an Extension of the United States-Soviet Union Grain Sales Agreement,” Jul. 30, 1982, *The Public Papers of President Ronald W. Reagan*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1982/73082a.htm> (accessed 19 Dec. 2015); Schmidt quoted in Blinken, *Ally Versus Ally*, 107. Policy memos detailing the administration’s decision to extend the agreement can be found in folder “Soviet Union - Grain Embargo EE 1/4 [1982-1984],” Box 27, Matlock Files, RRL.

values. There was a “need to de-escalate the war of words and to prevent current problems from poisoning the atmosphere in areas where we can work together,” alluding to the pending missile deployments and arms control talks with the Soviet Union. Shultz realized the administration could not reverse extraterritoriality without sacrificing U.S. credibility, so he sought to cultivate a dialogue with the allies in order to obtain a compromise that let both sides save face.³³³

Shultz made a similar case to West German and British officials. West German Economic Minister Otto Graf Lambsdorff said Bonn “cannot accept the principle of extraterritorial application of U.S. law.” Like Shultz, he worried the dispute might undermine the U.S.-West European security relationship. In particular, Lambsdorff feared the allies might cancel the intermediate-range nuclear missile deployments, leaving West Germany more vulnerable to Soviet power. In the end, maintaining and strengthening Western security was more important than a trade dispute. While vacationing in the United States in late July, Schmidt described the pipeline controversy as “some family problems” that the alliance had to “overcome.” Reagan reiterated this view in a press conference, stating “there are no real and deep differences between us. It’s still all in the family.” Shultz now told a receptive Lambsdorff that Schmidt’s characterization of the dispute was accurate. Tensions were high but, as British Foreign Secretary Francis Pym said, the relationship was still “deep and excellent.” In a late September speech, Pym cautioned Americans against questioning Western Europe’s commitment to allied security. The Europeans were the ones living within a divided

³³³ Cable, D.C. to Embassy Paris, Aug. 4, 1982, and Aug. 6, 1982, folder “France (7/28/82-8/31/82),” Box 13, NSC: Country File, III, RRL.

continent in the shadow of the Soviet Empire. For them, East-West relations were “about the day to day business of living with a huge and uncertain neighbor with vast military power.” Pym wondered whether Americans had lost sight of this basic geopolitical fact and stressed that Western Europe was equally committed to their shared security and the promotion of freedom, democracy, and human rights.³³⁴

Although these officials expressed a desire to settle their problems, the situation continued to deteriorate. In late August and early September, Dresser-France and the West European companies shipped the turbines and compressors to the Soviet Union. In retaliation, the Commerce Department banned the export of oil and gas goods and technologies to these companies. A *New York Times* editorial derided this emerging trade war as “pipeline machismo” resulting from “incompetent American diplomacy.” In response to the U.S. export ban, the British reviewed their own possible retaliatory measures, such as limiting the importation of U.S. chemicals, textiles, and steel. The government even considered publically deriding the United States as an unreliable supplier.³³⁵ Fortunately, the British never had to employ these measures. U.S. officials and their allied counterparts moved to contain the damage and resolve their disagreement. The administration had done all it could legally do to try to delay the pipeline, and the

³³⁴ Cable, Embassy Bonn to U.S. NATO Mission, Aug. 11, 1982, folder “Germany, FRG (1/1/82-9/30/82) (1),” Box 14, NSC: Country File, III, RRL; Jay Mathews, “Chancellor Schmidt on Busman’s Holiday in Bohemian Grove,” *Washington Post*, Jul. 24, 1982, A12; Michael Getler, “Visiting Briton Seeks to Patch Pipeline Split,” *Washington Post*, Jul. 30, 1982, A11; Reagan, “Question-and-Answer Session With Reporters on Domestic and Foreign Policy Issues,” July 23, 1982, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1982/72382a.htm> (accessed 19 Dec. 2015); Pym, Remarks to the Foreign Policy Association of New York, Sep. 27, 1982, folder “United Kingdom 1982 (08/01/1982-10/03/1982),” RAC Box 6, Blair Files, RRL.

³³⁵ Jentleson, *Pipeline Politics*, 195-196; “Pipeline Machismo,” *New York Times*, Sep. 1, 1982, A22; Memo, G.R. Sunderland to Secretary of State, Sep. 24, 1982; Memo, John Rhodes to Sunderland, Sep. 28, 1982, both in PJ 8/7 666449: Siberian Pipeline Dispute between the U.K. and U.S.A., The National Archives of the U.K.

allies refused to be subjected to U.S. laws. In early September, Shultz and the allied foreign ministers agreed to hold informal talks at La Sapiniere, Canada ahead of a U.N. General Assembly session in one month. Neither side wanted to be publically seen as organizing the talks, hence their informal nature.³³⁶

Through the interagency process, Shultz and other State Department officials argued the sanctions were a “wasting asset” since their impact would continually decline as alternative suppliers emerged. With U.S. leverage at its height, it was better to approach the allies now about a new East-West economic relationship. Shultz believed the administration had been so focused on stopping or delaying the pipeline that it lost sight of its larger strategic goals. It had attempted to use the Polish crisis to renew the allied dialogue on East-West economic relations, but these efforts always remained linked, implicitly or explicitly, to the pipeline. As a result, the allies were suspicious of U.S. motives and hesitated to take measures that hurt their own economic interests without complementary U.S. moves. Shultz thought the United States should countenance the pipeline’s construction while reinvigorating the allied dialogue over strengthening COCOM, restraining credits, and developing energy sources alternative to Soviet natural gas. A new intelligence estimate aided the secretary’s view. The estimate found that enough pipeline components had “been delivered, or soon will be, to enable the USSR to meet likely West European demand for gas until the late 1980s.” The pipeline would be built. Therefore, it was time to work with the allies to prevent the

³³⁶ Shultz, *Turmoil and Triumph*, 140; Cable, D.C. to Embassies in Europe, Sep. 19, 1982, folder “United Kingdom 8/1/82-10/31/83 [3 of 5],” Box 20, NSC: Country File, III, RRL.

construction of future export pipelines and limit Western imports of Soviet gas to prudent levels.³³⁷

But some hardliners on the NSC did not accept Shultz's argument. NSC staffers Norman Bailey, Richard Pipes, Paula Dobriansky, and Roger Robinson asked Clark to send out a memo reminding the cabinet that the sanctions were imposed in response to Polish martial law. They feared this point was being "forgotten in all the subsequent debate and confusion." The draft memo implied the sanctions would only be lifted if martial law ended, not if the United States reached an understanding with its allies over the pipeline. It is unclear if Clark ever distributed the requested memo. Some NSC staffers also took issue with the intelligence estimate on the pipeline. They suggested the CIA underestimated the Soviet Union's ability to circumvent U.S. sanctions, as well as its capacity to overcome problems it might experience in producing its own pipeline components. These staffers question CIA statistics and maintained the U.S. sanctions forced the Soviet Union to shift supplies from its domestic gas lines, further burdening the Soviet system. On Casey's direction, intelligence analysts responded by refuting each

³³⁷ Shultz, *Turmoil and Triumph*, 140; State Department Discussion Paper for SIG-IEP Meeting, Sep. 14, 1982, folder "NSC 00061 22 Sep 82 [1/4]," NSC Meeting Files, RRL; Special National Intelligence Estimate 3-11/2-82, "The Soviet Gas Pipeline in Perspective," Sep. 21, 1982. This report and other CIA primary documents are available through the Reagan Collection in the CIA FOIA Reading Room (hereafter, CIA RC), <http://www.foia.cia.gov/collection/reagan-collection> (accessed 25 Jun. 2014). The website has changed since conducting my initial research, making it more difficult to navigate. I recommend accessing the collection through the Wayback Machine: <http://web.archive.org/web/20130412234252/http://www.foia.cia.gov/collection/reagan-collection>. All CIA RC citations refer to the archived list.

of these critiques and outlining the assumptions and information on which the study was based.³³⁸

These hardliners raised an important point however. The oil and gas sanctions were linked to the Polish crisis. Somehow, the administration had to move away from these sanctions without sacrificing its position on Poland. By late September, the State Department and NSC reached a compromise, advocating the administration undertake a “conceptual transition” towards “more enduring and unified East-West economic policies.” As a part of this process, they recommended the United States work with the allies to create a “new sanctions package toward the USSR” that was no longer “tied directly to events in Poland.” Allied actions had to supersede U.S. efforts, placing “equal or greater pressure” on Moscow, as James Buckley put it. President Reagan approved this approach. While reviewing the interagency recommendations on September 22, Reagan clarified his views on the sanctions, Poland, and East-West economic relations. “Our pipeline position,” he said, “has to do with European exposure. Poland gave us a reason to act. There is more at stake here than Poland.” At the La Sapiniere meeting, Shultz was to trade U.S. sanctions for an allied embargo on oil and gas equipment to Poland, West European limits on Soviet gas imports, and continued allied consultations on restricting credits and strengthening COCOM.³³⁹

³³⁸ Memo, Bailey to Clark, Sep. 14, 1982, folder “East-West (Sep 82 - Sep 83) (9 of 9),” RAC Box 5, Norman A. Bailey Files, RRL; CIA Comments on NSC Critique of DDI Report, “Outlook for the Siberia-to-Western Europe Natural Gas Pipeline,” Oct. 18, 1982, CIA RC, (accessed 26 Jun. 2014).

³³⁹ NSC Paper, “Comments on State SIG-IEP Papers,” Sep. 15, 1982, folder “East-West (Sep 82 - Sep 83) (9 of 9),” RAC Box 5, Bailey Files, RRL; Cable, D.C. to Embassy Paris, Sep. 25, 1982, folder “France (9/1/82-9/30/82),” Box 13, NSC: Country File, III, RRL; NSC Meeting Minutes, Sep. 22, 1982, The Reagan Files, created by Jason Saltoun-Ebin, <http://thereaganfiles.com/document-collections/national-security-council.html> (accessed 28 Dec. 2015).

During the last few days in September, Shultz conferred with his allied counterparts at La Sapiniere then returned to Washington with a non-paper (an unofficial working paper) that served as a basis for ending the pipeline dispute. In recounting the meeting, Shultz claimed the recent retaliatory measures between the United States and its allies had a “sobering impact.” In one-on-one meetings, Shultz explained the U.S. position to the foreign ministers and listened to their concerns. The meeting with French Foreign Minister Claude Cheysson proved to be the most contentious. Cheysson objected to any link between an allied agreement to consult over credit restrictions and U.S. sanctions. The French feared such linkage would legitimize extraterritoriality. Of course, the other West European governments felt the same way, yet they were not as vocal as the French. Nevertheless, Shultz believed there was a “meeting of minds” with Cheysson. The non-paper presented a draft agreement under which the allies would consider the recommendations Reagan approved at the recent NSC meeting.³⁴⁰

While Shultz conducted follow-up talks with the foreign ministers, administration officials reviewed the non-paper. Hardliners were not as enthusiastic about it as Shultz. NSC staffers Bailey and Robinson believed it was unacceptable that the non-paper did not include any reference to Poland. They wanted the agreement to mention the Polish crisis “as the catalyst for this fundamental allied reappraisal” of East-West economic relations. In their view, opposing repression in Poland offered the alliance a cause to unite behind as it reformulated its policies. These staffers overlooked the fact that the administration had unsuccessfully attempted to use the Polish crisis to those ends in early

³⁴⁰ Bernard Gwertzman, “Shultz Meets Allies on Soviet Trade,” *New York Times*, Sep. 30, 1982, A3; Shultz, *Turmoil and Triumph*, 140-141.

1982. More importantly, though, these hardliners argued the non-paper lacked firm allied commitments. Under the agreement, the allies consented to study aspects of East-West economic relations within existing institutions like the OECD. Yet the allies did not make a commitment to act on the recommendations of those studies. Hardliners feared the West Europeans would disregard the studies and the non-paper, much like they did the agreement at Versailles. Weinberger also voiced this concern in the November 9 NSC meeting, calling the non-paper “an agreement to consider an agreement.” In the end, the pragmatists, now led by Shultz, convinced Weinberger to support the non-paper, and the concerns of the hardline NSC staffers were cast aside.³⁴¹

On October 1, the Bundestag passed a vote of no confidence, ousting Schmidt and electing Helmut Kohl, leader of the Christian Democratic Party, as the new chancellor. Popular support for Schmidt and his Social Democratic Party had eroded throughout 1982 due to continued economic troubles and foreign policy controversies. Hans-Dietrich Genscher and his Free Democrats, Schmidt’s coalition partners, threw their support behind Kohl, sealing Schmidt’s fate. In the new government, Genscher retained his position as Deputy Chancellor and Foreign Minister, and Bonn honored the La Sapiniere non-paper. After review, the other allied governments also endorsed the non-paper but withheld finalizing the agreement until the Reagan administration proposed modifications to U.S. sanctions.³⁴²

³⁴¹ Memo, Robinson to Clark, Oct. 6, 1982; Memo, Robinson, Blair, and Henry Nau to Clark, Oct. 5, 1982; Memo, Robinson and Pipes to McFarlane, Oct. 20, 1982, all in folder “East-West (Sep 82 - Sep 83) (8 of 9),” RAC Box 5, Bailey Files, RRL; NSC Meeting Minutes, Nov. 9, 1982, The Reagan Files, <http://thereaganfiles.com/document-collections/national-security-council.html> (accessed 22 Dec. 2015).

³⁴² James M. Markham, “Bonn Parliament Votes Out Schmidt and Elects Kohl,” *New York Times*, Oct. 2, 1982, 1; F. Stephen Larrabee, “Kohl’s Foreign Policy,” *New York Times*, Oct. 6, 1982, A27.

Reagan met with NSC members on November 9 to review the non-paper and discuss U.S. sanctions policy in light of the pending allied agreement. Shultz laid out the components of the non-paper. The United States and its allies recognized that their respective economic policies should not undermine the alliance's military and strategic position vis-à-vis the Soviet Union. Thus, it was "not in their interest to subsidize the Soviet economy; trade should be conducted in a prudent manner without preferential treatment." Yet the non-paper was not a proclamation of economic war against the Soviet Union, and it explicitly dismissed the notion. Towards these ends, the allies agreed to a number of points. First, the West would continue the high-level review of the COCOM control list, which began in January 1982, and COCOM would consider whether to control oil and gas technology and equipment exports. In addition, COCOM nations agreed to strengthen their own national export control systems. Second, the OECD would oversee a study on Western Europe's projected energy requirements and how best to meet those needs. Third, the non-paper reiterated the Versailles commitment to develop a credit review process. Lastly, the allies agreed not to conclude any new gas import contracts with the Soviet Union while conducting the energy study.³⁴³

Reagan asked Shultz if the non-paper was "superior" to the U.S. sanctions already in place. Shultz responded that the agreement was "basically a good one." There were no firm commitments but the secretary was confident that the administration, through follow-up consultations, could convince the allies to act on these measures. "A certain

³⁴³ NSC Meeting Minutes, Nov. 9, 1982; National Security Decision Directive 66, "Summary of Conclusions," available from the Federation of American Scientists, <http://fas.org/irp/offdocs/nsdd/> (accessed 14 Jan. 2016); Documents reviewing the COCOM list review can be found in folder "COCOM (1-4)," NSC Subject Files, RRL.

momentum was being generated and it looked promising,” said Shultz. Whereas the allies had endorsed the concept of economic security at Ottawa in 1981, they now committed themselves “to work out an economic strategy to complement the military strategy.” Shultz understated the risks. There was the chance the allies would back away from any firm commitments later on, and the non-paper hardly contained any new understanding of these issues. It was merely a commitment to renew consultations and cooperation. The COCOM review process was already underway, and the West had conducted numerous energy studies over the years. It was doubtful a new study would shed more light on Europe’s energy dilemma. The non-paper did not break any new ground on the credit initiative either.³⁴⁴

The West Europeans agreed to a moratorium on new Soviet gas import contracts, and this commitment was possibly the only substantial point in the non-paper. In the early 1980s, European gas consumption and global energy prices declined, creating a buyer’s market. In such a market, it was not cost-effective to develop gas supplies alternative to the Soviet Union. Despite the present consumption decline, a Royal Institute of International Affairs conference found gas demand would increase by 1990. Unless the West developed alternative suppliers now, such as Norway, the West Europeans would have to import more gas from the Soviet Union in the future to meet their demand. In light of the changing energy market, the allies agreed to the U.S.

³⁴⁴ NSC Meeting Minutes, Nov. 9, 1982.

moratorium proposal while the West considered whether to invest in the development of more secure, alternative supplies.³⁴⁵

The non-paper was not groundbreaking, but Reagan and his advisors realized the pipeline controversy and U.S. sanctions could not go on indefinitely. As Shultz said in the NSC meeting, “The United States had ‘gotten a lot of mileage’ out of the pipeline controls” by focusing allied attention on Poland and East-West economic relations. It was time for the administration to drop the controversy and pursue its objectives through other means. Even Weinberger agreed that “the non-paper had good potential” provided the United States continued pressing the allies for action. Final allied approval of the agreement, however, depended on U.S. sanctions modification. The allies, in particular, wanted their existing pipeline and gas import contracts grandfathered into the agreement. The NSC presented Reagan with four options, ranging from lifting all the sanctions on oil and gas refining and transmission equipment and technology to only lifting extraterritoriality. Weinberger advised Reagan to lift extraterritoriality only so the United States could maintain some leverage over the allies. Shultz also thought extraterritoriality should be lifted but insisted all contracts signed before the Polish crisis be grandfathered in, including those of U.S. companies like Caterpillar. Baldrige recommended Reagan lift all of these oil and gas sanctions in order to alleviate uncertainty among U.S. companies.³⁴⁶

³⁴⁵ “Summary of Chatham House Meeting on Security of European Gas Supplies,” draft, May 6, 1982, folder “Oil and Gas Policy May-June 1982,” RAC Box 6, Bailey Files, RRL; Memos, William F. Martin to Clark, Oct. 22, 1982 and Nov. 4, 1982, folder “East-West (Sep 82 - Sep 83) (7 of 9),” RAC Box 5, Bailey Files, RRL; Jentleson, *Pipeline Politics*, 199-201.

³⁴⁶ NSC Meeting Minutes, Nov. 9, 1982; NSC Meeting Agenda, Nov. 9, 1982, folder “NSC 00065 09 Nov 82 [1/2],” NSC Meeting Files, RRL.

In the end, Reagan agreed with Baldrige. The president was tired of the sanctions and thought they had “done their job.” With the moratorium on new gas contracts and a renewed allied commitment to forge a common, prudent approach to East-West economic relations, Reagan saw no reason for the oil and gas sanctions on refining and transmission goods and technology to continue. The sanctions on energy exploration and production goods, imposed in 1978, remained in place. In late November, Reagan signed National Security Decision Directive 66, officially approving the contents of the La Sapiniere non-paper and establishing the “goal that firm allied commitments emerge from the studies” by the Williamsburg economic summit in May 1983.³⁴⁷

Reagan actually announced the contents of the allied agreement and the lifting of the sanctions two weeks before signing NSDD-66. In a November 13 radio address, the president depicted the agreement as the culmination of the process he initiated at Ottawa in 1981. The allies had split over their response to Polish martial law, but now, the alliance was “united and intends to give consideration to the strategic issues” in economic relations with the East. Reagan was careful not to link the lifting of U.S. sanctions to the agreement explicitly. “There is no further need for these sanctions,” Reagan said, since the new agreement “provides for stronger and more effective measures.” There is no doubt the non-paper and sanctions were linked, however, since the allies did not accept the agreement until the United States proposed modifications to the sanctions.³⁴⁸

³⁴⁷ Reagan, *Diaries*, 170; NSDD-66, Nov. 29, 1982.

³⁴⁸ Reagan, “Radio Address to the Nation on East-West Trade Relations and the Soviet Pipeline Sanctions,” Nov. 13, 1982, *Public Papers*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1982/111382a.htm> (accessed 23 Dec. 2015).

After learning Reagan planned to announce both the agreement and the end of the sanctions together, French President Francois Mitterrand and Cheysson objected. They wanted to avoid the public impression that the two issues were linked. Hours before the radio address, the French attempted to reopen the text of the non-paper. In addition, they opposed a proposed comprehensive NATO study on the security aspects of East-West economic relations. All of the other allied nations supported the study as a means to complement the other initiatives in the agreement. But French officials feared a NATO study would lead to a binding commitment that expanded NATO's role into economic relations. Reagan made the announcement anyway. Although the French government denied it was a party to the accord at first, it publically endorsed the non-paper and NATO study one month later. The pipeline controversy had finally passed.³⁴⁹

The Allied Studies and Reforms

Since the La Sapiniere non-paper lacked an allied commitment to take substantial actions on East-West trade at that time or in the future, the success of the administration's objectives depended on the outcome of the studies and follow-up consultations. With the passing of the pipeline dispute, the Reagan administration switched its diplomatic tactics in order to make the most of this next phase. Since the 1981 Ottawa Summit, the administration employed a high-level approach to further its objectives. Reagan often pushed his counterparts personally to adopt the U.S. position, and prominent administration officials, cabinet secretaries and undersecretaries, made similar appeals to

³⁴⁹ Shultz, *Turmoil and Triumph*, 142-144; Bernard Gwertzman, "U.S. and France Agree on Studies to Unify Strategy on Soviet Trade," *New York Times*, Dec. 15, 1982, A1; Cable, Embassy Paris to D.C., Dec. 17, 1982 and Memo, Nau to Clark, Dec. 18, 1982, folder "France (12/16/82-12/31/82)," Box 13, NSC: Country File, III, RRL.

the allies in public and private. By late 1982, this approach resulted in minimal success and profound alliance discord. The dispute contributed to the failure of the Versailles Summit, and a July U.S. public opinion survey in Europe found at least two-thirds of the public in each affected allied nation disapproved of U.S. sanctions. U.S. efforts were failing. The high-level approach and U.S. actions made the West Europeans suspicious of U.S. motives. By agreeing to conduct the studies, the allies moved the debate about East-West economic relations from the high, and often public, level to a lower bureaucratic, technical one. In effect, the non-paper and further studies moved the discussion out of the public spotlight.³⁵⁰

In NSDD-66, the administration declared its intentions to shape the conclusions of the allied studies to meet its objectives. To do so, U.S. officials sought to take the lead in conducting these studies. As one White House paper explained, “The United States has materials on the shelf which strongly support its positions and objectives. The U.S. delegation should therefore be the first to present papers for consideration in each study, so that the entire effort is working from a U.S. draft.” The United States wanted the final conclusions to be “action-focused, including specific recommendations for unified or coordinated Western actions.” By mid-January 1983, an interagency group reviewed the U.S. negotiating strategy and position papers for these studies, further defining U.S. objectives. In NSDD-66, the president had laid out four basic areas in which the United States sought allied action: NATO, energy, credits, and COCOM. The interagency group stated that the NATO study had to assess the overall “present and projected economic

³⁵⁰ U.S. International Communication Agency, Foreign Opinion Note, “Wide Disapproval in Europe of U.S. Pipeline Decision,” Aug. 11, 1982, folder “USSR-Pipeline (5/6),” Box 31, Matlock Files, RRL.

situation” in the East and whether East-West economic relations reduced the burdens on the Soviet system or compromised Western security. The United States wanted NATO to endorse its concept of economic security, ideally influencing the other studies to reach similar, security-minded conclusions. The energy study, conducted by the International Energy Agency (IEA), was to build West European support for further limiting the importation of Soviet gas and developing secure alternative gas sources in the West. The administration aimed to “establish a factual basis for the U.S. view that the Soviets could become *the* marginal supplier of gas to Europe,” undercutting the development of alternative suppliers.³⁵¹

On East-West credits, the OECD recently revised the Credit Consensus (discussed below), but the administration desired more allied measures to restrict credit flows like raising down payments, decreasing maturities, and expanding credit monitoring. As the interagency report explained, however, obtaining credit restrictions beyond the revised Consensus would prove challenging. Before the fall of 1982, the United States advocated credit restrictions through the Group of Seven and bilateral discussions with the allies. In its strategy, the administration envisioned the OECD only pertaining to the Consensus, not these other proposals. But the La Sapiniere non-paper assigned the credit study and any subsequent restraint actions to the OECD, presenting the United States with a “dilemma.” Unlike NATO and COCOM, the OECD was not a Cold War organization. Neutral nations, such as Switzerland and Sweden, were OECD members and opposed any

³⁵¹ “Implementation of NSDD 66: A Strategy,” folder “East-West (Sep 82 - Sep 83) (6 of 9),” RAC Box 5, Bailey Files, RRL; NSDD-66, Nov. 29, 1982; The Senior Interdepartmental Group – International Economic Policy (SIG-IEP) was the interagency group assessing the U.S. strategy. Its report can be found in folder “East-West (Sep 82 - Sep 83) (5 of 9),” RAC Box 5, Bailey Files, RRL.

proposals that discriminated against the East for political reasons. The study and subsequent actions had to be based purely on economic analyses.³⁵²

COCOM had been reviewing its control list since January 1982 while discussing ways to strengthen national and international enforcement measures. While the list revisions progressed gradually according to U.S. aims, the interagency group emphasized the need to build support for other U.S. proposals. In particular, the group endorsed a proposal to establish a permanent subcommittee of military advisors to aid reviewers in assessing whether to control the export of a good or technology. COCOM members had previously accepted the need to hold occasional special sessions with defense experts, but the United States wanted these sessions to become a formal facet of the international export control regime. While Britain and France supported the U.S. proposal, other members argued a permanent subcommittee would undermine the delicate balance struck between members' economic and military interests. Furthermore, the interagency group recommended the United States and other COCOM members restrict the diversion of controlled goods to the East through third countries. The United States was the only COCOM nation that required foreign exporters to obtain a license to re-export a U.S. good to another nation. Other members believed re-export controls would be too burdensome for their bureaucracies. The interagency group argued that the military subcommittee and re-export controls were necessary, along with the ongoing list review,

³⁵² SIG-IEP Report, Jan. 10, 1983, folder "East-West (Sep 82 - Sep 83) (5 of 9)," RAC Box 5, Bailey Files, RRL.

to create a stronger international export control regime that harmonized COCOM members' national policies.³⁵³

One month later, Maurice Ernst, National Intelligence Officer for Economics, assessed the work on the allied studies to date and concluded the initiatives "at best are likely to yield only modest progress in time for the next Economic Summit" in May. He believed the IEA study was in the "best shape." Based on the organization's working papers, Ernst thought the study would "show the potential growth in West European imports of Soviet gas in the 1990s and beyond," suggesting the West develop secure alternative gas sources. Ernst was less confident about the outcomes of the other studies. The global economy was reviving, and an oil glut was driving prices down. Falling interest rates and mounting Eastern debts had led to a steep decline in lending and subsidies to the East. Ernst and other administration officials feared the economic recovery would undermine the West's motivation to develop gas alternatives and to further monitor and restrict credits to the East.³⁵⁴

"Concrete progress is most feasible in the area of export controls," Ernst wrote, since the allies recognized the necessity of restricting Soviet access to Western military goods and technology. Although the list review was advancing, Ernst warned the U.S. insistence that COCOM control of oil and gas equipment and technology could doom other allied reforms. In the non-paper, the allies consented to COCOM considering

³⁵³ Ibid.; Michael Mastanduno, *Economic Containment: CoCom and the Politics of East-West Trade* (Ithaca: Cornell University Press, 1992), 275-276.

³⁵⁴ Maurice Ernst, "The State of Play on the East-West Economic Initiatives--What We Might Expect from Our Allies," attached to Memo, Casey to Clark, Feb. 28, 1983, folder "East-West (Sep 82 - Sep 83) (4 of 9)," RAC Box 5, Bailey Files, RRL; Administration officials Robinson and Blair expressed similar concerns in a memo to Clark, Feb. 15, 1983, folder "East-West (Sep 82 - Sep 83) (4 of 9)," RAC Box 5, Bailey Files, RRL.

whether to control the export of oil and gas equipment and technology. Unlike the administration, the allies did not consider “the growth of the Soviet economy or of Soviet hard currency earnings to be undesirable.” Ernst advised U.S. officials to reconsider whether these oil and gas controls were worth risking the other reforms. Ernst was not alone in making this recommendation. In late May, Bailey met with Abraham Katz, U.S. Representative to the OECD, and OECD General Secretary Emile Van Lennep to discuss the East-West studies and COCOM reforms. On the advice of Katz and Lennep, Bailey advised the administration drop its push for oil and gas controls “or risk damaging our other efforts” in COCOM and the OECD. In April, the United States placed its oil and gas control proposals on hold while the studies continued, but it did not abandon these initiatives until early 1984.³⁵⁵

As work on the allied studies continued into the spring, the administration prepared to host the next G7 economic summit at Williamsburg, Virginia, May 28-30. Reagan wanted the studies completed for discussion at the summit, but the deadline was unattainable. After the fiasco at Versailles, Reagan and the other heads of state also desired a new summit process. Versailles was the culmination of summitry, starting in 1975, marked by lengthy preparations, technical discussions, media coverage, and collective decisions. In this process, leaders and their aides debated issues in-depth, attempting to reconcile their national policies in order to announce grandiose actions to the people of the industrial world. Intense media coverage reinforced the pressures for big

³⁵⁵ Ernst, “State of Play”; Memo, Bailey to Clark, Apr. 1, 1983, folder “East-West (Sep 82 - Sep 83) (2 of 9),” RAC Box 5, Bailey Files, RRL; William A. Root, “Trade Controls that Work,” *Foreign Policy*, no. 56 (Autumn 1984): 67-68; Clyde H. Farnsworth, “U.S. Approves the Sale of Oil Gear to Russians,” *New York Times*, Mar. 7, 1984, D1.

summit decisions. For instance, eight hundred U.S. journalists and media technicians accompanied Reagan to Versailles. When the leaders failed to meet public expectations, as was the case at Versailles, the public ridiculed the summit as a failure.³⁵⁶

For Williamsburg, Reagan and the other leaders wanted to temper public expectations and avoid any controversies. In the past, bureaucrats drafted the communique ahead of time and submitted detailed papers to serve as a basis for group discussion. Now, the heads of state agreed to a less structured economic summit. They would draft the communique at the summit itself, and preparatory papers outlined modest discussion points, as opposed to the bold policy proposals of the past.³⁵⁷ Thatcher wholeheartedly supported this approach, writing to Reagan, “I clearly see signs of a tendency in the world’s media to build up the significance of our meeting[s] . . . and thus to generate expectations which we shall then be expected to live up to, or be regarded as having failed.” French officials expressed similar support. They asked Reagan not to make any new East-West trade proposals and reiterated their opposition to a financial COCOM.³⁵⁸

This desire for a low-key summit meant Reagan would not push the allies for bold action on East-West economic relations as he did at Ottawa and Versailles. The president hoped the G7 would simply maintain their support for the ongoing studies. Two months before the summit, Reagan wrote to Mitterrand that the discussion of East-West

³⁵⁶ Robert D. Putnam and Nicholas Bayne, *Hanging Together: Cooperation and Conflict in the Seven-Power Summits*, rev. ed. (Cambridge: Harvard University Press, 1987), 170-174.

³⁵⁷ For an example of these less structured papers, see “U.S. Thematic Paper,” May 12, 1983, Thatcher MSS, Doc. ID 130929, <http://www.margaretthatcher.org/document/130929> (accessed 5 Jan. 2016).

³⁵⁸ Putnam and Bayne, *Hanging Together*, 170-174; Letter, Thatcher to Reagan, Feb. 14, 1983, Thatcher MSS, Doc. ID 131530, <http://www.margaretthatcher.org/document/131530> (accessed 5 Jan. 2016); Letter, Reagan to Mitterrand, Apr. 8, 1983, folder “France: President Mitterrand-Cables [2 of 2],” Box 10, NSC Head of State Files, RRL.

economic relations would “be quite limited.” Provided the studies continued to progress, Reagan saw no need “to accord East-West economic relations a prominent position in the summit agenda.” He was “far more concerned that we achieve real results” from the effort underway, revealing the administration’s emphasis on handling the East-West trade debate behind the scenes. The president said the allies’ work, once finished, “can and should stand on its own without undue publicity at the summit or the appearance that these results have emerged from the summit itself.” Reagan also reassured the public that the summit would not launch another allied dispute over East-West trade. In mid-May, the president told reporters, “there’s peace among us with regard to East-West trade.”³⁵⁹

At the Williamsburg Summit, the heads of state primarily discussed efforts to sustain the nascent economic recovery. In May 1982, the U.S. annual prime interest rate approached seventeen percent. By the time the G7 met in Williamsburg a year later, the rate had decreased to less than eleven percent. Economic indicators showed the U.S. and global economies were beginning to recover from the recession. Even so, the summit partners criticized the relatively high U.S. interest rates, dollar exchange rate, and budget deficits. Unlike previous summits, the G7 did not issue a comprehensive communique, outlining the meeting’s accomplishments. Rather, the group delivered two statements, one on political issues and another on the economic recovery. The political declaration reiterated the allied commitment to arms control negotiations with the Soviet Union and the approaching nuclear missile deployments in Western Europe. In the declaration on

³⁵⁹ Letter, Reagan to Mitterrand, Apr. 8, 1983, folder “France: President Mitterrand-Cables [2 of 2],” Box 10, NSC Head of State Files, RRL; Reagan, “The President’s News Conference,” May 17, 1983, *Public Papers*, <http://www.reagan.utexas.edu/archives/speeches/1983/51783e.htm> (accessed 5 Jan. 1983); James Reston, “The Virginia Summit,” *New York Times*, May 22, 1983, E21.

the economic recovery, the leaders emphasized their desire to lower inflation, interest rates, unemployment, and barriers to international trade. This declaration also contained one statement on East-West economic relations:

East-West economic relations should be compatible with our security interests. We take note with approval of the work of the multilateral organizations which have in recent months analyzed and drawn conclusions regarding the key aspects of East-West economic relations. We encourage continuing work by these organizations, as appropriate.

In this statement, the West reaffirmed its support for Western economic security and maintained their commitment to the ongoing allied studies. It was not a groundbreaking statement, but the Reagan administration achieved its goal of hosting a modest, less structured summit that downplayed recent controversies over East-West trade. Whereas Versailles made the alliance appear weak and divided, Williamsburg made it seem reunited at the start of a strong economic revival. The Williamsburg Summit was the last G7 meeting to deal with East-West economic relations until 1990.³⁶⁰

The studies were concluded in the months before and after the summit. The Reagan administration interpreted the conclusions as an allied endorsement of its views of East-West economic relations and a justification for the controversial pipeline sanctions of 1982. One U.S. official called the June 18, 1982 extraterritoriality judgment

³⁶⁰ Council of Economic Advisors, *Economic Indicators*, 98th Cong., 1st sess., May 1983, p. 30, available at the Federal Reserve Bank of St. Louis' Federal Reserve Archive, https://fraser.stlouisfed.org/scribd/?item_id=414&filepath=/docs/publications/ei/1983/05-1983.pdf (accessed 21 Jul. 2016); Putnam and Bayne, *Hanging Together*, 174-183; G7 Williamsburg Declaration on Security, May 29, 1983, G7 and G8 Research Group at the University of Toronto, <http://www.g8.utoronto.ca/summit/1983williamsburg/security.html>; G7 Williamsburg Declaration on Economic Recovery, May 30, 1983, G8 Research Group, <http://www.g8.utoronto.ca/summit/1983williamsburg/communique.html> (both accessed 5 Jan. 2016).

“the right tactical decision,” serving as “a catalyst to allied agreement on an urgent objective.” A year later, Under Secretary of State for Economic Affairs W. Allen Wallis told Congress that the sanctions’ “net effect has turned out to have been quite productive.” Despite the divisive public dispute, the administration maintained the sanctions awoke the allies to the serious strategic risks of unmonitored economic relations with the East.³⁶¹ In truth, the administration achieved a qualified success in some of these organizations while the issue of East-West economic relations fell by the wayside in others.

After the NATO Economic Secretariat completed the study on the security implications of East-West economic relations, members approved a communique in support of its conclusions. The June 10 communique noted that trade “contributes to constructive East-West relations,” provided it was conducted on “commercially sound terms” without granting the Soviet Union preferential treatment. At the same time, ministers stressed that trade had to “remain consistent” with Western security objectives by “avoiding [economic] dependence on the Soviet Union, or contributing to Soviet military capabilities.” As a result, the ministers recommended the West develop sources of natural gas other than from the Soviet Union and continue reforming COCOM. It was hardly surprising that NATO concluded there were significant strategic dimensions to East-West trade, and the June 10 communique did not differ from past statements on the subject. In May 1982, for instance, ministers said economic relations had to be “mutually

³⁶¹ William F. Martin said extraterritoriality was the “right decision” in a memo prepared for Clark to the President, May 16, 1983, folder “East-West (Sep 82 - Sep 83) (2 of 9),” RAC Box 5, Bailey Files, RRL; House, Committee on Foreign Affairs, Subcommittee on Europe and the Middle East and Subcommittee on International Economic Policy and Trade, *East-West Economic Issues, Sanctions Policy, and the Formulation of International Economic Policy*, 98th Cong. 2nd sess., Mar. 20, 1984, p. 46.

advantageous” while taking “full account of security considerations.” In light of these conclusions, the United States proposed the Economic Secretariat be granted more institutional authority, but the West Europeans blocked the initiative. A binding NATO policy on economic relations failed to emerge from this study.³⁶²

The Reagan administration’s initiatives fared slightly better in the OECD. In the midst of the pipeline controversy, the administration obtained a revised OECD Credit Consensus. In early May 1982, OECD members reached a tentative compromise to elevate the Soviet Union from the intermediate to the relatively rich nation category and to increase interest rates across the matrix. The OECD, however, failed to adopt the compromise before the May 25 deadline due to a political controversy over Canada using subsidized export credits to undercut American and international competitors for a New York City subway car contract. The OECD finally adopted the new Consensus in July, requiring the Soviet Union to borrow at a 12.40 percent interest rate as opposed to its previous rate of 11 percent. The new rate was 4.5 percent higher than the Soviet Union received on credits for the Siberian pipeline project. The OECD renewed this Consensus in May 1983, and in October, it adopted a U.S. initiative to establish an automatic mechanism that biannually adjusted the rate matrix based on commercial rates. Under this mechanism, Soviet rates peaked at 13.60 percent in July 1984 before gradually declining throughout the decade. With the help of the global economy recovery, the

³⁶² Copies of numerous communiques from NATO, the IEA, and OECD can be found in “Public Information Strategy for Highlighting Results of East-West Economic Work Program,” Jul. 17, 1983, folder “East-West (Sep 82 - Sep 83) (1 of 9),” RAC Box 5, Bailey Files, RRL; Blinken, *Ally Versus Ally*, 121; Subcommittee on Europe, *East-West Economic Issues*, p. 51.

Reagan administration succeeded in eliminating interest rate subsidies for the Soviet Union.³⁶³

After completing its study in April 1983, the OECD acknowledged that trade and financial relations with the East had “evolved in a less dynamic way than those with more market-orientated economies.” It was an economic relationship increasingly marked by mounting Eastern debt. By 1981, the Soviet bloc held a total hard currency debt over \$87 billion. As a result, private banks stopped lending new credits to the East and rescheduled some debts in order to ensure future repayment. Net financing flows reversed course from the 1970s and began moving east to west. “In light of these indications, Governments should exercise financial prudence without granting preferential treatment,” the OECD ministers agreed. In addition to the Consensus revisions, OECD members shared more information about their financial exchanges with the East, working towards a set of integrated debt and financial statistics for policymakers. The United States also asked the OECD to decrease maturities and increase the required down payments on loans to the Soviet Union. Neutral nations in the OECD, however, blocked these reforms. Soon after, the administration backed away from this initiative since the market was already moving in that direction. As one State Department official explained, the Soviet Union received

³⁶³ “OECD Tighten Terms,” *The Globe and Mail* (Canada), May 8, 1982; Mark Lukasiewicz, “Exporters Face Deadlock over Trade Credits,” *Globe and Mail*, Jun. 28, 1982; “Accord Near on Export Credits Pact,” *Globe and Mail*, Jul. 12, 1982, all available through *LexisNexis* database; Clyde H. Farnsworth, “Growing Rift over Export Subsidies,” *New York Times*, Jun. 3, 1982, D1; OECD, *The Export Credit Financing Systems in OECD Member Countries*, 3rd ed. (Paris: OECD, 1987), 8; “OECD Arrangement on Export Credits,” 1983, box 161, folder 1, Treasury Dept.: Subject File: OECD, 1982-1983, Donald T. Regan Papers (DTR), Manuscript Division, Library of Congress (LC), Washington, D.C.

“no major extensions of credit” in 1983 and 1984 due to the revised OECD Consensus and the East’s deteriorating financial situation.³⁶⁴

The Reagan administration came much closer to fulfilling all of its objectives on West European energy issues and the strategic embargo than it did on credits and its NATO proposals. The IEA completed the energy study in late April 1983. The IEA found that Western Europe’s existing gas import contracts were “insufficient to cover expected gas demand by the mid-1990s.” The Soviet Union, with its vast gas reserves, could easily supply the West with more gas, raising Soviet gas as a percentage of total West European gas imports to thirty-five percent. In 1982, France and West Germany already relied on the Soviet Union for about twenty-six and thirty percent of their gas imports, respectively. The IEA warned that a year-long disruption of higher import levels would be “very damaging” to the West. While the IEA did not explicitly say increased reliance on the Soviet Union was imprudent, the ministers cautioned member nations to “avoid undue dependence on any one source of gas imports and to obtain future gas supplies from secure sources, with emphasis on indigenous OECD sources.”³⁶⁵

The IEA advised the West Europeans to increase gas storage capabilities, surge capacities, the flexibility of their gas grids, and fuel-switching capabilities in order to weather any supply interruptions with minimal economic disruption. In response to the study, the IEA members agreed to “consult” one another “if [gas] imports from any non-

³⁶⁴ OECD Communique in “Public Information Strategy for Highlighting Results of East-West Economic Work Program,” Jul. 17, 1983; CIA Report, “Soviet Bloc Financial Problems,” CIA RC, p. 4 (accessed 22 Jun. 2014); Subcommittee on Europe, *East-West Economic Issues*, pp. 31, 56; OECD, *The Export Credit Financing Systems*, 7-11.

³⁶⁵ IEA Statement in “Public Information Strategy for Highlighting Results of East-West Economic Work Program,” Jul. 17, 1983; Bill Martin, Cable Brief on IEA Study, Apr. 28, 1983, folder “East-West (Sep 82 - Sep 83) (2 of 9),” RAC Box 5, Bailey Files, RRL; Jentleson, *Pipeline Politics*, 199-201.

OECD country exceed 30 percent,” a clear allusion to the threat posed by higher Soviet gas import levels. Initially, the Reagan administration wanted a binding resolution committing members to “limit” imports to thirty percent, but Bonn objected. The West Germans already pushed the thirty percent ceiling. At La Sapiniere, the allies agreed to place a moratorium on new gas import contracts with the Soviet Union while the IEA conducted its study. The conclusion of the study, as well as the economic revival and declining energy prices, meant the second strand of the Siberian pipeline would not be constructed. The West Europeans now saw the project as imprudent, and the contemporary energy market made it impractical. Going further, Belgium and the Netherlands backed away from plans to import Soviet gas while Italy, France, and West Germany renegotiated for lower rates and volumes. Italy, for example, decreased its contracted volumes around forty percent. These changes cut Soviet hard currency earnings in almost half to five billion dollars a year.³⁶⁶

The IEA also concluded the West should develop the Norwegian Troll field, the largest untapped gas field in Europe, to help meet future demand. Located about 65 miles off the coast of Norway, the field had proven reserves of 44.6 trillion cubic feet of gas. The Reagan administration had been suggesting the allies develop this field and other alternative gas sources since early 1981. In light of the changing energy market and the security risks associated with importing more Soviet gas, the allies moved to do so. In 1986, Statoil, Norway’s state-owned energy company, reached a \$64 billion agreement with six West European gas companies to develop the Troll field and a pipeline to the

³⁶⁶ IEA Statement, “Public Information Strategy”; Memo, Martin to Don Fortier, Undated, and Cable, Embassy Paris to D.C., Apr. 12, 1983, folder “East-West (Sep 82 - Sep 83) (2 of 9),” RAC Box 5, Bailey Files, RRL; Jentleson, *Pipeline Politics*, 199-200.

continent within ten years. In comparison, the Siberian pipeline project was, in 1986 dollars, approximately a \$13 billion project.³⁶⁷ Under the deal, Norway agreed to deliver over 680 billion cubic feet of gas annually, making it one of Western Europe's largest gas suppliers by the mid-1990s. Developing the Troll field was a massive undertaking, described as the "Norwegian Man on the Moon Project" due to the short time frame and the scale of committed resources. Although U.S. policies in the early 1980s may not have been the key factors in completing the Troll deal, the administration's efforts, which culminated in the IEA study, reinforced the appeal of limiting the West's reliance on Soviet gas imports.³⁶⁸

In the La Sapiniere non-paper, the allies pledged to continue reviewing COCOM's export control list while undertaking other initiatives to strengthen the strategic embargo. Of all of the issues on the U.S. agenda for East-West economic relations, strengthening COCOM was the area in which the administration accomplished the most. The United States argued that the West allowed the strategic embargo to weaken during détente, and the revelations in the Farewell Dossier supported this conclusion. At Ottawa in 1981, Reagan personally secured an agreement with the other heads of state to hold a high-level list review. The preliminary session of this review, the first major one since 1958, opened in Paris in January 1982. "Despite collective security interests," L. Paul Bremer wrote in the fall of 1982, "the allies have thus far been less

³⁶⁷ Adjusted for inflation using the U.S. Bureau of Labor Statistic's Consumer Price Index Inflation Calculator, http://www.bls.gov/data/inflation_calculator.htm (accessed 9 Jan. 2016) and the estimated Siberian pipeline's project costs listed in "Soviet Bloc's Debts Worry Bonn Banks," Sep. 2, 1980, *New York Times*, A16.

³⁶⁸ John Tagliabue, "Europe Will Buy Norwegian Gas, Cutting Reliance on Soviet Supply," *New York Times*, Jun. 3, 1986, A1; "France to Buy Norway Gas," *New York Times*, Dec. 3, 1986, D18; "Huge Gas Rig Begins Journey in Norway," *New York Times*, May 11, 1995, D8; Jentleson, *Pipeline Politics*, 200-201.

enthusiastic than the United States would like.” The COCOM negotiations were going to be “complicated and difficult.”³⁶⁹

U.S. officials proposed over one hundred categories of items be added to the control list. These categories ranged from computer related technologies like software, circuit boards, and robotics to dry docks, composite materials, and telecommunication switches. In 1976, the Bucy Report recommended COCOM prioritize the control of sophisticated technologies and de-control obsolete technologies and end-products. Throughout the years, all COCOM members, including the United States, supported this approach. In 1982, however, the Reagan administration wanted the control list expanded before any goods were de-controlled. But the West Europeans wanted de-control now and questioned whether the items in the U.S. proposal contributed to Soviet military capabilities, thus meriting control. They opposed, for example, adding oil and gas equipment and technologies to the list because these items, at most, indirectly aided Soviet capabilities by strengthening the Soviet economy. Allied representatives debated U.S. proposals, ways to streamline the list, and other efforts to strengthen the embargo for the next three years.³⁷⁰

Leading by example, the Reagan administration moved to strengthen the enforcement of U.S. export controls. In 1981, U.S. Customs launched Operation Exodus to prevent violations of U.S. export laws and interdict illegal exports. Special agents

³⁶⁹ For a review of past COCOM reforms, see Mastanduno, *Economic Containment* and Ian Jackson, *The Economic Cold War* (New York: Palgrave, 2001); Mastanduno, *Economic Containment*, 268; Memo, Bremer to Clark, Sep. 30, 1982, folder “COCOM (8205717, 8206745) (2/4),” NSC Subject Files, RRL.

³⁷⁰ Memo, Bremer to Clark, Oct. 9, 1982, folder “COCOM (8205717, 8206745) (2/4),” NSC Subject Files, RRL; For more on the Bucy Report, see Ch. 2; In memorandums explaining U.S. goals for the list review, Weinberger and Clark both fail to mention de-control as a priority to strengthen the embargo’s effectiveness, Weinberger to Clark, Aug. 6, 1982, and Clark to Cabinet, Sep. 14, 1982, folder “COCOM (8205717, 8206745) (2/4),” NSC Subject Files, RRL; Mastanduno, *Economic Containment*, 268-269.

investigated leads and inspected shipments throughout the nation and high-volume U.S. ports. Customs attachés in foreign countries worked with host governments to prevent the diversion of critical military technologies to the Soviet bloc. By 1985, Customs seized over 4,300 goods, worth an estimated \$300 million, ranging from laser guidance devices to civilian technologies with potential military uses. In a December 1983 press conference, Regan and Weinberger announced that Customs agents in West Germany and Sweden (a non-COCOM member) seized 15 cargo containers of VAX 11/782 minicomputers, valued at \$7 million, destined for the Soviet Union. This case highlighted the effectiveness of Operation Exodus as well as the problem of third parties in enforcing the embargo. Richard Mueller, a West German smuggler, established a dummy corporation in South Africa, and earlier in the year, the Commerce Department approved a license to export the computers to this company. The company then attempted to ship the computers to the Soviet Union through West Germany and Sweden. In this case, foreign authorities cooperated with U.S. officials to block the deal, but the Reagan administration argued transshipments to the Soviet Union were a chronic problem that undermined the strategic embargo. The United States pressed the West Europeans to adopt re-export licenses and reach out to non-COCOM nations to crack down on transshipments.³⁷¹

In response to American prodding and the Farewell Dossier, the allies embraced the U.S. perspective. Mitterrand strengthened France's export control system by pruning

³⁷¹ Pamphlet, U.S. Customs Service, "Operation Exodus," Customs Publication No. 600, rev. Oct. 1985 (D.C.: GPO, 1986); Regan and Weinberger Press Conference, Dec. 19, 1983, box 186, folder 3, Treasury Dept.: Subject File: VAX Computer 1983, DTR; Stephen E. Nordlinger, "Soviet May Have Got Some Computer Parts," *The Baltimore Sun*, Dec. 20, 1983, 6.

their control list to critical technologies and increasing the authority of defense specialists in their process. Mitterrand also expelled forty-seven Soviet officials suspected of stealing Western technology. In 1983, Thatcher created Project Arrow, a British mirror of Operation Exodus, and West German officials cooperated with U.S. Customs agents and raised awareness about the export diversion problem among West German businesses. Yet, the allies never established re-export licenses, claiming such licenses would overwhelm their control systems. While these efforts took place, the COCOM list review and negotiations continued.³⁷²

By 1984, a few item categories were added to and removed from the COCOM control list, but the allies refused to consider the rest of the administration's proposals until the United States supported more removals. There were already around 200,000 items on the control list, hindering each nation's ability to enforce the embargo. The organization's exceptions policy also damaged the effectiveness of the embargo. Members could submit requests, requiring unanimous approval, to except the export of a controlled item on a case-by-case basis. Although COCOM refused to approve any exceptions for the Soviet Union since 1979, there was no ban on exceptions for China. As the U.S.-Chinese economic relationship grew in the 1980s, so too did the number of U.S. exceptions requests. While the United States only submitted 626 requests for China in 1982, it submitted almost 3,000 in 1984. On average, COCOM processed about one hundred cases a month. The immense volume of U.S. requests overwhelmed the system and significantly delayed consideration of other members' requests to export. The allies

³⁷² Mastanduno, *Economic Containment*, 271-274; Linda Melvern, Nick Anning, and David Hebditch, *Techno-bandits* (Boston: Houghton Mifflin Company, 1984), 135-137.

now refused to approve any more U.S. requests until the Reagan administration supported streamlining requests for China and de-controlling more items. “Many of these [China] applications are currently being held hostage by our allies until we show some interest in their own interests to the East,” Baldrige explained.³⁷³

Baldrige was an ardent proponent of de-control, and in late 1983, he suggested COCOM would be more effective if the allies removed “50 or 60 percent of the items” to concentrate on “the top third of the list that is the most sensitive.” With U.S. exceptions for China purposely delayed, NSC Staffer Gus Weiss also supported streamlining the list. Once U.S. officials indicated a willingness to de-control almost forty categories of items, the negotiation stalemate ended. In 1985, the high-level list review concluded with the organization accepting 58 of the 100 categories the U.S. proposed for addition. Among these additions were greater restrictions on sophisticated mainframe computers, like the VAX 11/782, and “ruggedized computers” built for use in harsh conditions such as a battlefield. Prior to these revisions, many of these computers could be purchased at retail outlets then exported to the Soviet Union since COCOM’s computer protocols were propagated in 1976 and outdated. Now the allies agreed to crack down on the East’s access to rapidly advancing computer hardware and software.³⁷⁴

³⁷³ Letter, Baldrige to McFarlane, Jan. 6, 1984, and Memo, Gus Weiss to Fortier, Jan. 20, 1984, folder “COCOM(8400246, 8490713, 8406979) (4/4),” NSC Subject Files, RRL; Mastanduno, *Economic Containment*, 279-281.

³⁷⁴ Transcript of Malcolm Baldrige Interview, Nov. 30, 1983, U.S. Information Agency, *Euronet*; Memo, Weiss to Fortier, Mar. 5, 1984; Cable, Embassy Paris to D.C., Dec. 17, 1983, all in folder “COCOM(8400246, 8490713, 8406979) (4/4),” NSC Subject Files, RRL; Mastanduno, *Economic Containment*, 268; Paul Lewis, “Allies Curb Computers for Soviet,” *New York Times*, Jul. 17, 1984, D7; Paul Mann, “CoCom Agrees on Export of Computers,” *Aviation Week & Space Technology*, Jul. 23, 1984, 21.

Although the United States dropped its push for controls on oil and gas equipment and technologies, it obtained an allied agreement to create a military subcommittee. British and French officials supported the creation of a defense experts group, and by 1985, the three allies were able to compromise with the other COCOM members to create the Security and Technical Experts' Meeting. As the negotiations neared an end, Weinberger believed this subcommittee would lessen the influence of "trade types with little knowledge of strategic affairs." The subcommittee was an informal group of scientists, engineers, and defense specialists who researched emerging technologies and periodically advised COCOM on control policy. In addition to creating this subcommittee, members revised the Chinese exceptions policy, permitting a greater number of items to be exported without review, and allocated funds to upgrade COCOM's Paris headquarters. In 1983, the U.S. Congress alone approved two million dollars for renovations. Lastly, COCOM agreed to hold more frequent list reviews at the technical level and approach non-COCOM members about cracking down on transshipments to the Soviet Union.³⁷⁵

Even though the high-level review concluded by 1985, the allies continued discussing COCOM policy at the technical level throughout the rest of the decade. In these consultations, the West Europeans wanted the United States to prioritize de-

³⁷⁵ Memo, Fortier and Stephen P. Rosen to McFarlane, Sep. 18, 1984, folder "COCOM(8400246, 8490713, 8406979) (4/4)," NSC Subject Files, RRL; Cable, Embassy Paris to D.C., Feb. 24, 1984, folder "France (1/18/84-2/26/84)," NSC: Country File, III, RRL; Memo, Paul Thayer to Clark, Sep. 28, 1983, Thatcher MSS, Doc. ID 110601, <http://www.margarethatcher.org/document/110601>; Memo, Weinberger to Pres., Feb. 20, 1985, Thatcher MSS, Doc. ID 110548, <http://www.margarethatcher.org/document/110548> (both accessed 6 Nov. 2015); Mastanduno, *Economic Containment*, 276-278; Stuart Auerbach, "Restrictions Eased on China Trade," *Washington Post*, Dec. 17, 1985, E3; National Academy of Sciences, National Academy of Engineering, and Institute of Medicine, *Balancing the National Interest: U.S. National Security Export Controls and Global Economic Competition* (Washington, D.C.: National Academy Press, 1987), 136-137.

controlling more items while the United States pleaded with each nation to devote more resources to enforcing controls. In early 1988, the allies reached another compromise in which members agreed to more enforcement strengthening measures and to conduct another list review focused on de-controlling less sensitive goods and technologies.³⁷⁶ Overall, the Reagan administration achieved its objectives in COCOM with some minor modifications. The United States recognized the need to de-control some items and accepted an informal advisory role for military experts. Yet, the adopted U.S. proposals expanded the control list overall, granted defense specialists more influence within COCOM, and strengthened the national and international enforcement of controls.

The Costs of U.S. Initiatives

By the mid-1980s, President Reagan achieved a substantial part of his agenda for East-West economic relations. The West Europeans backed away from the second strand of the Siberian pipeline and worked towards limiting their energy dependence on the Soviet Union by developing alternatives and curtailing gas imports. COCOM completed its first high-level review of the control list since 1958, and members strengthened the enforcement of national export controls while cracking down on transshipments. Reagan wanted stronger allied action on credit restrictions but such measures were unattainable in the OECD. Besides, the financial markets were already moving away from lending to the East due to the communist world's mounting debts and the strong economic recovery in the West. But success came at a cost. In attempting to enforce the U.S. sanctions extraterritorially, Reagan irritated U.S. allies and precipitated a public crisis within the

³⁷⁶ Mastanduno, *Economic Containment*, 286-287, 299-307; Susan F. Rasky, "U.S. Seeks Export Assistance," *New York Times*, Oct. 17, 1987, 49; Clyde H. Farnsworth, "Change Seen in Limits on Soviet Trade," *New York Times*, Jan. 21, 1988, D1.

alliance. The sanctions also damaged U.S. businesses and their reputations as reliable suppliers in the international market. Reagan undertook these actions under the legal authority in the Export Administration Act of 1979 (EAA). When the act came up for renewal in 1983, political opponents attacked Reagan's actions while U.S. businesses and West European governments lobbied to have the act amended. Ultimately, President Reagan's attack on the Siberian pipeline spawned a political backlash leading to a diminution of the executive's authority to institute foreign policy export controls.

One month after announcing U.S. sanctions against Poland and the Soviet Union, Lee Morgan, Caterpillar CEO, wrote the president asking him not to block the export of pipelaying equipment to the Soviet Union. He explained that these unilateral sanctions would only damage his company, not the Soviet Union, since similar products were widely available from foreign suppliers. President Jimmy Carter had instituted a similar ban in 1978 that resulted in Caterpillar losing its dominant position in the Soviet market to a foreign producer. Before these sanctions, Caterpillar met about eighty-five percent of the Soviet Union's demand for large tractors and pipelayers while their principal foreign competitor Komatsu supplied the remaining fifteen percent. By 1981, Caterpillar's and Komatsu's shares of the Soviet market reversed, costing the U.S. business an estimated \$400 million in lost exports. Morgan's plea went unanswered, and the sanctions further damaged the company. Representative Paul Findley (R-IL) had a Caterpillar plant and a Fiat-Allis Construction Machinery Co. factory in his district. Both companies lost Soviet contracts as a result of U.S. sanctions. Findley estimated these companies' lost sales at \$600 million out of a total \$800 million in U.S. sales affected by the embargo. "In other

words,” Findley told his congressional colleagues, “70 percent of the sanctions fell on less than 0.2 percent of America’s population.” Findley vowed to sponsor a bill amending the EAA to prevent the president from using export controls except in a time of war or national emergency.³⁷⁷

Many congressional members held similar views. In 1982, Senator Roger W. Jepsen (R-IA), who criticized Carter’s grain embargo, now said, “U.S. producers saw their foreign market share stolen away by oversea suppliers unwilling to go along with U.S. sanctions.” Representative Jonathan B. Bingham (D-NY), an avid opponent of export controls whose ideas shaped the EAA of 1979, believed the Reagan administration’s use of extraterritoriality amounted to the United States talking to its closest allies “as if they were children, that they are wrong.” As Shultz met with allied foreign ministers at La Sapiniere in late September 1982, the House of Representatives almost passed a bill lifting the sanctions. Findley wrote the bill, H.R. 6838, to make a political statement. He “never dreamed” the bill would become law, but it received bipartisan support in subcommittee hearings and on the House floor. The bill was effectively killed, however, once the House voted, 206-203, to add an amendment requiring the president to certify the Soviet Union was not using slave labor on the pipeline project before lifting the sanctions. Of course, the president could not make such a certification with any certainty. But the support for and criticisms of the pipeline sanctions were not limited to foreign governments and the halls of Congress. American

³⁷⁷ Letter, Lee Morgan to Pres., Jan. 28, 1982, folder “East-West [01/20/1982-01/31/1982],” RAC Box 5, Bailey Files, RRL; House, Committee on Foreign Affairs, Subcommittee on International Economic Policy and Trade, *Export Controls on Oil and Gas Equipment*, 97th Cong., 2nd sess., May 25, 1982, p. 50; “Soviet Economic Sanctions,” in *CQ Almanac 1982*, 38th ed., 163-66 (Washington, D.C.: Congressional Quarterly, 1983), <http://library.cqpress.com/cqalmanac/cqal82-1163916> (accessed 2 Nov. 2015).

public opinion was also divided. A Gallup poll found that forty-eight percent of the people aware of the U.S. extraterritorial sanctions supported the president compared to forty-two percent against it.³⁷⁸

In addition to hurting Caterpillar and sparking outrage at home and abroad, the extraterritorial sanctions damaged U.S. businesses more broadly. The sanctions undermined America's reputation as a reliable supplier in the international market. The United States had the strongest export control system in the West, and U.S. presidents instituted foreign policy controls often. Furthermore, the United States demanded foreign entities comply with these controls, as the Siberian pipeline dispute demonstrated. Rather than deal with the legalities of contracting with U.S. firms, foreign companies and customers began phasing out the use of U.S. parts and taking their business elsewhere. The National Academies conducted a study of U.S. national security export controls in the mid-1980s. After surveying 170 U.S. advanced technology and machine tool companies about their foreign sales in 1985, the panel found that 52 percent of the businesses "lost sales primarily as a consequence of export controls." Twenty-six percent of companies had potential customers decline deals as a result of controls, and thirty-eight percent had existing customers consider shifting to "non-U.S. sources of supply to avoid entanglement in U.S. controls." The European aerospace company Airbus

³⁷⁸ Joint Economic Committee, *Soviet Pipeline Sanctions: The European Perspective*, 97th Cong., 2nd sess., Sept. 22, 1982, p. 3; "Soviet Economic Sanctions," *CQ Almanac 1982*; Subcommittee on International Economic Policy and Trade, *Export Controls on Oil and Gas Equipment*, Aug. 4, 1982; *The Gallup Poll, Public Opinion, 1935-1997*, CD-ROM Edition (Wilmington: Scholarly Resources, Inc., 2000), 204-207.

Industrie, for example, planned to cut the use of U.S. components on its next generation of aircraft by one-half due to U.S. export controls.³⁷⁹

As the EAA came up for renewal in 1983, congressional members, businesses, and the West European governments mobilized to revise the EAA, weakening executive export control authority. In early January 1983, staffers in the British Department of Trade and Industry contacted aides to U.S. senators about “lobbying in the Senate” to amend the EAA. British officials learned that most senators did not care about the legality of extraterritoriality. Senators were “more likely to be moved by evidence that concrete American interests were being damaged.” Although the pipeline dispute had moved out of the public eye, the Reagan administration’s attempt to enforce the sanctions extraterritorially and retroactively continued to irritate the West European allies. They wanted a revised EAA that weakened the executive’s power to use export controls and measures that protected contract sanctity. The EAA was a “major bone of contention between the US and virtually all its major allies,” as another British trade official explained. The allies would be “exerting all our influence” to obtain a reauthorized EAA that was “less offensive to us.”³⁸⁰

In the spring, West European officials sent letters to congressional leaders expressing their views on the EAA. European Community Representative Roy Denman told Representative Don L. Bonker (D-WA), Chairman of the Subcommittee on International Economic Policy and Trade, that U.S. export control laws were “contrary to

³⁷⁹ National Academies, *Balancing the National Interest*, 11; David A. Brown, “European Industry Evolves to Challenge U.S. Leadership,” *Aviation Week & Space Technology*, Mar. 9, 1987, 88-89.

³⁸⁰ R.Q. Braithwaite, Note for the Record, Jan. 4, 1983 and Handwritten Memo, M. Bourke to R.F. Stone, Jan. 13, 1983, PJ 8/7 666449: Siberian Pipeline Dispute between the U.K. and U.S.A., The National Archives of the U.K.

international law” and a violation of international trade agreements. The EC requested language in the EAA guaranteeing the sanctity of contracts and ensuring West European companies would not be subjected to U.S. laws in the future. West German diplomat Theodor Wallau and French Ambassador Bernard Vernier-Palliez sent similar letters to Bonker. In a letter to Chairman of the House Foreign Affairs Committee Clement J. Zablocki (D-WI), British Ambassador Oliver Wright argued that the controversies over the pipeline and the powers of the EAA represented “fundamental issues of sovereignty, directly affecting [British] interests.” Wright quoted recent speeches from Thatcher and Foreign Minister Pym, emphasizing the damage U.S. export controls caused within the alliance.³⁸¹

In general, officials in the Reagan administration accepted the need for a contract sanctity provision in the revised EAA. While the NSC prepared to review the EAA proposals, Bailey suggested Congress would force contract sanctity regardless of the president’s wishes. Opposing contract sanctity was too politically costly. As a result, most members supported language protecting existing contracts. At the NSC meeting on March 23, 1983, supporters argued a contract provision would protect the reputation of U.S. businesses as reliable suppliers and grant industries equity with the agricultural sector, whose goods already had contract sanctity. Only the Department of Defense, Department of Justice, and the Office of Management and Budget opposed the provision, arguing it limited the president’s ability to act during a crisis. The drafted language,

³⁸¹ All of these letters are located in “Letters and Aide-Memoirs from Foreign Governments Concerning the Export Administration Act,” House, Committee on Foreign Affairs, Subcommittee on International Economic Policy and Trade, *Extension and Revision of the Export Administration Act of 1979*, 98th Cong., 1st sess., Feb. 24-May 26, 1983, Appendix 34.

however, contained an escape clause for times of national emergency, and Reagan approved the provision.³⁸²

Despite this willingness to compromise on contract sanctity, the administration sought to preserve the executive's wide authority to institute national security and foreign policy export controls. In particular, Defense and Commerce wanted to strengthen executive authority through a clause permitting the president to institute import controls on companies that violated COCOM controls or U.S. export controls. Defense and Commerce officials argued such authority would strengthen compliance with embargoes. As Defense official Richard Perle said, "The proposed restriction, in effect, would be a 'club in the closet' to overseas companies which violate controls." Baldrige told the president import controls would produce "extra penalties to discourage foreign companies" from violating U.S. controls. The Departments of State and Treasury disagreed however. Shultz and Regan believed the proposed import controls violated international trade agreements and would do further harm to U.S. businesses and alliance relations. Wallis argued an import control proposal would "endanger" allied discussions on East-West economic relations. "Extraterritoriality is now a major issue with the EC," he explained, and seeking an expansion of extraterritorial authority could possibly "shatter COCOM." Since the NSC was divided over import controls, Reagan decided to take more time to consider the issue.³⁸³

³⁸² Memo, Bailey to Clark, Mar. 4, 1983, folder "East-West (Sep 82 - Sep 83) (4 of 9)," RAC Box 5, Bailey Files, RRL; NSC Meeting Minutes, Mar. 23, 1983, The Reagan Files, <http://thereaganfiles.com/document-collections/national-security-council.html> (accessed 13 Jan. 2016).

³⁸³ Memo, Perle to Bailey, Undated, folder "East-West (Sep 82 - Sep 83) (4 of 9)," RAC Box 5, Bailey Files, RRL; NSC Meeting Minutes, Mar. 23, 1983.

While it is unclear if Reagan ever made a decision to seek the import control provisions, the authority was contained in the Senate's EAA reauthorization bill. Senator Jake Garn (R-UT), an avid supporter of national security export controls, chaired the Senate Banking Committee as it drafted the reauthorization legislation. Committee member John Heinz (R-PA), sympathetic to the interests of U.S. businesses, opposed Garn's push to strengthen the control provisions. But in late May, the two senators worked out a compromise in which Garn accepted a contract sanctity clause to please Heinz, who relented on provisions strengthening national security export controls. The Banking Committee's bill included executive authority to impose import controls and ordered the president to create an Office of Strategic Trade to strengthen enforcement. It also asked the president to attempt to negotiate treaty status for COCOM. British Ambassador Wright sent letters to members of the Banking Committee requesting revisions, but as one committee staffer said, "I saw no sign of anyone wanting to back off as a result of the British letter." The Senate, however, failed to vote on this bill in 1983.³⁸⁴

Although the Senate bill was much stronger than the administration requested, Reagan preferred it to the bill passed by the House in October. Drafted by the Foreign Affairs Committee, this bill was more sympathetic to the plight of U.S. businesses and the complaints of Western allies. In addition to language on contract sanctity, it ordered the president to lift restrictions on items controlled by the United States but not COCOM. The president was required to consult with Congress before imposing foreign policy

³⁸⁴ "Export Controls Extension," in *CQ Almanac 1983*, 39th ed., 253-57 (Washington, D.C.: Congressional Quarterly, 1984), <http://library.cqpress.com/cqalmanac/cqal83-1198826> (accessed 2 Nov. 2015); Clyde H. Farnsworth, "British Lobby Senate on Export Act," *New York Times*, May 28, 1983, 45.

controls, and the bill prevented the imposition of unilateral export controls. It also prohibited the extraterritorial enforcement of foreign policy controls. Although both bills protected contracts from retroactive controls, they authorized conflicting policies for the U.S. export control system. Whereas the Senate bill aimed to establish a more robust and rigorous system, the House bill sought to answer the pleas of U.S. businesses and allies by curtailing executive authority and pruning the U.S. control list.³⁸⁵

The Senate failed to pass its bill in 1983. After it passed the bill a year later, the chambers' conference committees were unable to reconcile their differences despite 14 sessions between April and October. Congress finally passed a revised EAA in the summer of 1985. The EAA of 1985 dropped many of the control strengthening measures contained in Garn's original bill and incorporated significant provisions from the House bill. The law limited the executive's authority to impose foreign policy controls and required the president to consult with Congress before instituting controls. The law also exempted existing contracts from new foreign policy and national security export controls unless there was a serious threat to peace and the president believed controls would reduce that threat. Lastly, the law did not restrict the extraterritorial enforcement of U.S. controls, as the House bill did, and it ordered the executive to streamline the export licensing process while tightening controls on the most military sensitive technologies.³⁸⁶ After the pipeline controversy passed, Congress, at the behest of U.S.

³⁸⁵ "Export Controls Extension," *CQ Almanac 1983*; Stuart Auerbach, "Administration Fights for Export Bill," *Washington Post*, Jun. 10, 1983, D9; Stuart Auerbach, "Administration Yields to Senate on Export Bill," *Washington Post*, Nov. 12, 1983, A16.

³⁸⁶ Congress passed temporary extensions to the EAA in 1983 and 1984 while it worked on the new act. "Export Controls Extension," *CQ Almanac 1983*; "Export Reauthorization Fails," in *CQ Almanac 1984*, 40th ed., 169-70 (Washington, D.C.: Congressional Quarterly, 1985), <http://library.cqpress.com/cqalmanac/cqal84-1152351>; "Congress Renews Export Administration Act," in

businesses and allies, curtailed executive powers and extended oversight over the executive's export control authority.

Conclusion

Since inauguration, President Reagan attempted to secure allied action on his agenda for East-West economic relations through personal diplomacy and consultations at the highest levels of government. The allies hesitated to move on the U.S. agenda, and the dialogue was in a stalemate until the declaration of martial law in Poland in December 1981. The administration hoped the Polish crisis would finally persuade the allies to abandon the East-West economic relationship forged during détente, and the United States instituted sanctions against Warsaw and Moscow, intending to lead the alliance through example. The administration's high-level diplomatic approach to furthering its agenda culminated in the failed economic summit at Versailles and Reagan's decision to try to enforce U.S. sanctions extraterritorially. Rather than convincing the allies to withdraw from the Siberian pipeline project and wage an economic war against the Soviet Union, the extraterritorial sanctions exacerbated allied tensions over East-West economic relations. The administration's high-level diplomatic tactics fractured allied unity as the West Europeans publically defied U.S. sanctions and denounced U.S. policies.

By the late summer of 1982, hardliners within the Reagan administration realized the United States could not force the West Europeans to abandon the Siberian pipeline project. Responsibility for de-escalating the crisis fell on the new pragmatic Secretary of

State George P. Shultz. Through the interagency policymaking process and meetings with Reagan, Shultz and his State Department aides convinced the president it was appropriate to seek an allied agreement that resolved the pipeline dispute and worked towards replacing U.S. unilateral sanctions with allied measures. The secretary returned from the La Sapiniere meeting with a non-paper committing the West towards these goals. In explaining the non-paper to President Reagan and the NSC, Shultz understated the risks involved in the agreement. In the non-paper, the allies made no commitment to act on the studies, and in the previous year, they had walked away from similar agreements. The hardliners, Weinberger in particular, knew these risks and advised the president to lift the extraterritorial enforcement of the sanctions only. At the start of the Polish crisis, Reagan had adopted the hardliners' strategy of economic warfare. In the fall of 1982, the hardliners urged Reagan to remain committed to this strategy. The president, however, never fully embraced it, and these hardline policies had precipitated the most serious allied dispute since the Western discord after the Soviet invasion of Afghanistan in 1979. As a result, in November 1982, Reagan parted company with the hardliners, lifting most of the sanctions and returning U.S. policy to seeking allied cooperation on a prudent approach to East-West economic relations.

The non-paper moved the debates over East-West trade out of the public spotlight. As the West prepared to conduct the allied studies, the administration switched its diplomatic tactics. In the past, the United States advocated its policies through high-level discussion, often personally involving President Reagan and the G7 summit process. The West did not want a repeat of Versailles, however, and the Reagan

administration minimized high-level involvement in the East-West debate while seeking to shape its course at a lower bureaucratic level of government.

These new tactics began producing acceptable results and allied compromises by late 1983. The OECD revised its Credit Consensus, elevating the Soviet Union to the rich nation category and linking the matrix's interest rates to market rates. The Reagan administration sought more action on credit restrictions outside of the OECD, but the non-paper linked further measures to the organization where neutral nations objected to politically motivated policies. Nevertheless, the administration policies, as well as the East's slipping financial situation and the West's economic recovery, eliminated interest rates subsidies for the Soviet Union. All the while, the West Europeans finally moved to limit their dependence on imported Soviet gas, developing indigenous sources, cancelling the planned second strand of the Siberian pipeline, and curtailing imports. In addition, the allies acted to strengthen the strategic embargo by adopting U.S. proposals to expand the control list and revising their national export control policies. But the allies also acted on the United States, holding U.S. exceptions requests for China hostage until the Reagan administration consented to de-control less sensitive items on the list. Irritated by extraterritoriality, the West Europeans also lobbied Congress to amend the EAA, weakening the executive's authority to institute foreign policy export controls.

Did these results justify the unilateral U.S. sanctions and the pipeline fiasco? The administration argued the outcomes validated the sanctions. Yet, these achievements, for the most part, came in the post-La Sapiniere follow-up consultations, not during the pipeline crisis. The sanctions fostered allied division, frustrating the dialogue on East-

West economic relations. The non-paper ending the dispute was little more than “an agreement to consider an agreement,” as Weinberger said.³⁸⁷ The allies merely consented to study the issues further before acting, and this result was obtainable before extraterritoriality. During the March 1982 Buckley Mission to Europe, the West Europeans all suggested the alliance conduct collaborative studies of East-West economic relations before implementing policies. The pipeline fiasco had little bearing on the outcome of these studies, but it spawned a political backlash against export controls in the United States and damaged the reputation of U.S. businesses as reliable suppliers. Regardless, by the mid-1980s, the Reagan administration had achieved many of its goals for East-West economic relations.

³⁸⁷ NSC Meeting Minutes, Nov. 9, 1982.

CHAPTER 6: OPENING U.S.-SOVIET RELATIONS THROUGH TRADE

On May 31, 1988, President Ronald Reagan spoke to students at Moscow State University. Standing before a massive bust of Vladimir Lenin and a mural of the 1917 Russian revolution, Reagan said the future belonged to free enterprise, not command economics. A peaceful revolution was “quietly sweeping the globe” that would “fundamentally alter our world, shatter old assumptions, and reshape our lives.” Advancements in computer and telecommunications technologies were ushering in the information age. “Linked by a network of satellites and fiber-optic cables,” the president explained, “one individual with a desktop computer and a telephone commands resources unavailable to the largest governments just a few years ago.” U.S.-Soviet relations had improved dramatically over the past few years, and Reagan welcomed Soviet leader Mikhail Gorbachev’s efforts to reform the Soviet political and economic system. In the information age, Reagan declared that the path to freedom and prosperity rested with “millions of individuals working night and day to make their dreams come true.” He urged Gorbachev and the people of the Soviet Union to embrace free markets, individual rights, democracy, and pluralism as a way to transform the oppressive Soviet system into a liberal, market-oriented state.³⁸⁸

In the early 1980s, few people, if any, could have imagined Reagan, or any U.S. president, would be preaching the gospel of capitalism in the Soviet Union before the end of the decade. He branded the Soviet Union an “evil empire” in 1983, but five years later, the president took back his comment. “I was talking about another time, another era,”

³⁸⁸ Reagan, “Remarks and a Question-and-Answer Session With the Students and Faculty at Moscow State University,” May 31, 1988, *The Public Papers of President Ronald W. Reagan*, RRL, <https://reaganlibrary.archives.gov/archives/speeches/1988/053188b.htm> (accessed 11 Mar. 2016).

Reagan told a reporter in Moscow.³⁸⁹ Historians have examined this unexpected turn in superpower relations, paying particular attention to the success of arms control negotiations between Reagan and Gorbachev.³⁹⁰ This transition from confrontation to cooperation was also evident in U.S.-Soviet economic relations. After the Siberian pipeline fiasco, the Reagan administration abandoned its strategy of economic warfare and worked to move the Atlantic alliance towards a prudent approach to East-West economic relations. For the most part, the president had accomplished this goal by the mid-1980s. With the alliance reunited, the Reagan administration sought to engage Moscow on economic issues as a part of a larger agenda to improve relations and negotiate agreements.

Initially, hardliners within the administration resisted the abandonment of economic warfare and sought to use the Korean Air Lines disaster of 1983 to further their agenda. But Secretary of State George P. Shultz outmaneuvered the hardliners, helping to convince President Reagan to tone down his harsh rhetoric and pursue a dialogue with the Soviet leaders. As a part of this rapprochement, the administration resurrected economic agreements suspended after the Soviet invasion of Afghanistan in 1979 and Polish martial law in 1981. Through organizations such as the Joint Commercial Commission (JCC), the administration promoted the growth of non-strategic trade in order to help build

³⁸⁹ Don Oberdorfer, *From the Cold War to a New Era*, updated ed. (Baltimore: The Johns Hopkins University Press, 1998), 299.

³⁹⁰ See, for instance, Melvyn P. Leffler, *For the Soul of Mankind* (New York: Hill and Wang, 2007); James Graham Wilson, *The Triumph of Improvisation* (Ithaca: Cornell University Press, 2014); James Mann, *The Rebellion of Ronald Reagan* (New York: Penguin Books, 2009); John Lewis Gaddis, *The Cold War: A New History* (New York: Penguin Books, 2005).

confidence in the superpower relationship. Once Gorbachev assumed power in 1985, the pace of these trade talks accelerated.

But the Reagan administration refused to normalize U.S.-Soviet economic relations. In the late 1970s, President Jimmy Carter's administration approached Soviet officials about normalizing trade relations by repealing the Jackson-Vanik amendment, linking most-favored-nation status for the Soviet Union to its Jewish emigration policies. President Reagan and his advisors also embraced Jackson-Vanik and urged Gorbachev to end human rights abuses. In effect, transformational progress in U.S.-Soviet economic relations remained linked to the Soviet Union respecting human rights. Furthermore, Reagan and Shultz suggested Gorbachev decentralize the Soviet economy and introduce market mechanisms in order to benefit from the coming information age. In general, the United States encouraged the growth of non-strategic trade but held deeper economic relations in reserve until Moscow demonstrated it had modified its international behavior and liberalized its internal system. In other words, normalized economic relations would not happen until the superpowers moved beyond the Cold War, settling all of their outstanding bilateral issues.

U.S. Strategy in Transition, 1983-1984

On November 10, 1982, as the allies worked to finalize the La Sapiniere agreement, Soviet leader Leonid Brezhnev died. A struggle ensued between administration pragmatists and hardliners over U.S. policy towards the Soviet Union, now under the leadership of Yuri Andropov. From the beginning of his presidency, Reagan sought to negotiate with the Soviet Union while working to restore American

military and economic strength. But stalemated arms control negotiations and Soviet actions in the Third World prevented Moscow and Washington from engaging in a meaningful dialogue. At the suggestion of hardliners, Reagan waged an economic war on the Soviet Union intended to push Moscow to modify its international behavior. But President Reagan and the American public hoped the coming of a new Soviet leader would lead to better superpower relations. Two weeks after Brezhnev's death, seventy percent of Americans who had heard about the new Soviet leader favored the United States "going further than it has so far" to improve relations.³⁹¹ Over the course of 1983, Shultz cultivated a personal relationship with Reagan, allowing him to place administration policy on a path towards rapprochement.

While waiting for Andropov to settle into his new role, the Reagan administration finalized National Security Decision Directive 75 (NSDD-75), a new national security policy for U.S.-Soviet relations. NSDD-75, signed January 17, 1983, marked the high-water mark for the hardliners' influence within the administration. Under the directive, the United States aimed to resist Soviet imperialism, weaken the Soviet system, and negotiate with Moscow when talks served U.S. interests. As the directive explained, the United States should "contain and over time reverse Soviet expansionism" while seeking to "promote, within the narrow limits available to us, the process of change in the Soviet Union toward a more pluralistic political and economic system." Lastly, the United States had to "engage the Soviet Union in negotiations" to reach agreements that "enhance U.S. interests and which are consistent with the principle of strict reciprocity and mutual

³⁹¹ For the La Sapiniere Agreement, see Ch. 5; *The Gallup Poll, Public Opinion, 1935-1997*, CD-ROM Edition (Wilmington: Scholarly Resources, Inc., 2000), 283-284; Leffler, *For the Soul of Mankind*, 355; Vladislav M. Zubok, *A Failed Empire* (Chapel Hill: The University of North Carolina Press, 2009), 272.

interest.” In implementing these objectives, the administration had to convey to the Kremlin that “unacceptable behavior will incur costs that would outweigh any gains” while “genuine restraint in their behavior would create the possibility” of better relations.³⁹²

NSDD-75 charged the United States with using military, economic, and political strategies, as well as public opinion and international alliances to shape “the environment in which Soviet decisions” were made. Reflecting the thoughts of the hardliners, NSDD-75 assumed that changes of leadership in the Soviet Union had no significant bearing on Soviet international behavior. The views and personality of a Soviet leader did not determine Soviet foreign policy. “The U.S. recognizes,” the directive read, “that Soviet aggressiveness has deep roots in the internal system.” Or, as NSC Soviet analyst Richard Pipes wrote, the United States dealt with “regimes, not individuals.” The system was the source of the Soviet actions, thus, the United States had to confront the system until Moscow was forced to relent. NSC staffer Norman Bailey later called NSDD-75 the “strategic plan that won the Cold War” since it devised an “integrated policy” to confront the Soviet Union and roll back its empire through various means. In general, NSDD-75 privileged policies aimed at challenging the growth of Soviet power and capabilities. Yet, the administration accepted that negotiations and cooperation, dependent on Soviet behavior, could take place eventually. After all, NSDD-75 concluded that U.S. policy was in a “serious search for a stable and constructive long-term basis for U.S.-Soviet relations.” A stable relationship could not develop without a degree of cooperation. But

³⁹² National Security Decision Directive 75, “U.S. Relations with the U.S.S.R.,” Jan. 17, 1983, RRL, <https://reaganlibrary.archives.gov/archives/reference/NSDDs.html#.VuLq-hf2Uk> (accessed 11 Mar. 2016).

hardliners like Pipes, Bailey, and National Security Advisor William P. Clark argued the Soviet system had to change *before* Moscow would negotiate with the United States in good faith.³⁹³

This mix of confrontational and cooperative strategies was also present in the directive's economic policy section. On East-West economic relations, it incorporated the goals of NSDD-66 to "develop a common understanding of the strategic implications of East-West trade" with U.S. allies. The West had to be sure economic relations did not "facilitate the Soviet military buildup," subsidize the Soviet economy, or present Moscow with "reverse leverage on Western countries based on trade, energy supply, and financial relationships." On the one hand, if Moscow continued violating international norms, Washington had to consider implementing "extreme [economic] measures," though NSDD-75 did not specify what those measures might be. On the other hand, if Soviet behavior improved, "carefully calibrated positive economic signals, including a broadening of government-to-government contacts, could be considered as a means of demonstrating to the Soviets the benefits that real restraint in their conduct might bring."³⁹⁴

Of course, the hardliners and pragmatists within the administration emphasized the parts of NSDD-75 that complemented their views of U.S.-Soviet relations. For example, Defense Secretary Caspar Weinberger, a hardliner, thought the directive's stance on preventing Soviet access to advanced Western technologies meant the

³⁹³ Ibid.; Pipes quoted in Wilson, *Triumph of Improvisation*, 67; Norman Bailey, *The Strategic Plan that Won the Cold War* (McLean, VA: The Potomac Foundation, 1998), 8-10; Wilson, *Triumph of Improvisation*, 66-69; Leffler, *For the Soul of Mankind*, 352-353.

³⁹⁴ NSDD-75, Jan. 17, 1983.

administration “should be examining all technology” for export controls, not just technologies with known military uses. “If that means that [U.S.] business goes abroad,” Weinberger said, “so be it.” The Departments of State and Commerce disagreed with Weinberger’s interpretation. President Reagan’s views of U.S.-Soviet relations rested somewhere between the hardliners and pragmatists. In mid-December 1982, as Commerce Secretary Malcolm Baldrige and Weinberger debated whether NSDD-75 meant the United States would help the Soviet Union develop its natural resources, Reagan said he “wished to keep our options open.” Reagan thought it was imperative to maintain the military buildup and challenge the Soviet Union in the Third World, but he did not want to commit to any policies that “compromise our chance of exercising quiet diplomacy” with Moscow.³⁹⁵

Early in 1983, Shultz launched a campaign to push Reagan firmly into the pragmatist camp. Ten years earlier, as President Richard Nixon’s Secretary of the Treasury, Shultz had engaged Soviet officials in trade negotiations. Based on this experience, he believed “the Soviets were tough negotiators but that you could negotiate successfully with them.” The United States did not have to wait for the Soviet system to change before engaging Soviet leaders in a meaningful dialogue. He argued the United States only had to demonstrate to Moscow that “we were not only strong and determined but also willing to make agreements that were mutually advantageous.” With the passing

³⁹⁵ NSC Meeting Minutes, Dec. 16, 1982, The Reagan Files, created by Jason Saltoun-Ebin, <http://thereaganfiles.com/document-collections/national-security-council.html> (accessed 14 Mar. 2016); Leffler, *For the Soul of Mankind*, 352-353.

of Brezhnev and the United States on a path towards rebuilding its military and economic strength, Shultz thought it was time to pursue negotiations.³⁹⁶

On January 19, Shultz sent the president a memo outlining a strategy for U.S.-Soviet relations in 1983. As historian James Graham Wilson explains, this memo stood in contrast to NSDD-75. Shultz argued that rather than seeking to roll back Soviet expansionism, the United States should seek an “intensive dialogue with Moscow” aimed at managing “a long-term adversarial relationship.” Unlike the hardliners, Shultz did not call for the overthrow of the Soviet system but engagement based on American military and economic strength and mutual interests. He believed bilateral talks were in the U.S. interest in order to counter “increased Soviet activism since Andropov’s rise to power,” and as long as the administration kept cultivating strength, the secretary thought the United States had nothing to lose in talks. “If this dialogue does not result in improved US-Soviet relations,” wrote Shultz, “the onus will rest clearly on Moscow.”³⁹⁷

But what would the superpowers discuss? Shultz presented the president with five areas of dialogue covering “the full range of our concerns about Soviet behavior:” Arms control, regional issues, human rights, economic relations, and bilateral relations. He argued that these areas were consistent with the framework of NSDD-75, but, in reality, the secretary desired a new agenda that privileged dialogue over confrontation. Under this agenda, President Reagan would remain committed to seeking verifiable reductions in strategic arms and settling superpower involvement in conflicts across the Third World. The United States would also work to resolve divided family cases and promote

³⁹⁶ George P. Shultz, *Turmoil and Triumph* (New York: Charles Scribner’s Sons, 1993), 119,159-162.

³⁹⁷ Memo, Shultz to Pres., Jan. 19, 1983, folder “US-Soviet Relations Papers, Working File: Contains Originals (3),” box 8, William P. Clark Files, RRL; Wilson, *Triumph of Improvisation*, 69.

dissident rights within the Soviet Union while deepening bilateral contacts. Lastly, Shultz stressed the West had to guard against Moscow exploiting economic relations to gain any Cold War advantages. If Reagan chose to pursue this dialogue, the administration would have to “manage domestic pressures for increased trade so that the timing of any steps we take is geared to our overall US-Soviet strategy.” He mentioned restoring the Joint Commercial Commission (JCC) as a way to counter these pressures. The JCC was an official economic group established in 1972 to promote commercial relations between the United States and Soviet Union. The group was suspended after the Soviet invasion of Afghanistan in 1979. Over the next few months, Shultz merged the points on economic and bilateral relations, creating a four-part framework for U.S.-Soviet relations.³⁹⁸

For the rest of the year, Shultz and his allies battled with the hardliners over U.S. policy towards the Soviet Union.³⁹⁹ These ideological Cold Warriors resisted any attempt to move towards a meaningful dialogue with Moscow and viciously picked apart Shultz’s policy memos in the NSC. John Lenczowski, the new Soviet NSC analyst and Pipes’s protégé, dismissed the prospect of talks as “wishful-thinking.”⁴⁰⁰ In Lenczowski’s view, negotiations bestowed international legitimacy on and appeased a rotten, aggressive socio-economic system that saw conflict with the capitalist world as inevitable. “We must talk to the Soviets,” he wrote, “as if we were talking to kidnappers holding hostages. This

³⁹⁸ Memo, Shultz to Pres., Jan. 19, 1983, folder “US-Soviet Relations Papers, Working File: Contains Originals (3),” box 8, Clark Files, RRL; “Joint U.S.-U.S.S.R. Commercial Commission,” Undated, folder “Briefing Book: Tenth Session Joint US-USSR Commercial Commission, April 1988 (2 of 6),” RAC box 19, Stephen I. Danzansky Files, RRL.

³⁹⁹ For a thorough analysis of this policy struggle between Shultz and the hardliners, see Wilson, *Triumph of Improvisation*, Ch. 3.

⁴⁰⁰ Shultz, *Turmoil and Triumph*, 162; Michael Deaver Interview, May 8, 1990, folder 2, box 2, series 2, Don Oberdorfer Papers, Public Policy Papers, Department of Rare Books and Special Collections, Princeton University Library; Memo, Lenczowski to Clark, Feb. 7, 1983, folder “US-Soviet Relations Papers, Working File: Contains Originals (2),” box 8, Clark Files, RRL.

means no toasts and clinking of champagne glasses . . . and no handshakes either (what kind of symbol is a handshake if you are dealing with a liar?).” Rather than engaging Moscow, the Reagan administration had to strengthen the U.S. military deterrent and expose the Soviet system for what it was, an “evil empire,” as Reagan said in March 1983.⁴⁰¹

Shultz thought Clark and his hardline NSC staffers failed to “comprehend the subtleties or the nuances” of international diplomacy. “We could not continue simply to vilify the Soviets publicly and expect them to respond by doing the things we wanted,” he recollected. To increase his influence over the policymaking process, Shultz went around the NSC to work “directly with the president.” He arranged a private meeting between Reagan and Soviet Ambassador Anatoly Dobrynin on February 15. In the two-hour meeting, Reagan and Dobrynin expressed a mutual interest in easing tensions, and Reagan described Shultz as a direct “personal channel” to the Oval Office, avoiding the lethargic bureaucracies that impeded meaningful dialogue.⁴⁰² President Reagan impressed Dobrynin. The ambassador left the meeting believing Reagan had a “personal desire finally to examine Soviet-American affairs more closely.” One month after the private meeting, Moscow announced it would initiate steps to let seven persecuted Pentecostal Christians, who lived in the U.S. embassy since 1978, emigrate. While meeting with Dobrynin, Reagan urged the Soviets to let the Pentecostals leave the Soviet Union, and

⁴⁰¹ Draft Memo, Lenczowski to Clark, Feb. 22, 1983, folder “US-Soviet Relations Papers, Working File: Contains Originals (3),” box 8, Clark Files, RRL; Reagan, “Remarks at the Annual Convention of the National Association of Evangelicals in Orlando, Florida,” Mar. 8, 1983, *Public Papers*, <https://reaganlibrary.archives.gov/archives/speeches/1983/30883b.htm> (accessed 14 Mar. 2016).

⁴⁰² Shultz, *Turmoil and Triumph*, 167, 168, 164-165; Memcon, Reagan and Dobrynin, Feb. 15, 1983, folder “US-Soviet Relations Papers, Working File: Contains Originals (2),” box 8, Clark Files, RRL; Anatoly Dobrynin, *In Confidence* (New York: Times Books, 1995), 517-522.

Shultz interpreted the gesture as marking a “willingness to move forward.” It was now up to President Reagan “to decide whether to intensify this dialogue.” Shultz recommended taking small steps through the four-part framework, such as renewing or restoring lapsed bilateral agreements, as a way to “seriously test” Soviet intentions.⁴⁰³ Throughout 1983, President Reagan was reassessing his views about U.S.-Soviet relations, gradually moving towards the pragmatist’s position. As he wrote in his diary on April 6, 1983, “Some of the N.S.C. staff are too hard line. . . . I think I’m hard line . . . but I do want to try & let [Moscow] see there is a better world if they’ll show *by deed* they want to get along.” Reagan had suspended negotiations on a new long-term grain agreement with the Soviet Union after the declaration of martial law in Poland. In the spring of 1983, he decided to resume grain talks as a gesture of goodwill. Shultz later referred to this new agreement, concluded in August, as a part of a “Cold War minithaw.”⁴⁰⁴

Despite these small steps towards better relations, U.S.-Soviet tensions continued to rise. These tensions and the bureaucratic struggle between the pragmatists and hardliners finally reached a crescendo in the fall of 1983. On September 1, the Soviet air force shot down Korean Airlines Flight 007, killing 269 civilians including 63 Americans and a U.S. Congressman. While en route to Seoul, the passenger jet had strayed off course, entering Soviet airspace in the middle of the night. A Soviet air defense commander believed KAL 007 was a U.S. military reconnaissance aircraft, and once the

⁴⁰³ Dobrynin, *In Confidence*, 520, 481; Memcon, Shultz and Dobrynin, Feb. 15, 1983, folder “Soviet Union - Sensitive File - 1983 (02/15/1983-07/14/1983),” RAC box 3, Robert McFarlane Files, RRL; Memo, Shultz to Pres., Mar. 3, 1983, folder “US-Soviet Relations Papers, Working File: Contains Originals (3),” box 8, Clark Files, RRL.

⁴⁰⁴ Reagan, *The Reagan Diaries*, ed. Douglas Brinkley, vol. I (New York: Harper Collins, 2009), 212; Shultz, *Turmoil and Triumph*, 271-272, 281.

flight failed to respond to radio transmissions and warning shots, Soviet interceptors destroyed it. The incident stunned the world. The morning of the tragedy, Shultz condemned “this appalling act.” Moscow, however, denied any responsibility for the attack, further inflaming public opinion. While on vacation in California, Reagan denounced this “barbaric act.” Before returning to the White House, he asked, “What could be said about Soviet credibility when they so flagrantly lie about such a heinous act?”⁴⁰⁵

The KAL 007 disaster initiated a new, final round in the struggle between Shultz and the hardliners over the role economic relations should play in U.S. policy towards the Soviet Union. Taking the incident and denials as proof of the Soviet Union’s aggressive nature, the hardliners pushed for new economic and political sanctions against the Soviet Union. They attempted to resuscitate the economic war. “It is entirely likely,” Clark speculated in a memo to the president, “that the decision to attack the airliner was made at a very high level.” He believed Moscow could be deliberately increasing tensions to “intimidate” U.S. allies who were preparing to deploy new intermediate-range nuclear missiles in Western Europe to counter similar Soviet missiles. In light of this possibility, Clark advised Reagan to consider cancelling “various or all negotiations” with the Soviets, launching a major public diplomacy campaign to criticize Moscow, seizing Soviet commercial assets in the United States, demanding reparations for the families of

⁴⁰⁵ Wilson, *Triumph of Improvisation*, 76-77; Oberdorfer, *From the Cold War*, 51; Shultz, *Turmoil and Triumph*, 362; Reagan, “Remarks to Reporters on the Soviet Attack on a Korean Civilian Airliner,” Sep. 2, 1983, *Public Papers*, <https://reaganlibrary.archives.gov/archives/speeches/1983/90283c.htm> (accessed 17 Feb. 2016).

victims, suspending aviation equipment sales to the Soviet Union, and impeding the activities of the Soviet airline, Aeroflot.⁴⁰⁶

Whereas Clark's proposal prioritized immediate, unilateral steps against the Soviets, Shultz wanted action suspending some bilateral agreements while conducting a "far-reaching effort to build and sustain a strong international response." The secretary opposed withdrawing from negotiations with Soviet officials. He was scheduled to meet with Soviet Foreign Minister Andrei Gromyko in a few days. "I intend to go forward with the meeting," Shultz wrote, "conveying to the Soviets . . . our strong revulsion at their actions and our determination to respond vigorously." He emphasized the need for strong multilateral actions, such as seeking a United Nations "resolution calling for a special international investigation" and international action against Aeroflot. Above all, Shultz said the U.S. response must not "overshadow that of other nations and private interest." The incident outraged the world, and the United States should cultivate an international response.⁴⁰⁷

In a meeting on the KAL disaster, Reagan's other advisors offered their thoughts on possible U.S. responses. Secretary of the Treasury Donald T. Regan reviewed some economic sanctions the administration could impose on the Soviet Union. Weinberger recommended Reagan cancel Shultz's upcoming meeting with Gromyko and consider slowing down the pace, or even suspending, U.S.-Soviet talks on other bilateral issues. "This is all well and good," Shultz interjected, "but, Mr. President, I think it's important

⁴⁰⁶ Memo, Clark to Pres., Sep. 2, 1983, Supplemental Documents for NSPG 68A: KAL 007, Reagan Files, <http://thereaganfiles.com/document-collections/national-security-council.html> (accessed 17 Feb. 2016).

⁴⁰⁷ Memo, Shultz to Pres., Sep. 1, 1983, Supplemental Documents for NSPG 68A, <http://thereaganfiles.com/document-collections/national-security-council.html> (accessed 17 Feb. 2016).

that we all keep in mind what our long-term objective with the Soviet Union is.” As aide Michael Deaver remembered, “You could hear a pin drop” after Shultz’s comment.

Shultz explained that the international community demanded justice for the victims and planned to take action against Soviet civil aviation. The world was united against the Soviet Union on this issue. He feared unilateral actions risked squandering international unity against Moscow, transforming the debate into “a U.S. versus the Soviets issue.”⁴⁰⁸

The president sided with Shultz. Reagan, remembering the alliance division over the Siberian pipeline sanctions, decided not to impose unilateral economic and political measures against the Soviet Union. Shultz would meet with Gromyko, limiting their discussion to KAL 007 and human rights. On September 5, the president declared the tragedy a Soviet attack on “the world and the moral precepts which guide human relations among people everywhere.” He announced to the American people that the United States was suspending the negotiation of a series of bilateral agreements with the Soviet Union and, with the international community, calling for the International Civil Aviation Organization to investigate the incident. U.S. allies were temporarily suspending Aeroflot landing rights, a measure the United States instituted after the declaration of martial law in Poland. Reagan reaffirmed this sanction, and days later, ordered Aeroflot to close its two ticket selling offices in the United States. With Korea and Japan, the United States also called for a U.N. Security Council emergency meeting to condemn the Soviets and demand compensation for the victim’s families. Overall,

⁴⁰⁸ Deaver Interview, Oberdorfer Papers, Princeton Library; Shultz, *Turmoil and Triumph*, 364-365; Oberdorfer, *From the Cold War*, 58-59.

Reagan limited the U.S. response to condemnation and action against Soviet civil aviation in concert with the international community.⁴⁰⁹

U.S. allies were relieved that the Reagan administration did not implement unilateral sanctions, but not everyone believed the president reacted appropriately. When the Senate voted on a resolution condemning the Soviet Union, a handful of conservative senators, led by Jesse Helms (R-NC), attempted to add an amendment pushing Reagan to take tougher action. Helms thought the disaster presented a “golden opportunity” for the United States to “nail the Soviets’ hide to the wall.” In particular, Helms and his colleagues wanted the president to recall the U.S. ambassador from Moscow, reduce the number of Soviet diplomats in the United States, and temporarily suspend arms control negotiations. The Senate rejected these proposals by large margins. Former Vice President Walter Mondale, who was preparing to run for president as the Democratic nominee in 1984, also criticized Reagan for being too timid. The verbal denunciations were appropriate but “we should have been somewhat stronger in what we actually did,” said Mondale.⁴¹⁰

Even though Reagan had chosen not to initiate new economic measures against the Soviet Union, hardliners continued to press for a return to economic war. About two

⁴⁰⁹ Shultz, *Turmoil and Triumph*, 365; Reagan, “Address to the Nation on the Soviet Attack on a Korean Civilian Airliner,” Sep. 5, 1983, *Public Papers*, <https://reaganlibrary.archives.gov/archives/speeches/1983/90583a.htm> (accessed 18 Feb. 2016); NSDD-102, “U.S. Response to Soviet Destruction of KAL Airliner,” Sep. 5, 1983, https://www.reagan.utexas.edu/archives/reference/NSDDs.html#.VsXxY_hf2Uk (accessed 18 Feb. 2016); Michael Getler, “U.S. Closes Aeroflot’s Two Offices,” *The Washington Post*, Sep. 9, 1983, A1; Bernard Gwertzman, “NATO Allies Seem to Favor Curb on Flights to Moscow,” *The New York Times*, Sep. 8, 1983, A10.

⁴¹⁰ Flora Lewis, “Leashing His Fury, Reagan Surprises and Calms Allies,” *New York Times*, Sep. 11, 1983, E1; Helen Dewar, “Conservatives Seek Tougher Soviet Sanctions,” *Washington Post*, Sep. 14, 1983, A16; Dewar, “Senate Votes Soviet Condemnation but Bars Sanctions,” *Washington Post*, Sep. 16, 1983, A28; “Mondale Says U.S. Response Was Too Weak,” *Washington Post*, Sep. 11, 1983, A18.

weeks before the KAL 007 disaster, the president decided to ease some restrictions on the export of non-strategic oil and gas equipment to the Soviet Union, including the controls on pipelayers that had blocked Caterpillar's sales in early 1982.⁴¹¹ After the tragedy, the hardliners wanted the decision reversed. On September 13, at Clark's request, an interagency advisory group on export controls recommended Caterpillar be permitted to export its pipelayers. However, the group suggested that some of the other pipeline and refining equipment slated for decontrol remain restricted. In addition, it advised the president to move seventeen oil and gas exploration products currently under foreign policy controls to national security controls. Doing so, would have given the Department of Defense a veto over the sale of these products to the Soviet Union. Shultz and Baldrige opposed the recommendation because the products were widely available on the international market. In early October, President Reagan ignored the request. Frustrated, Lenczowski wrote to Clark describing Shultz as "a man who, even in the face of the most stark example of Soviet violence, is ready to treat [the Soviets] as business partners rather than as enemies of our civilization." He feared this decision sent "mixed signals" to the Soviets, undermining the U.S. security and "moral courage."⁴¹²

Administration hardliners attempted to harness the outrage after the KAL 007 disaster to shift U.S. policy back towards economic warfare against the Soviet Union. Shultz, however, out-maneuvered them through his direct working relationship with the president and emphasizing that U.S. policy should support a multilateral response to

⁴¹¹ Memo, Robert M. Kimmitt to Agencies, Aug. 19, 1983, folder "East-West (Sep 82 - Sep 83) (1 of 9)," RAC box 5, Norman A. Bailey Files, RRL.

⁴¹² Kenneth B. Noble, "Denial Urged on Oil Gear for Soviet," *New York Times*, Sep. 20, 1983, D1; Clyde H. Farnsworth, "Soviet Oil Tool Burbs Ruled Out," *New York Times*, Oct. 5, 1983, D1; Memo, Lenczowski to Clark, Oct. 5, 1983, folder "Oil (October 1983)," Executive Secretariat, NSC Subject Files, RRL.

Soviet actions. The rise of two other pragmatic advisors aided Shultz. In June 1983, Jack Matlock joined the NSC as the senior Soviet analyst. He was a career foreign service officer with substantial experience working in Moscow and the former U.S. Ambassador to Czechoslovakia. He began chairing policy meetings in November, helping to shape the four-part framework and countering the recommendations of hardliners like Lenczowski.⁴¹³

In mid-October, Shultz's influence grew even more when Clark chose to resign as National Security Advisor to become the new Secretary of the Interior. Reagan had appointed Clark National Security Advisor in January 1982 to bring order to the administration's chaotic foreign policymaking process. Clark thought he had accomplished that task and had grown tired of the stressful job over the past year. He happily moved on, and Reagan selected Robert C. McFarlane as his replacement. A former Marine and Vietnam veteran, McFarlane had held various White House positions throughout the 1970s. He became Clark's deputy in 1982, but, unlike Clark, he was not a part of Reagan's inner circle. Although McFarlane was sympathetic to the hardliners' views on various issues, he thought the administration should pursue better relations with the Soviet Union. Over 1983, Reagan, Shultz, McFarlane, and Matlock cooperated to shift U.S. policies towards rapprochement. With Clark's departure from the realm of foreign policy, Shultz rose to become the most influential advisor to the president on U.S.-Soviet relations. The hardliners' strategy of economic warfare was dead.⁴¹⁴

⁴¹³ Wilson, *Triumph of Improvisation*, 75-80.

⁴¹⁴ Paul Kengor and Patricia Clark Doerner, *The Judge: William P. Clark, Ronald Reagan's Top Hand* (San Francisco: Ignatius Press, 2007), 246, 251-253; Lou Cannon, *President Reagan: The Role of a Lifetime*, 1st Public Affairs Ed. (New York: Public Affairs, 1991), 374-375; 526-528.

But U.S.-Soviet relations had yet to reach their coldest point. Andropov was suspicious of Reagan and fearful of the West's military power. He thought Reagan's plans to develop a space-based missile defense shield against nuclear attack, the Strategic Defense Initiative (SDI), compromised Soviet security and threatened to expand the arms race into space. In early November, Andropov and his advisors genuinely thought war with the United States was a possibility when NATO military forces conducted a large-scale exercise simulating the procedures for a nuclear attack on the Soviet bloc. After learning about the Soviet response to these exercises, Reagan toned down his anti-Soviet rhetoric and pushed U.S.-Soviet rapprochement. But once NATO began deploying the new intermediate-range nuclear missiles in Western Europe in late November, Moscow suspended arms control talks with the West. U.S.-Soviet relations had reached their lowest state in decades.⁴¹⁵

In early January, Reagan and his speechwriters prepared a major address on U.S.-Soviet relations, one "to reassure the eggheads & our European friends I don't plan to blow up the world," as the president confided in his diary. On the morning of January 16, the president laid out a series of steps he intended to take to improve relations, reduce armaments, and minimize the chances of hostilities. As a part of this effort, Reagan stressed that "cooperation and understanding are built on deeds, not words." Deeds could take the form of obeying existing bilateral agreements, expanding contacts, and respecting human rights. "Peaceful trade helps, while organized theft of industrial secrets certainly hurts," Reagan added. The president sought to engage Soviet negotiators from a

⁴¹⁵ Wilson, *Triumph of Improvisation*, 76-78; Beth A. Fischer, *The Reagan Reversal* (Columbia: University of Missouri Press, 1997), Ch. 5; Oberdorfer, *From the Cold War*, 65-68; Zubok, *Failed Empire*, 274-276; Reagan, *An American Life* (New York: Simon & Schuster, 1990), 588; Shultz, *Turmoil and Triumph*, 375.

position of strength to build “genuine cooperation” and “progress for peace.” At the end of the speech, Reagan suggested the Soviet and American people did not care about Moscow and Washington’s disagreements. He explained that if “an Ivan and an Anya could find themselves, oh, say, in a waiting room . . . with a Jim and Sally,” they would discuss their children, lifestyles, and ambitions, not “the differences between their respective governments.” The couples would not treat each other with hostility but friendship. “People want to raise their children in a world without fear and without war,” Reagan continued, “Their common interests cross all borders.” In his view, the United States and Soviet Union had an obligation to their citizens to begin a meaningful dialogue towards better relations and a lasting peace.⁴¹⁶

The Soviet leadership doubted Reagan’s sincerity. At a European security and disarmament conference in Stockholm two days later, Gromyko still claimed the United States, with its aggressive foreign policy, sought military superiority over the Soviet Union. In a January 28 letter to Reagan, Andropov said the leadership attempted to negotiate in good faith but “our efforts continued to run against a stonewall.” He blamed the United States and its actions “to challenge the security of our country and its allies” for the deterioration in relations. Despite these differences, Andropov reiterated his interest in meaningful talks but accused the president of only making “calls in favor of a dialogue,” as opposed to taking concrete steps to better relations. U.S.-Soviet relations remained tense. On February 9, Andropov passed away after a long struggle, hidden from the public, with renal failure. The 72-year-old Konstantin Chernenko, a former

⁴¹⁶ Reagan, *Diaries*, 305; Reagan, “Address to the Nation and Other Countries on United States-Soviet Relations,” Jan. 16, 1984, *Public Papers*, <https://reaganlibrary.archives.gov/archives/speeches/1984/11684a.htm> (accessed 14 Mar. 2016).

subordinate to Brezhnev, succeeded Andropov. But Chernenko also had health problems. He suffered from severe emphysema and often delivered public addresses gasping for breath. He too would die in about one year. The frequent passing of Soviet leaders made it difficult for President Reagan to establish a working relationship with Moscow. Nevertheless, Reagan reiterated his desire to establish constructive relations with Chernenko.⁴¹⁷

“Peaceful Trade Helps,” 1984-1985

Between the fall of 1982 and early 1984, President Reagan abandoned economic warfare against the Soviet Union and moved firmly into the pragmatists’ camp. Reagan and his pragmatic advisors now moved to fill the four-part framework with concrete policies. Under this framework, the Reagan administration engaged the Soviets on arms control, regional issues, human rights, and bilateral relations. Although arms control and regional issues were the most controversial and publicized parts of this agenda, an economic rapprochement took place in the form of resurrecting some of détente’s bilateral agreements. These measures helped build confidence in the U.S.-Soviet relationship and also unleashed domestic pressures to deepen bilateral economic relations. These pressures became particularly acute after Reagan met with Gorbachev at Geneva in November 1985. Yet, the Reagan administration resisted these pressures and refused to normalize U.S.-Soviet economic relations until Moscow addressed its human rights problems. Reagan did not practice an economic détente with the Soviet Union but employed a strategy to help foster a meaningful dialogue through limited economic

⁴¹⁷ Oberdorfer, *From the Cold War*, 62-63, 77-83; Letter, Andropov to Reagan, Jan. 28, 1984, Reagan Files, <http://thereaganfiles.com/document-collections/letters-between-president.html> (accessed 22 Feb. 2016); Leffler, *For the Soul of Mankind*, 359-361.

engagement while pressing the Soviet Union to liberalize its internal system in exchange for more meaningful economic relations.

In late February 1984, McFarlane sent the president a memo, drafted by Shultz and Matlock, assessing the four-part framework in light of Chernenko's rise to power. The administration expected Chernenko to be a "brief transitional figure" in the Soviet leadership due to his advanced age and "relatively weak [ruling] coalition." Yet, Chernenko likely saw negotiations with the United States as an asset. "To be seen publically dealing with you as an equal," McFarlane explained, "would bolster his image greatly in the Soviet Union." The United States had to "test Chernenko's willingness" to talk while making public and private moves to reverse Moscow's "deep and fundamental hostility" to the Reagan administration.⁴¹⁸

The president's advisors suggested the administration "move rapidly" to engage the Soviets on the four-part agenda. On arms control, the United States had to convince the Soviets to return to the negotiating table. The United States wanted to begin a "frank interchange" with Moscow on regional issues, building towards reciprocal actions that defused these Third World conflicts. It also intended to keep pressing the Soviets, largely in private discussions, to improve human rights. Lastly, the White House sought to improve the overall climate of bilateral relations by restoring and renewing agreements with Moscow and negotiating new ones, such as one opening new consulates in Kiev and New York City. In designing this agenda, Shultz deliberately refused to link progress, or lack thereof, on one issue to movement on any of the others. Such a framework granted

⁴¹⁸ Memo, McFarlane to Pres., Feb. 24, 1984, folder "US-USSR Relations [Feb 1984] 2/2," box 42, Jack F. Matlock Files, RRL.

negotiators the ability to discuss each part simultaneously and independent of the other, maximizing the opportunities for agreement.⁴¹⁹

In February, Chernenko wrote the president, responding favorably to U.S. intentions to renew a meaningful dialogue. The Soviet leader thought talks, particularly on arms control, were imperative to avoiding a nuclear confrontation, “be it through design or mistake.” Sensing a possible opening in relations, Reagan was anxious to meet one-on-one with Chernenko in the summer or fall of 1984. He hoped to use a personal encounter to calm fears, allay misunderstandings, and improve relations. But how could the administration move the state of relations from the current impasse to a heads of state summit? In a private meeting on March 2, Reagan asked his closet advisors to craft a reply to Chernenko emphasizing the four-part agenda as a basis for moving forward. Shultz suggested the administration undertake confidence building measures, in addition to moving on arms control. Besides opening new consulates and discussing new air safety measures, renewing a soon-to-expire long-term economic agreement provided a non-controversial, yet substantial move to better superpower relations.⁴²⁰

The Reagan administration believed the Soviets would welcome a renewal of the long-term economic agreement. Calvin William Verity, Jr. was the chair of the board of directors of Armco Steel and co-chair of the U.S.-U.S.S.R. Trade and Economic Council (USTEC), a council of U.S. business executives and Soviet officials that promoted bilateral trade. At the private March meeting, Bush explained that Verity recently returned from a trip to Moscow during which he met with Nikolai Tikhonov, Chair of the

⁴¹⁹ Ibid.; Shultz, *Turmoil and Triumph*, 277-278.

⁴²⁰ Letter, Chernenko to Reagan, Feb. 23, 1984, Reagan Files; Memcon, Private Meeting on U.S.-Soviet Relations, Mar. 2, 1984, folder “US-USSR Relations [March 1984] 1/3,” box 42, Matlock Files, RRL.

Soviet Council of Ministers. Responsible for managing the Soviet Union's economic affairs at home and abroad, Tikhonov wanted to "break the impasse" in U.S.-Soviet economic relations. Setting grain sales aside, bilateral trade was miniscule. Tikhonov lamented the closure of Aeroflot offices and other U.S. restrictions on trade. Lastly, he reiterated Chernenko's desire to move towards peaceful relations.⁴²¹

In late May, two Soviet trade officials—Deputy Foreign Trade Minister Vladimir Sushkov and Chairman of the State Planning Commission Nikolai Baibakov—would be visiting the United States to attend a USTEC meeting. Verity requested the Aeroflot sanctions be lifted and President Reagan meet with some of these officials. "There is no question in my mind," Verity wrote, "that the Soviets are anxious to move forward in the normalization of relationships." A White House meeting would signal Reagan's desire to improve relations. But given their low government ranks, Matlock opposed a presidential meeting, especially considering "the Soviets are resisting our overtures to negotiate matters of greater importance." Resuming Aeroflot flights to the United States was also out of the question. On Matlock's advice, McFarlane informed Verity that the administration would consider having someone besides Reagan meet with these officials.⁴²²

In the meantime, an interagency group reviewed whether the United States should renew the long-term economic agreement. The 1974 U.S.-U.S.S.R. Agreement on Economic, Industrial, and Technical Cooperation was a ten-year arrangement facilitating economic ties between American businesses and the Soviet government. An article in the

⁴²¹ Memcon, Private Meeting on U.S.-Soviet Relations, Mar. 2, 1984.

⁴²² Letter, Verity to McFarlane, Mar. 27, 1984; Memo, Matlock to McFarlane, Apr. 2, 1984; Letter, McFarlane to Verity, Apr. 4, 1984, all in folder "USSR-Economy (7/10)," box 25, Matlock Files, RRL.

agreement also established joint working groups of experts to help enterprises and trading organizations identify areas for mutually beneficial trade. Despite the agreement remaining in force throughout the early 1980s, these working groups had not convened since the Soviet invasion of Afghanistan. During the review, all of the agencies except the Department of Defense supported renewal. They believed the modest agreement benefited U.S. businesses operating in the Soviet Union and enhanced non-strategic trade. Weinberger, however, argued renewal would revive the “business-as-usual” trade policies of “the euphoric, détente era period rather than the post-Afghanistan-Poland-KAL period.” By mid-May, President Reagan decided to approach Soviet officials about renewal and resurrecting the working groups. In recounting the president’s decision, Baldrige explained that renewing these measures would be steps “to move toward a more constructive relationship” with the Soviets, an “objective the President enunciated in his January 16 speech.”⁴²³ In adopting these policies, the Reagan administration hoped to use these small economic initiatives to open the door to more substantial talks with Moscow.

In early May, Verity repeated his request that White House officials meet with Sushkov and Baibakov during the upcoming USTEC meeting in New York City. President Reagan and his advisors decided the meeting was an appropriate place to begin the new dialogue on bilateral relations. While in the United States, Sushkov went to Washington, D.C. to meet with various U.S. officials, including McFarlane and Baldrige. For almost two hours on May 25, Baldrige and Sushkov discussed the state of U.S.-Soviet economic relations, in general, and steps to renew the long-term economic

⁴²³ Draft Memo on SIG-IEP Recommendation, Prepared by Roger Robinson, Undated, folder “USSR-Economy (8/10),” box 25, Matlock Files, RRL; Letter, Baldrige to McFarlane, May 15, 1984, folder “Soviet Union: Trade (4/5),” box 37, Matlock Files, RRL.

agreement, in particular. The Commerce Secretary explained that Reagan had no “desire to conduct economic warfare on the Soviet Union” and sought ways to “expand nonstrategic trade.” Thus, the administration was willing to renew the long-term agreement and reconvene the working groups. Sushkov agreed but suggested an immediate JCC meeting, a step above the working groups. But Baldrige insisted the working groups meet first, and Sushkov consented.⁴²⁴

Sushkov then expressed Soviet interest in purchasing U.S. oil and gas equipment and technologies for use on new offshore drilling platforms. European and Japanese companies wanted the business, but Moscow preferred using U.S. goods for their superior quality. In light of past events, however, Sushkov questioned if U.S. companies could be reliable long-term suppliers. Would these companies honor their contracts with the Soviet Union? “U.S. [export] restrictions would only serve to be in the way of U.S. companies, not the USSR,” Sushkov explained. Understanding these concerns, Baldrige promised to review the issue. In raising the export control issue, Sushkov highlighted one of the major impediments to expanding U.S.-Soviet economic relations. Both sides would have to reevaluate what constituted “non-strategic” trade. For the past few years, the Reagan administration defined “non-strategic” narrowly. It argued almost all goods, except for grain, contributed to Soviet military power and capabilities. Even though the United States now claimed it wanted to improve economic relations, the Soviet Union naturally remained suspicious about U.S. intentions. Renewing the long-term economic

⁴²⁴ Letter, Verity to McFarlane, May 3, 1984, folder “Soviet Union: Trade (3/5);” Memo, Matlock to McFarlane, May 25, 1984, folder “Soviet Union: Trade (4/5),” both in box 37, Matlock Files, RRL.

agreement and reconvening the working groups were the first steps towards allaying these suspicions while building confidence in the larger U.S.-Soviet relationship.⁴²⁵

Sushkov's meetings with U.S. officials were kept from the public, and President Reagan did not announce the renewal of the long-term economic agreement until late June 1984. But U.S. businesses yearned for the Soviet market and pressed the Reagan administration to ease the restrictions on bilateral trade. In October 1983, USTEC had helped organized "Agribusiness U.S.A. '83," a Moscow trade fair featuring American agricultural equipment and products. This event was the first all-American trade show in Moscow in six years, and it was a stunning success with participants selling almost ten million dollars worth of U.S. goods. After this show, both sides were eager to trade more. In late January 1984, Verity wrote a letter to Baldrige indicating that the council planned to organize another Moscow trade exhibit in October 1985. This time, however, the council wanted to display American oil and gas equipment and technologies, as well as other energy-related products. The council intended to promote goods currently not under export controls. "I am mindful of the President's recent speech on relations with the Soviet Union in which he said, 'Peaceful trade helps'," Verity added, "This is quite simply our goal." He then requested the Commerce Department's "active support" in organizing and promoting this exhibit.⁴²⁶

⁴²⁵ Memcon, Baldrige and Sushkov, May 25, 1984, folder "Soviet Union: Trade (4/5)," box 37, Matlock Files, RRL.

⁴²⁶ Reagan, "Remarks to Participants in the Conference on United States-Soviet Exchanges," Jun. 27, 1984, *Public Papers*, <https://reaganlibrary.archives.gov/archives/speeches/1984/62784a.htm> (accessed 25 Feb. 2016); William Cooper, "Trade Will Expand as Political Relations Allow," *Business America* 7, no. 4 (Feb. 20, 1984): 23; Letter, Verity to Baldrige, Jan. 27, 1984, folder "Soviet Union: Trade (4/5)," box 37, Matlock Files, RRL.

At the May USTEC meeting, a State Department official praised the council's commitment to increase non-strategic trade but indicated normalized economic relations could not take place until the Soviet Union resolved its human rights problems. This message, Matlock reported, "received a very hostile reception, not only from the Soviets, but from most of the U.S. businessmen present." The administration had recently permitted a company to export \$40 million worth of submersible oil drilling pumps and had suspended its push to add oil and gas equipment and technology to the COCOM control list. Nevertheless, U.S. businesses wanted a better atmosphere for U.S.-Soviet economic relations to come sooner rather than later. They appealed to the president to ease restrictions faster and lobbied Congress to weaken export control laws with the revised Export Administration Act (EAA).⁴²⁷

Baldrige and the Commerce Department, with its mission to promote U.S. business abroad, sympathized with USTEC and its supporters. Baldrige informed Verity that selling U.S. energy goods to the Soviets "presents policy problems," but he was confident the department could promote the energy exhibit provided U.S. businesses did not plan to export technical data or production know-how. Over the next year, the Commerce Department worked with USTEC to organize the trade fair. Furthermore, in response to a request from Sushkov, it prepared a revised version of its export controls

⁴²⁷ Memo, Matlock to McFarlane, May 25, 1984, folder "Soviet Union: Trade (4/5)," box 37, Matlock Files, RRL; Clyde H. Farnsworth, "U.S. Approves the Sale of Oil Gear to Russians," *New York Times*, Mar. 7, 1984, D1; For the debates surrounding the revised Export Administration Act between 1983 and 1985, see Ch. 5.

and licensing procedures informational booklet. The revisions included a new section on oil and gas products and technologies.⁴²⁸

The revision coincided with preparations for the first working groups of experts meeting (scheduled for early January 1985) and a White House debate on U.S. export control policy on oil and gas equipment and technologies. Ahead of the experts meeting, the CIA began an assessment on Soviet energy strategy and its implications for Western security. In late September, Shultz and Baldrige proposed the assessment's terms of reference be expanded to "take a special look" at oil and gas export policy. In particular, they wanted to know whether blocking the sale of U.S. goods and technology would significantly inhibit Soviet energy development and what impact foreign availability might have on U.S. companies denied sales. Shultz claimed U.S. officials needed a "clear idea of what we would be prepared to make available as well as what we do not wish to sell" at the upcoming working groups meeting.⁴²⁹

These suggestions agitated hardline NSC staffer Roger Robinson. He believed Reagan did not approve a "high visibility trade negotiation" with Moscow but a resurrection of the working groups. U.S. officials had no business discussing revisions to the export controls regime with the Soviets. Robinson did not oppose expanded non-strategic trade with the Soviet Union, "a means to facilitate greater U.S.-Soviet contact and incentives for a more peaceful world." But oil and gas equipment and technologies had no place in these talks. Recommendations to expand the CIA study's terms of

⁴²⁸ Letter, Baldrige to Verity, Mar. 26, 1984; Memo, David G. Wigg, Robinson, and William F. Martin to McFarlane, Oct. 18, 1984; Commerce Booklet Proof, "Exporting to the USSR and the Commerce Control Program," Oct. 1984, all in folder "Soviet Union: Trade (4/5)," box 37, Matlock Files, RRL.

⁴²⁹ Letter, Shultz to McFarlane, Sep. 28, 1984, and Memo, Robinson to McFarlane, Oct. 4, 1984, folder "USSR-Economy (8/10)," box 25, Matlock Files, RRL.

references hinted at dramatic actions to decontrol these goods and technologies. Robinson still hoped the administration could convince COCOM to control these products and argued State and Commerce's proposed actions would undermine the ongoing dialogue on East-West economic relations with U.S. allies. "For the benefit of a few U.S. oil and gas equipment suppliers and a modest level of sales," he declared, "we would incur European ridicule concerning this perceived flip-flop in the President's hard fought East-West economic policy." Acting on Robinson's recommendations, McFarlane denied the request to expand the assessment.⁴³⁰ The hardliners had lost the policy debate over economic war, but they succeeded in preventing any discussions with the Soviets about revising U.S. export controls.

In addition, the NSC opposed the Commerce Department helping USTEC organize the energy exhibit. Numerous staffers wanted Commerce to "postpone certain trade promotion activities" with USTEC, at least until the CIA completed its assessment. They argued that the trade fair was "premature" and wanted the oil and gas licensing revisions in the informational booklet on export controls removed. "There is no major action-forcing event that requires moving ahead at this time," they said. Commerce's actions risked undermining current U.S. policies. Under pressure from the NSC, Baldrige and the Commerce Department dropped the planned revisions and stopped cooperating

⁴³⁰ Memo, Robinson to McFarlane, Oct. 4, 1984, folder "USSR-Economy (8/10)," box 25, Matlock Files, RRL; Memo, McFarlane to Shultz, Baldrige, and William E. Brock, Oct. 12, 1984, folder "Soviet Union: Trade (4/5)," box 37, Matlock Files, RRL.

with USTEC on the energy exhibit. U.S. export controls on oil and gas equipment and technologies would remain in force for the foreseeable future.⁴³¹

As this most recent debate on oil and gas export controls settled, an interagency group drafted and Reagan approved U.S. objectives and proposals for the upcoming working groups of experts meeting. The U.S. delegation was advised to discuss the overall status of bilateral economic relations and the obstacles to the growth on non-strategic trade. Furthermore, the working groups were to begin talks on how to resolve these obstacles. Lastly, negotiators were to determine if there were “sufficient grounds” to reconvene the JCC. If the Soviets indicated a willingness to work towards resolving the present impediments to deeper economic relations, then the United States had no objection to resuming JCC meetings.⁴³²

The interagency process also developed a few specific policy proposals for discussion at the meeting. Although the Soviets wanted the United States to lift the Aeroflot sanctions, the group opposed doing so until Moscow took a more proactive effort to help increase international civilian aviation safety standards. Instead, the policymakers recommended the United States propose action in other areas of the bilateral economic relationship. Since 1951, the United States embargoed the import of Soviet furskins. More recently, the Treasury Department suspended Soviet nickel imports due to evidence that the Soviet Union was importing Cuban nickel then re-exporting the

⁴³¹ Memo, Wigg, Robinson, and Martin to McFarlane, Oct. 18, 1984, folder “Soviet Union: Trade (4/5)”;
Memo, Robinson to McFarlane, Jan. 2, 1985, folder “Soviet Union: Trade (5/5),” both in box 37, Matlock Files, RRL; NSDD 155, “U.S.-Soviet Economic and Commercial Relations,” Jan. 4, 1985, RRL, <https://www.reagan.utexas.edu/archives/reference/NSDDs.html#.VtB4jPhf2UI> (accessed 26 Feb. 2016).

⁴³² SIG-IEP Discussion Papers for U.S.-U.S.S.R. Economic Working Groups of Experts Meeting, Dec. 10, 1984, folder “USSR-Economy (9/10),” box 25, Matlock Files, RRL; Discussion Paper, “Overview of U.S.-Soviet Trade Issues for the SIG-IEP,” Dec. 11, 1984, folder “Soviet Union: Trade (5/5),” box 37, Matlock Files, RRL; NSDD 155, “U.S.-Soviet Economic and Commercial Relations,” Jan. 4, 1985.

good to the United States. Soviet actions violated the longstanding U.S. embargo on Cuba. The interagency group supported U.S. officials offering to seek legislation lifting the furskins embargo and resolving the nickel ban. This offer was contingent, however, on Moscow lifting numerous discriminatory practices that limited the operation of U.S. businesses in the Soviet Union. American companies, for instance, were not permitted to bid on Soviet government contracts. Lastly, the group suggested the negotiators discuss new maritime and tax agreements. The administration anticipated Soviet officials raising the issue of U.S. energy exports. If asked, the U.S. delegation was only to “explain current U.S. technology transfer policies” on these products, not efforts to revise export controls.⁴³³

At first, there were no plans for the delegations to discuss human rights. The Commerce Department wanted to keep the talks focused on specific economic issues and resurrecting the JCC. Weinberger, however, objected and succeeded in convincing the interagency group and President Reagan to add human rights to the agenda. Weinberger did not support the working group’s meeting or the reconvening of the JCC. “The major thrust of [the Soviet] effort to acquire our technology through any means, fair and foul, suggests that they will want to turn this initiative against us,” he said. He thought the mission would unleash “political pressures” to revise U.S. export controls, undermining U.S. security and the gains made in allied negotiations over the past few years. But if the president was determined to follow through with the negotiation, he argued the U.S. delegation had to mention human rights as an impediment to deeper economic relations.

⁴³³ SIG-IEP Discussion Papers, Dec. 10, 1984; Discussion Paper, “Overview of U.S.-Soviet Trade,” Dec. 11, 1984; NSDD 155, “U.S.-Soviet Economic and Commercial Relations,” Jan. 4, 1985.

“I cannot believe,” Weinberger stated, “that the President would want such a mission to go and return in silence on the human rights issue.” A week before the mission to Moscow, the administration added human rights to the agenda.⁴³⁴

As head of the U.S. working group delegation, Under Secretary of Commerce for International Trade Lionel Olmer was the highest-ranking U.S. trade official to visit the Soviet Union in five years. For three days in Moscow, January 8-10, Olmer, Sushkov, and their aides frankly discussed the problems plaguing bilateral economic relations and worked towards resolving these issues, helping to improve overall relations. The United States saw Soviet human rights abuses as the principal impediment to deeper economic relations. Olmer expressed U.S. concerns about the mass arrests of political dissidents and Jewish cultural activists over the last year. The United States estimated there were as many as ten thousand religious and political activists imprisoned in the Soviet Union. Soviet officials, of course, contested these statements. In another meeting, Vladimir S. Alkhimov, Chairman of the State Bank, said Moscow could permit up to 50,000 Jewish citizens to emigrate annually if U.S.-Soviet relations improved. Although Alkhimov made the suggestion unofficially, it was nonetheless remarkable considering there were only 900 Jewish emigres in 1984. The remark hinted that Moscow was open to resolving these human rights issues.⁴³⁵

⁴³⁴ Memo, Weinberger to Regan, Dec. 20, 1984; Memo, Robinson to McFarlane, Jan. 2, 1985, both in folder “Soviet Union: Trade (5/5),” box 37, Matlock Files, RRL.

⁴³⁵ John M. Starrels, “The Stage is Set for Better Relations,” *New York Times*, Feb. 10, 1985, 139; Clyde H. Farnsworth, “U.S. Finds Russians Favor Trade But It is Unlikely to Relax Curbs,” *New York Times*, Feb. 3, 1985, 1; Memo with attached U.S. Delegation Talking Points, Charles Hill to McFarlane, Dec. 29, 1984, folder “Soviet Union: Trade (5/5),” box 37, Matlock Files, RRL; Memo, Regan to Pres., Feb. 1, 1985, folder “USSR-Economy (9/10),” box 25, Matlock Files, RRL.

The Soviet delegation requested the administration and Congress revise restrictive laws limiting bilateral trade. According to U.S. officials, the Soviets argued “a very large increase in trade could take place” if the United States eased its export controls, particularly on oil and gas products, and repealed legislation like the Jackson-Vanik amendment. But Olmer and his aides maintained opportunities existed to expand commercial relations within the existing regulations. While U.S.-Soviet disagreements on human rights and export controls remained, the working groups of experts did resolve some of the other issues hindering the economic relationship. Soviet officials agreed to consider lifting discriminatory practices against U.S. companies, and the U.S. delegation consented to reconvening the JCC. In fact, Olmer, a strong advocate of expanding commercial relations, surprised Soviet officials by suggesting the JCC meeting be held within a few months in order to maintain the momentum of trade talks.⁴³⁶ Overall, the January meeting marked the first significant step towards reopening bilateral economic relations. And the meeting coincided with Shultz and Gromyko discussing arms control in Geneva. Together, these meetings, as one reporter stated, “sent a reassuring message to the world” that the United States and Soviet Union were moving away from confrontation.⁴³⁷

On May 20-21, 1985, Baldrige met with Soviet Foreign Trade Minister Nikolai Patolichev in Moscow for the first JCC meeting since 1978. As the U.S. Embassy

⁴³⁶ Starrels, “The Stage is Set for Better Relations,” *New York Times*; Farnsworth, “U.S. Finds Russians Favor Trade,” *New York Times*; Memo, McFarlane to Pres., Feb. 9, 1985 and Cable, Embassy Moscow to D.C., Feb. 4, 1985, both in folder “USSR-Economy (9/10),” box 25, Matlock Files, RRL; Memo, Robinson to McFarlane, Jan. 14, 1985, folder “Trade (January 1985),” NSC Subject Files, RRL.

⁴³⁷ Starrels, “The Stage is Set for Better Relations,” *New York Times*; For an analysis of the Shultz-Gromyko meeting, see Oberdorfer, *From the Cold War*, 100-105.

reported, the discussions were “frank and sometimes contentious” but revealed a “willingness to take a patient step-by-step approach towards the solution of outstanding problems.” During the opening session, Patolichev accused the United States of failing “to live up to the [trade] expectations” of the early 1970s and lambasted the link between most-favored-nation status and Jewish emigration. The Soviet minister also called U.S. export controls ineffective, citing the early completion of the Siberian natural gas pipeline as evidence. He urged Baldrige to support revising U.S. controls and permitting American companies to honor any future contracts with the Soviet Union. Patolichev then expressed dismay at the administration’s refusal to move faster on expanding economic relations, arguing trade should “proceed a bit ahead of the rest of the relationship” to pave the way for better relations overall. Despite these criticisms, the minister affirmed his commitment to help “restore a climate of confidence. Without such a climate, serious trade was unthinkable.”⁴³⁸

In response, Baldrige maintained the Reagan administration’s position that economic relations could not move any faster than other areas of the bilateral relationship. Before U.S.-Soviet economic relations could be normalized, the superpowers had to resolve their outstanding disagreements. In particular, Baldrige noted that the Soviet Union could not receive most-favored-nations status until it reformed its Jewish emigration policies. The commerce secretary also defended the U.S. export control system, stating the administration was not interested in changing “strategic trade controls for the sake of economic gain.” This refusal to revise export controls, Baldrige

⁴³⁸ Cable, Embassy Moscow to D.C., May 22, 1985, folder “Soviet Union: Trade (5/5),” box 37, Matlock Files, RRL.

clarified, did not mean Reagan sought to wage economic war against the Soviet Union. Rather, the United States wanted to focus on expanding trade within the existing system until the superpowers settled the outstanding issues within the four-part framework. Baldrige also mentioned the pending contract sanctity clause of the EAA of 1985 as proof that American companies were reliable suppliers. During a working group session the next day, the U.S. delegation expounded on over two dozen Soviet-proposed projects with U.S. companies that could be approved under existing export licensing procedures. After addressing Soviet concerns, Baldrige noted American firms wanted “better access to Soviet purchasers, invitations to bid on contracts,” and an end to discriminatory trade practices.⁴³⁹

After two days of talks, the Soviet delegation agreed to grant U.S. firms greater access to the Soviet market and to support trade promotional activities through the U.S. Commercial Office in Moscow. In return, Baldrige promised the White House would work with Congress to lift the embargo on Soviet furskins. U.S. officials indicated the administration would end the ban on nickel if Moscow certified that the exports were of complete Soviet origin. The Soviets made no indication they were prepared to offer such certification. Both sides also agreed to begin holding regular meetings between low-level trade representatives to aid trade talks. Overall, the successful JCC meeting illustrated that Washington and Moscow were willing to improve bilateral economic relations. More importantly, Baldrige and his aides demonstrated that the Reagan administration had truly abandoned its economic war against the Soviet Union and sought genuine engagement.⁴⁴⁰

⁴³⁹ Ibid.

⁴⁴⁰ Ibid.

Chernenko, however, did not live to see the resurrection of the JCC. In mid-January 1985, He suffered a stroke and disappeared from public view, except for the occasional ceremonial appearance. On March 10, 1985, the feeble leader died, and the Communist Party Central Committee chose Mikhail Sergeyevich Gorbachev as the new General Secretary. With his rise to power, the 54-year-old Gorbachev represented a new generation of Soviet leaders. The last three Soviet leaders were all born before the Communist Revolution in 1917 and experienced World War II as adults. Gorbachev, born in 1931, was barely a teenager during the struggle against Hitler. While growing up in Stavropol, located near the Caucasus, Gorbachev joined the Young Communist League, learning about the revolution and Marxism-Leninism. He witnessed the horrors of the war, and the Soviet victory over Nazi Germany strengthened his faith in the superiority of communism. But Gorbachev came of age in the 1950s, a time when reformist Soviet leader Nikita Khrushchev denounced the oppressive pre-war policies of ruthless Soviet dictator Joseph Stalin. Gorbachev's family had suffered at the hands of Stalin. Both of his grandfathers were imprisoned as "enemies of the state." In the 1950s, after graduating with a law degree from the prestigious Moscow State University, Gorbachev carried out political and agricultural policies in Stavropol. Over the next two decades, he rose up through the Communist Party until Brezhnev made him a Politburo member in the late 1970s. Inside the Politburo, Gorbachev curried favor with Andropov and built his own network of political support until it was his turn to rule.⁴⁴¹

⁴⁴¹ Oberdorfer, *From the Cold War*, 105-109; Leffler, *For the Soul of Mankind*, 366-374; Zubok, *Failed Empire*, 278.

The Reagan administration reacted to the new Soviet leader with cautious optimism. Gorbachev was the fourth Soviet leader in four years with whom President Reagan was attempting to work. Gorbachev was also twenty years younger than Reagan, intelligent, and self-confident. He was markedly different than his feeble predecessors. After meeting Gorbachev in December 1984, British Prime Minister Margaret Thatcher told Reagan, “He is affable and has some charm and humour. . . . I certainly found him a man one could do business with. I actually rather liked him.” While attending Chernenko’s funeral, Bush and Shultz conveyed the U.S. desire to cooperate with the Soviet Union and presented the new leader with a letter from Reagan in which the president invited Gorbachev to Washington at the “earliest convenient opportunity.” Gorbachev expressed a similar wish to work with the United States on resolving their differences and maintaining peace. Shultz remembered being “genuinely impressed with the quality of thought, the intensity, and the intellectual energy of this new man on the scene.” They found Gorbachev’s demeanor, youth, and style refreshing, but as Shultz told the press on March 15, “the U.S.-Soviet relationship is not just about personalities.” It remained to be seen whether the new leader would modify the Soviet Union’s international behavior and favorably respond to Reagan’s efforts to foster a meaningful dialogue.⁴⁴²

Gorbachev inherited a country experiencing economic stagnation for the previous decade. A committed communist, he sought to revive the Soviet economy and transform

⁴⁴² Margaret Thatcher Message to Reagan, Dec. 22, 1984, The Margaret Thatcher Foundation, Thatcher MSS (digital collection), Doc. ID 134740, <http://www.margaretthatcher.org/document/134740> (accessed 1 March 2016); Shultz, *Turmoil and Triumph*, 528-533; Letter, Reagan to Gorbachev, Mar. 11, 1985, Reagan Files, <http://thereaganfiles.com/document-collections/letters-between-president.html> (accessed 1 Mar. 2016); Leffler, *For the Soul of Mankind*, 365-366.

society in order to fulfill the goals of Marxism-Leninism. The new general secretary attacked party corruption and rampant alcoholism. He also launched an economic program intended to accelerate industrial production and incorporate new technologies to modernize industries and increase labor productivity. These actions, in the CIA's perspective, made Gorbachev "the most aggressive and activist Soviet leader since Khrushchev." He did not hesitate to criticize government and party officials for ineptitude and mismanagement, and the Soviet people responded favorably to these policies.⁴⁴³

But Gorbachev considered these reforms to be short-term measures to revive economic growth. To fix the Soviet system, the general secretary had to reallocate resources from the military and arms race to the consumer sector. The Soviet military-industrial complex starved the rest of the Soviet economy for resources. In 1987, for example, military expenditures comprised forty percent of the state budget and military production made up twenty percent of Soviet gross national product. Decreasing military spending, however, required a less hostile international environment. Soviet military leaders and party officials would never agree to cut these allocations while they saw the United States as a threat to Soviet security. Gorbachev needed to work with President Reagan to improve bilateral relations and conclude concrete agreements that enhanced mutual security. "We need lasting peace," he wrote in 1987, "in order to concentrate on

⁴⁴³ Zubok, *Failed Empire*, 278-284; Leffler, *For the Soul of Mankind*, 374-378; Directorate of Intelligence, "Gorbachev, the New Broom," Jun. 1985, pp. 1-2. This report and other CIA primary documents are available through the Reagan Collection in the CIA FOIA Reading Room (hereafter, CIA RC), <http://www.foia.cia.gov/collection/reagan-collection> (accessed June 2014). The website has changed since conducting my initial research, making it more difficult to navigate. I recommend accessing the collection through the Wayback Machine: <http://web.archive.org/web/20130412234252/http://www.foia.cia.gov/collection/reagan-collection>. All CIA RC citations refer to the archived list.

the development of our society and to cope with the tasks of improving the life of the Soviet people.” Less than two weeks after assuming power, Gorbachev replied to Reagan’s letter by calling the “improvement of relations . . . to be not only extremely necessary, but possible, too.” The two nations had competing socio-economic systems, but like Reagan, Gorbachev did not think that was “a reason for animosity.” He believed it was their task to make sure the competition remained peaceful and that they worked towards building “an atmosphere of greater trust.”⁴⁴⁴

Reagan and Gorbachev continued exchanging letters about U.S.-Soviet differences over the next few months. At the same time, Gorbachev moved to assert his control over Soviet foreign policy. Gromyko served as foreign minister since the late 1950s. He was a capable, stern diplomat, but Gorbachev wanted someone with fresh perspectives. “Our foreign policy had to be radically reformed,” Gorbachev recalled, “Such a task was already beyond Gromyko’s capacities.” In July 1985, he appointed Eduard Shevardnadze, the Georgian Communist Party Secretary, as the new minister. Shevardnadze had no experience with foreign affairs, but he and Gorbachev had formed a working relationship in the 1970s. Like the general secretary, Shevardnadze recognized the flaws in the Soviet system, and Gorbachev felt he could “speak frankly about anything” with the new foreign minister. Gorbachev selected Shevardnadze to be his top-hand in carrying out his vision for a new Soviet foreign policy.⁴⁴⁵

⁴⁴⁴ Zubok, *Failed Empire*, 278-284; Leffler, *For the Soul of Mankind*, 374-378; Mikhail Gorbachev, *Memoirs* (New York: Doubleday, 1995), 215; Gorbachev, *Perestroika: New Thinking for Our Country and the World* (New York: Harper & Row, Publishers, 1987), 132; Letter, Gorbachev to Reagan, Mar. 24, 1985, Reagan Files, <http://thereaganfiles.com/document-collections/letters-between-president.html> (accessed 1 Mar. 2016).

⁴⁴⁵ Leffler, *For the Soul of Mankind*, 378-379; Gorbachev, *Memoirs*, 180.

In the summer of 1985, Gorbachev announced a unilateral moratorium on nuclear testing, and he and Reagan held a November summit in Geneva, discussing efforts to reduce nuclear weapons and lower the costs of the arms race. Gorbachev argued that SDI was a threat to Soviet security that risked militarizing space. Rather than develop SDI, Gorbachev proposed the rivals worked towards eliminating their nuclear arsenals. Reagan wanted to cut arsenals but believed SDI was essential to U.S. defenses. He offered to share SDI with the Soviets to ensure both sides could confidently eliminate all nuclear weapons. Gorbachev thought this offer was hollow. Why would Moscow's ideological and geopolitical rival share a sophisticated defense technology? Reagan also criticized Soviet actions in the Third World and asked Gorbachev to improve human rights within the Soviet Union. The two leaders did not reach any substantial agreements by the end of the summit. They issued a joint statement, agreeing that "a nuclear war cannot be won and must never be fought" and pledging "to seek common ground on existing problems." It was a contentious meeting, but as Gorbachev later wrote, there was a "desire to understand each other." Reagan and Gorbachev had met one-on-one, candidly discussed bilateral problems, and began to develop a personal relationship over their shared vision to curb the nuclear arms race.⁴⁴⁶

Among U.S. business leaders, the Geneva Summit created new hopes for expanding bilateral economic relations. In December 1985, USTEC scheduled a trade meeting in Moscow. As Reagan and Gorbachev talked in Geneva, the list of American

⁴⁴⁶ Leffler, *For the Soul of Mankind*, 381-385; Wilson, *Triumph of Improvisation*, 98-101; Zubok, *Failed Empire*, 284-285; "Joint Soviet-United States Statement on the Summit Meeting in Geneva," Nov. 21, 1985, *Public Papers*, <https://reaganlibrary.archives.gov/archives/speeches/1985/112185a.htm> (accessed 2 Mar. 2016); Gorbachev, *Memoirs*, 409.

executives registered for the event swelled to over three hundred people. “I can only think that the Geneva summit had something to do with” the new registrations, remarked James Griffen, co-chair of USTEC. The other co-chair said Geneva made him “optimistic” about the future of U.S.-Soviet economic relations.⁴⁴⁷ American business leaders had every right to be hopeful; Reagan was committed to expanding non-strategic trade with the Soviet Union. But normalized economic relations remained far off, at least until Washington and Moscow made progress on resolving the more pressing issues on the four-part agenda.

In July 1985, the CIA assessed Gorbachev’s likely aims for the Geneva Summit. Although any concrete agreements at Geneva were unlikely, the CIA argued, Gorbachev sought improved relations to bolster his domestic economic reforms and modernization. Analysts thought the general secretary’s top long-term objective was to gain access to Western goods and technologies in order to aid his economic agenda. “Trade with the West and access to Western technology,” the Directorate of Intelligence memo stated, “is more important than achieving a formal arms control agreement.” Moscow saw rapprochement as a means to “provide more opportunity for such trade and a more open economic relationship.” But President Reagan refused to weaken the prudent approach to East-West trade erected over his first term. Dictating the following statement, he explained his views about the role trade played in the coming negotiations:

I know some on our side don’t like linking trade to political conduct. They believe peaceful trade is worthwhile all on its own. Well, I happen to think that trade is

⁴⁴⁷ Bernard Gwertzman, “Trade Trip to Soviet Planned,” *New York Times*, Nov. 19, 1985, D8; Celestine Bohlen, “Freeing of U.S.-Soviet Trade Urged,” *Washington Post*, Dec. 10, 1985, A25.

for us a major bargaining chip. We shouldn't give it away. But how about just hanging back until we get some of the things we want instead of giving consideration up front to what they want?

Reagan maintained that U.S.-Soviet economic relations could not deepen significantly until the superpowers settled their differences. The two sides had to reach an agreement on arms control, resolve their conflicting involvement in the Third World, and foster stronger bilateral ties. Most of all, Moscow had to improve its treatment of political dissidents and end the persecution of ethnic and religious minorities.⁴⁴⁸

Less than one month after the Geneva Summit, Baldrige traveled to Moscow and delivered a presidential letter to Gorbachev. In the letter, Reagan expressed his pleasure with the summit and urged Gorbachev to take "bold steps in the human rights area." He asked the General Secretary to help resolve a number of divided family cases and revise Soviet emigration policies for ethnic and religious minorities. These matters could be handled in private. "We are prepared to take some bold steps ourselves in areas that Secretary Baldrige will be willing to discuss. The emigration and trade areas offer some real scope for parallel movement," Reagan wrote. In addition to meeting with Soviet trade officials, Baldrige discussed bilateral economic relations with Gorbachev over dinner on December 10. He revealed that the Commerce Department would be starting an official Soviet trade promotion program in 1986, and Gorbachev welcomed efforts to expand economic relations. The Reagan administration, however, had no plans to seek a

⁴⁴⁸ Directorate of Intelligence Memo, "Gorbachev's Personal Agenda for the November Meeting," Jul. 1985, CIA RC (accessed 30 Jun. 2014); Reagan, "Gorbachev," Undated, attached to Memo, Matlock to Fritz Ermarth, Dec. 31, 1986, folder "Important History Pre-1987 [Material Left for Fritz Ermarth] 3/4," box 27, Matlock Files, RRL.

repeal of the Jackson-Vanik amendment. When a reporter asked if trade expansion was contingent on Soviet domestic policies, Baldrige responded that issues like human rights typically come up during these conversations but “it’s the president’s policy not to discuss that in public.” Normalized economic relations were linked to Soviet domestic policies, but the Reagan administration had no desire to berate the Soviets over this issue in public.⁴⁴⁹

While in Moscow, Baldrige also addressed USTEC, urging members to be optimistic but patient about the pace of deepening economic relations. He reiterated that “the trade relationship cannot move independently of progress in other elements of the bilateral relationship.” The resumption of official economic talks was worth celebrating, but “we are still closer to the beginning of our journey than to its end,” Baldrige explained. To help move towards better relations, the commerce secretary announced the administration supported congressional legislation lifting the import ban on Soviet furskins and claimed the contract sanctity clause of the EAA of 1985 made American companies reliable suppliers for the Soviet Union. Gorbachev also addressed the council. He regretted that the United States insisted on maintaining the link between trade and Soviet domestic policies. “We are not going to beg the United States for anything,” Gorbachev declared. The Jackson-Vanik amendment and U.S. export controls were “obstacles” impeding the development of “economic ties on a large scale.” In his view, deeper economic relations would not only help the Soviet economy but also help stabilize

⁴⁴⁹ Letter, Reagan to Gorbachev, Dec. 7, 1985, Reagan Files, <http://thereaganfiles.com/document-collections/letters-between-president.html> (accessed 2 Mar. 2016); Cable on Baldrige’s Press Briefing, Embassy Moscow to D.C., Dec. 10, 1985, folder “Meetings with USSR Officials, Baldrige/Gorbachev Mtg, December 10, 1985,” box 62, Matlock Files, RRL.

U.S.-Soviet relations. "It can become a powerful incentive in building stable, normal and, I would even venture to say, friendly relations," Gorbachev remarked.⁴⁵⁰ But the Reagan administration did not believe the time was right for fundamentally transforming the bilateral economic relationship. First, the United States and Soviet Union had to settle their outstanding differences.

Trade, Human Rights, and the Information Age, 1986-1988

Although Gorbachev saw the Geneva Summit as a promising start to a U.S.-Soviet dialogue, he wanted arms control talks and rapprochement to proceed at a faster pace. But Reagan and his advisors remained suspicious about Soviet motives. They wanted deeds, not words, that demonstrated Moscow was embarking on a new foreign policy path. In early 1986, Gorbachev launched a peace offensive intended to win international support for negotiations and pressure the Reagan administration to be more forthcoming in talks. With this offensive, Gorbachev unveiled his "new political thinking" about international relations. Recognizing that new thinking represented a break with past Soviet foreign policy, the Reagan administration continued engaging Gorbachev within the four-part framework. While this framework dominated U.S. strategies and policies, the administration repeatedly expressed an interest in deepening bilateral economic relations once U.S.-Soviet differences were settled. At the same time, Reagan and Shultz spoke to Gorbachev and Shevardnadze about the technological revolution transforming the global economy in the 1980s. The administration argued that

⁴⁵⁰ Baldrige, Speech at the U.S.-U.S.S.R. Trade and Economic Council, Dec. 9, 1985, folder "Soviet Union (5 of 6)," RAC box 12, Danzansky Files, RRL; Celestine Bohlen, "Gorbachev Describes Obstacles to Trade with U.S.," *Washington Post*, Dec. 11, 1985, A27; Serge Schmemmann, "A Gorbachev Trade Warning," *New York Times*, Dec. 11, 1985, D1.

it was in the Soviet Union's interest to reform its socio-economic system in order to reap the benefits of the burgeoning information age. Reagan and Shultz believed a Soviet system, restructured to be more democratic and market-oriented, would cease to be a threat to the West.

In January 1986, Gorbachev called for the elimination of all nuclear weapons worldwide by the year 2000. The Reagan administration dismissed the proposal as a public relations stunt. Over the next few months, however, Gorbachev revealed that his vision of a nuclear-free world was a part of a larger initiative to reshape the foundations of Soviet foreign policy. Since the days of Stalin, Soviet leaders and foreign policymakers interpreted international relations as a struggle between the capitalist and socialist worlds. These were two camps locked in an inevitable conflict until historical forces led to the triumph of socialism. There could be times of cooperation, such as during *détente*, but the fundamental ideological competition remained. Class conflict, on a global scale, guided Soviet foreign policy. At the Twenty-Seventh Congress of the Soviet Communist Party, held February 26 through March 6, Gorbachev cast class conflict aside for a new understanding of international relations. Since conflict carried the risks of nuclear confrontation, Gorbachev argued, the two camps had to cooperate to avoid annihilation. Rather than maintaining the ideological competition, Soviet foreign policy should make peace with the noncommunist world and work towards enhancing global security. To Gorbachev, Soviet and American security interests were both legitimate but not irreconcilable. He maintained that "the division of the world into opposing blocs must be seen as absurd." As historian Robert English observes,

Gorbachev's "new thinking" about Soviet foreign policy marked a "watershed in national identity." For the first time, Moscow no longer saw itself as an enemy of the liberal international community but a partner.⁴⁵¹

The General Secretary intended new thinking to revitalize the Soviet Union's standing in the international community and complement his domestic reforms. Upon taking power in early 1985, Gorbachev argued that the Soviet socio-economic system needed *perestroika*, or restructuring. The Soviet Union was in social and economic stagnation, but Gorbachev wanted to reinvigorate the system by increasing investments in scientific and technological innovations and granting enterprises greater responsibilities and decision-making authority. As he explained in 1987, the old economic models had become a "braking mechanism" on economic progress, stifling innovation. The Soviet economy failed to keep pace with the capitalist economies, and declining energy markets "squeezed" Soviet finances. Economic stagnation crept into the social sphere, demoralizing workers and sapping public confidence in socialism. "The great values born of the October Revolution and the heroic struggle for socialism were being trampled underfoot," Gorbachev declared. He sought to revive the promises of socialism, "to 'wake up' those people who have 'fallen asleep'." While his plans called for the abandonment of class conflict as a basis for Soviet foreign policy, new thinking meant *glasnost*, or openness, at home. He intended to empower Soviet citizens so they could

⁴⁵¹ Leffler, *For the Soul of Mankind*, 387-389; Zubok, *Failed Empire*, 285-287; Oberdorfer, *From the Cold War*, 158-159; Gorbachev, *Memoirs*, 185; Robert D. English, *Russia and the Idea of the West* (New York: Columbia University Press, 2000), 5.

root out corruption and mismanagement. Glasnost and perestroika meant “unit[ing] socialism with democracy” to reform the Soviet economy and reclaim the revolution.⁴⁵²

Gorbachev also posited a new role for the individual in Soviet society. Each citizen’s unique talents and abilities were no longer supposed to be lost in the economic collectives and public bodies. With glasnost and perestroika, Gorbachev wanted the state to harness these talents and abilities to build socialism. “An individual must know and feel that his contribution is needed,” Gorbachev wrote, “that his dignity is not being infringed upon, that he is being treated with trust and respect. When an individual sees all this, he is capable of accomplishing much.” Leaders in the West argued that Gorbachev had to abandon economic planning and adopt a liberal notion of human rights in order to achieve these ends. But he refused to “give up [the] planned economy.” The Western system was “unacceptable to us.” Gorbachev was confident that if glasnost and perestroika were implemented, the Soviet state could achieve Marxist democracy and “use the benefits of a planned economy” to “achieve much more than capitalism.” Gorbachev wanted to build “socialism with a human face,” to borrow Czech reformer Alexander Dubcek’s phrase.⁴⁵³

Gorbachev’s ambition to open and democratize Soviet society in an increasingly integrated world harmonized with the Reagan administration’s vision of the impact of the emerging information age. In the spring of 1985, Shultz wrote an article—“New Realities and New Ways of Thinking”—in *Foreign Affairs*. He argued that revolutions in

⁴⁵² Gorbachev, *Memoirs*, 215-229; Gorbachev, *Perestroika*, 20, 24, 29, 35; Leffler, *For the Soul of Mankind*, 374-376

⁴⁵³ Gorbachev, *Perestroika*, 30, 86; Jussi M. Hanhimäki, *The Rise and Fall of Détente* (Dulles, VA: Potomac Books, 2013), 28.

technology and economic thought were creating new realities in which international stability, peace, and prosperity were intertwined with freedom, democracy, individual human rights, and open societies. The development of microchip computers and advanced telecommunication devices permitted information to flow freely across national borders at an unprecedented rate. For the West, the information revolution was compatible with the political system and helped spur entrepreneurial innovation. Because of their political and economic values, the Western democracies, led by the United States, were able to tap the opportunities inherent in this new age. Shultz contended the communist world and other totalitarian societies faced a dilemma: “either they try to stifle these technologies and thereby fall further behind in the new industrial revolution or else they permit these technologies and see their totalitarian control inevitably eroded.” The new realities threatened old ways of thinking.⁴⁵⁴

The tide of global change was turning against planned economics and totalitarianism. And as Shultz explained, it was not just the West that benefitted from these transformations. Those nations in the developing world that embraced the information age were reaping rewards too. The Republic of Korea, for example, was “a spectacular economic success story,” and China had recently abandoned “outmoded economic doctrines” for a “long march” towards market mechanisms. Shultz continued, “Not only in East Asia, but on every continent . . . we see movement to decentralize, to deregulate, to denationalize, to reduce rigidity and to enlarge the scope for individual producers and consumers to cooperate freely through markets.” In light of these

⁴⁵⁴ George P. Shultz, “New Realities and New Ways of Thinking,” *Foreign Affairs* 63, no. 4 (Spring 1985): 705-721.

developments, the United States looked forward to the day when the Soviet Union began to “consider its own security in terms compatible with the freedom, security and independence of its neighbors.”⁴⁵⁵

A year later, Gorbachev was thinking about Soviet security in these terms. In addition to his new thinking about U.S.-Soviet relations, Gorbachev wanted perestroika in Eastern Europe and greater economic integration among communist nations and with the Western world. In a June 1986 memo to the Politburo, he suggested there needed to be a “genuine turning point in the entire system of collaboration with our allies” in Eastern Europe. For too long, Soviet allies had viewed Moscow as a “conservative power,” hindering needed economic reforms and stifling any debate about the proper course of “socialist development.” The Soviet Union was the “sole custodian of Marxist-Leninist teachings” and the allies were not permitted to pursue their own socialist paths. Over a decade ago, Gorbachev explained, the socialist nations embarked on a course to integrate their economies “but this process is sharply behind the integration process in Western Europe.” He wanted to engage the East in a dialogue about restructuring these economic relationships to “eliminate backward” policies and “liberate the process of communications rather than fetter it.” Gorbachev was not just attempting to forge a new relationship with the West but also with the Soviet bloc. Rather relying on force to maintain Soviet control, Gorbachev envisioned these long-term reforms producing a “truly voluntary union,” or relationship, between the Soviet Union and Eastern Europe.⁴⁵⁶

⁴⁵⁵ Ibid.

⁴⁵⁶ Memo, Gorbachev to the Central Committee of the Communist Party of the Soviet Union Politburo, Jun. 26, 1986, Doc. 10 in the National Security Archive’s *Perestroika in the Soviet Union: 30 Years On* digital collection, <http://nsarchive.gwu.edu/NSAEBB/NSAEBB504/> (accessed 4 Mar. 2016).

When opportunities arose, Reagan and Shultz encouraged Gorbachev and Shevardnadze to continue down the path of reform in order for the Soviet Union to make the most of these global transformations. In early November 1985, Shultz traveled to Moscow for final preparations ahead of the Geneva Summit. While there, he intended to discuss the implications of the information age with Gorbachev: “‘Just look around,’ I would tell Gorbachev. ‘The successful societies are the open societies’.” Isolated nations that oppressed individual human rights could not take advantage of these changes. With this reasoning, Shultz thought he could convince Moscow that “improved human rights practices were in their own interests.” The State Department’s Soviet experts urged Shultz not to raise the subject. As he remembers, these officials argued such a conversation would be a “classroom in the Kremlin; it’s condescending.” They believed his actions would set back relations rather than advancing a dialogue on outstanding bilateral problems. Nevertheless, Shultz pressed on.⁴⁵⁷

After a contentious meeting with Gorbachev discussing arms control and regional issues, Shultz reiterated the president’s desire to work with the Soviet Union. He explained, however, that Reagan did not just want to cooperate to *avoid* nuclear confrontation but also to *create* a better future. He then recounted the global changes underway as a result of the innovations in technology and communications. “People must be free to express themselves, move around, emigrate and travel if they want to, challenge accepted ways without fear. Otherwise, they can’t take advantage of the opportunities available,” said Shultz. All nations, including the Soviet Union, had to adapt to these new realities. Gorbachev was not insulted by these statements. Instead, he

⁴⁵⁷ Shultz, *Turmoil and Triumph*, 587.

was impressed and joked that Shultz should be managing the Soviet Union's economic plans.⁴⁵⁸

Gorbachev began gradually moving to open the Soviet Union to the global economy. For decades, the Soviet Foreign Trade Ministry directly managed economic relations with the Western governments and private entities. In late 1986, Gorbachev announced plans to reorganize this bureaucratic structure, granting twenty-one other ministries and over sixty enterprises the right to negotiate import and export deals with the West. Moreover, these Soviet agencies were permitted to use almost all of their hard currency earnings from exports to import Western equipment intended to improve production capabilities. Gorbachev hoped this new arrangement would encourage Soviet agencies to become stronger exporters. While the reform only affected about six percent of Soviet trade, it signaled that Moscow aimed to decentralize economic management and deepen the East-West economic relationship. Gorbachev remembered "heated arguments" within the Soviet leadership over these plans. But in announcing the decision, he later wrote, "We had finally overcome [bureaucratic] inertia and got economic reform moving."⁴⁵⁹

Gorbachev also searched for ways to handle the problem of declining hard currency earnings. A CIA National Intelligence Estimate in September 1986 concluded that Soviet hard currency earnings between 1986 and 1990 would be "roughly 30 percent below those attained over the last several years." Due to the lower value of the U.S.

⁴⁵⁸ Ibid., 590-591.

⁴⁵⁹ Patrick Cockburn, "Moscow to Give 21 Ministries Freedom to Trade with West," *Financial Times*, Sep. 18, 1986, 5; Patrick Cockburn, "Soviet Plan to Boost Joint Ventures," *Financial Times*, Sep. 25, 1986, 4; Gorbachev, *Memoirs*, 223.

dollar, Soviet purchasing power was also expected to fall significantly. Declining energy and raw material markets were the principal cause of this hard currency drought. With dwindling hard currency earnings, the Soviet Union began curbing its Western imports. But Gorbachev and his reform-minded aides still wanted the Soviet Union to import superior Western technologies and equipment to increase domestic production efficiency. To solve this dilemma, Moscow explored participating in the multilateral trade and financial institutions as well as liberalizing laws governing joint economic ventures between Soviet agencies and Western businesses.⁴⁶⁰

In late 1986, Gorbachev created the new International Economic Department in the Ministry of Foreign Affairs and selected Soviet economist Ivan Ivanov to head the department. An accomplished scholar, Ivanov had been arguing that the Soviet Union should join the General Agreement on Tariffs and Trade (GATT) for the last two years. Created in the late 1940s, GATT was a multilateral agreement under which signatories worked towards lowering barriers to international trade. The Soviet Union never accepted GATT and, at times, denounced it as a capitalist tool for imperialism. Now, however, Moscow expressed interest in joining it as a way to better integrate the Soviet economy into the global market. As GATT members were preparing to initiate a new round of negotiations, the Soviet Union requested permission to participate as an observer. It did not make any official requests to join the International Monetary Fund or the World Bank—the principal international financial institutions—but Soviet academics told U.S.

⁴⁶⁰ National Intelligence Estimate 11-23-86, “Implications of the Decline in Soviet Hard Currency Earnings,” Sep. 1986; Directorate of Intelligence Research Paper, “USSR: Facing the Dilemma of Hard Currency Shortages,” May 1986; Directorate of Intelligence Memo, “Soviet Dependence on Imports from the West,” Nov. 1988, all in CIA RC (accessed 7 Jul. 2014);

colleagues such a move was under consideration. It is clear Moscow was reconsidering the Soviet Union's relationship to the global economy as it combatted structural economic problems at home.⁴⁶¹

Lastly, in the fall of 1986, Gorbachev revealed plans to promote more joint economic ventures with Western firms in 1987. More joint ventures served as a way to import sophisticated technologies and goods to the Soviet Union without spending scarce hard currency resources. In an effort to attract Western businesses and industries, the new joint venture laws granted foreign partners control of forty-nine percent of assets leased from the Soviet government. Partners were also allowed to repatriate profits and control product prices. Soviet ministries and enterprises began reaching out to Western firms specializing in agriculture, chemicals, transportation, consumer services, energy, and more. Weeks after the announcement, USTEC co-chair Griffen was already discussing over thirty potential projects with Soviet trade officials. *Business Week* declared, "Fast Food is Coming, Fast Food is Coming" as PepsiCo Inc. approached Moscow about opening one hundred Pizza Hut restaurants across the Soviet Union.⁴⁶²

The Reagan administration welcomed the prospect of joint ventures fostering more non-strategic trade. At the December 1986 JCC meeting in Washington, D.C., U.S. officials encouraged Soviet agencies to move faster on concluding negotiations on a number of projects, and both sides agreed to end the ban on Soviet nickel. Moscow still

⁴⁶¹ Marshall I. Goldman, "Following China's Example? Gorbachev Finds an Ally in Capitalism," *New York Times*, Sep. 7, 1986, F3; "Soviet GATT Bid Opposed," *New York Times*, Aug. 22, 1986, D2; National Security Study Directive 2-86, "Soviet Initiatives in International Economic Affairs," Review Section, folder "Soviet Union (Economic Initiatives) (7 of 9)," RAC box 12, Danzansky Files, RRL.

⁴⁶² Cockburn, "Soviet Plan to Boost Joint Ventures," *Financial Times*, Sep. 25, 1986; Rose A. Horowitz, "US-Soviet Projects Near," *The Journal of Commerce*, Nov. 19, 1986, copied located in folder "[US-U.S.S.R. Working Group of Experts, Dec. 1986](1)," RAC box 19, Danzansky Files, RRL; "Fast Food is Coming, Fast Food is Coming," *Business Week*, Dec. 1, 1986, 50.

questioned whether American companies were reliable suppliers, and the U.S. delegation attempted to quell these concerns once again by explaining U.S. export control licensing procedures and highlighting the contract sanctity clause of the 1985 EAA. In addition, President Reagan decided to let export controls on oil and gas equipment and technologies expire in early January 1987. Imposed in response to the 1978 Soviet imprisonment of two political dissidents—Anatoly Shcharansky and Andrei Sakharov—these controls had outlived their usefulness.⁴⁶³ These dissidents were no longer confined or in exile, and the 1984 CIA review found that the controlled equipment and technologies were widely available on the international market. The Department of Commerce estimated that these controls had cost U.S. companies two billion dollars in lost exports, and the National Association of Manufacturers and Chamber of Commerce both pressured the administration to end these measures. Unlike the last time these controls were reviewed, the NSC also supported their expiration. U.S. support for joint ventures and the expiration of these oil and gas controls revealed that the Reagan administration had reassessed what it considered strategic trade.⁴⁶⁴

Even though the Reagan administration supported efforts to strengthen non-strategic trade with the Soviet Union, it always kept its larger security interests in mind.

⁴⁶³ For an overview of these controls and their origins, see Ch. 2.

⁴⁶⁴ Clyde H. Farnsworth, "U.S. to End Its Soviet Nickel Ban," *New York Times*, Dec. 6, 1986, 37; U.S.-U.S.S.R. Working Group of Experts Briefing Book, Dec. 1-2, 1986, folder "[US-U.S.S.R. Working Group of Experts, Dec. 1986](1)," Summary Paper, "Joint U.S.-U.S.S.R. Commercial Commission," Undated, folder, "Briefing Book: Tenth Session Joint US-USSR Commercial Commission, April 1988 (2 of 6)," both in RAC box 19, Danzansky Files, RRL; Anne Swardson, "U.S. Lifts Controls on Export of Drilling Gear to Soviets," *Washington Post*, Jan. 16, 1987, A1; Letter, Alexander B. Trowbridge to Frank C. Carlucci, Jan. 6, 1987, and Letter, Richard L. Leshner to Pres., Oct. 6, 1986, folder "International Trade XV. (D) Technology Transfer-Oil and Gas Equipment (1 of 3)," RAC box 8, Danzansky Files, RRL; Memo, Carlucci to Baldrige, Mar. 27, 1987, folder, "Nations V. (c) 4. Soviet Union Oil and Gas," RAC box 2, Danzansky Files, RRL.

Since Soviet participation in the multilateral economic institutions challenged these interests, the United States actively opposed Soviet membership. In the fall of 1986, the White House completed a national security study directive on Soviet initiatives in international economic affairs. The review concluded that these measures could “present the Soviets with new opportunities and forums to challenge U.S. policy objectives.” The Soviet command economy, relatively isolated from the international economy, was contrary to the purpose of GATT. The administration did not believe the Soviet Union could abide by GATT rules, despite Moscow’s claims, and “sidetracked” the Soviet application for observer status with the help of U.S. European allies. While Moscow did not make any official requests to join the international financial institutions, the study advised policymakers monitor Soviet interest in these organizations and oppose any attempts at membership. The Soviet Union had a history of using international forums to “attack its enemies, support its Third World friends, and defend its interests in debate.” The White House preferred not to grant the Soviet Union another venue to denounce Western actions and policies. At worst, the administration feared increased Soviet access to the Western financial system could lead to attempts to “manipulate these markets to the detriments of U.S. national security interests.” What stopped Moscow from manipulating the system to “preoccupy” the West while it “engaged in activities—say in Eastern Europe or the Middle East?” Overall, the Reagan administration did not consider the Soviet Union ready for active involvement in the global economy. The United States would only support Soviet membership once Moscow completed its reforms and adopted a truly open, market system.⁴⁶⁵

⁴⁶⁵ NSSD 2-86, “Soviet Initiatives in International Economic Affairs,” Sep. 16, 1986, folder “Soviet Union

Despite both sides' intent to deepen non-strategic trade, the volume of U.S.-Soviet trade experienced only modest growth in the mid-to-late 1980s. With the resumption of trade talks, bilateral trade began to grow in 1984 and 1985. Due to a new long-term grain agreement, total trade was about thirty percent higher in 1984 than the previous year. Nonagricultural exports also grew by almost fifty percent. In early 1984, the Soviet Union enjoyed large hard currency surpluses, helping to fund more grain and nonagricultural imports from the United States. Soviet orders for U.S. equipment and machinery jumped from \$70 million in 1984 to \$240 million in 1985. The United States expected this trade to continue growing throughout the decade. Since the 1985 JCC meeting, U.S. companies reported a "sharp improvement" in trade negotiations with Soviet officials, and the Commerce Department prepared to sponsor its first trade fair, showcasing American food industries, in Moscow in seven years.⁴⁶⁶

But the decline in energy markets and lower Soviet hard currency earnings began reversing this trend in 1986. Moscow ordered less than \$100 million worth of U.S. equipment and machinery and even imported less U.S. grain than the long-term agreement mandated. In 1986, the United States exported less than \$700 million worth of grain to the Soviet Union compared to about \$1.8 billion in 1985 and \$2.8 billion in 1984. Total U.S. nonagricultural exports were relatively stable between 1983 and 1986 despite the initial growth then decline in Soviet equipment and machinery orders. Although business executives and Soviet officials explored potential joint ventures and

(Economic Initiatives) (7 of 9)," RAC box 12, Danzansky Files, RRL.

⁴⁶⁶ Jack Brougner and Julie Newton, "Grain Exports Lead Increase in U.S. Trade with Soviet Union," *Business America*, 7, no. 17 (Aug. 20, 1984): 21-22; Franklin J. Vargo, "U.S.-U.S.S.R. Trade Climate Improves, But Soviet Import Ability Weakens," *Business America*, 9, no. 15 (Jul. 21, 1986): 6-8.

product sales, these negotiations were typically unproductive. In 1988, U.S. businesses reported to the Department of Commerce “that trying to do business in the USSR is expensive, time consuming, and unlikely to be productive. Companies traditionally spend several years in negotiations and large sums of money—often with little success.”

Despite Soviet efforts to attract joint ventures and Western companies submitting around 250 joint venture applications in 1986, only 3 agreements with U.S. businesses were signed by November 1987. PepsiCo Inc. received permission to open two Pizza Hut restaurants, far short of a proposed one hundred, and two other companies agreed to collaborate with Moscow on petrochemical production and oil extraction.⁴⁶⁷ Throughout these trade talks, the Reagan administration upheld its commitment to limit bilateral economic relations to the promotion of non-strategic trade until both sides settled their differences within the four-part framework.

During the remainder of Reagan’s presidency, U.S.-Soviet relations underwent a dramatic transformation. Shortly after Geneva, the United States lifted the sanctions on Aeroflot. At their second summit in Reykjavik, Iceland, October 11-12, 1986, Reagan and Gorbachev almost agreed to eliminate *all* nuclear weapons on the condition the United States confine SDI to laboratory testing for at least ten years. The president refused, not wanting to prevent testing the defense shield in space, and the summit came to an end without any deal. Both leaders walked away agitated but recognized the other was genuinely committed to building a world free of the risks nuclear weapons posed to

⁴⁶⁷ Maria Aronson, “Secretary Baldrige Hosts First U.S. Visit in Nine Years by Soviet Foreign Trade Minister,” *Business America*, 10, no. 2 (Jan. 19, 1987): 7-9; “U.S.-Soviet Trade Expansion,” Undated, folder “Briefing Book: Tenth Session Joint US-USSR Commercial Commission, April 1988 (4 of 6),” RAC box 19, Danzansky Files, RRL; “List of Soviet Joint Ventures,” Nov. 12, 1987, folder “Soviet Union (Joint Ventures),” RAC box 12, Danzansky Files, RRL.

humanity.⁴⁶⁸ After Reykjavik, the Iran-Contra scandal weakened President Reagan. The administration had been selling weapons to Iran in an attempt to secure the release of U.S. hostages in Lebanon. The White House then used the profits, in violation of U.S. law, to fund the Contra rebels, who sought to topple Nicaragua's socialist government. Reagan publicly confessed to the arms-for-hostages deal in March 1987, but investigators never found evidence directly connecting the president to the illegal aid to the Contras. Nevertheless, the scandal threatened to consume Reagan's presidency throughout 1987 and limited his ability to act at home and abroad.⁴⁶⁹ Despite the failure at Reykjavik and Reagan's weakened political state, Gorbachev pressed on with arms controls talks rather than waiting to deal with Reagan's successor. Anxious for an agreement, Gorbachev dropped his demand that the United States confine SDI to the laboratory. This position paved the way for Gorbachev and Reagan to sign the Intermediate-range Nuclear Forces (INF) Treaty in December 1987. Under this unprecedented treaty, the superpowers agreed to eliminate an entire class of nuclear weapons. The United States withdrew the missiles it deployed in Western Europe in 1983, and the Soviet Union removed similar missiles from Eastern Europe and Asia. More than anything else, the INF Treaty demonstrated U.S.-Soviet relations were on the mend, tensions were reducing significantly.⁴⁷⁰

⁴⁶⁸ Reginald Stuart, "U.S. and Soviet Agree to Resume Airline Service," *New York Times*, Nov. 23, 1985, 6; Leffler, *For the Soul of Mankind*, 392-395; Wilson, *Triumph of Improvisation*, 111-115; Zubok, *Failed Empire*, 292-294.

⁴⁶⁹ James T. Patterson, *Restless Giant* (New York: Oxford University Press, 2005), 207-213; Wilson, *Triumph of Improvisation*, 126-131.

⁴⁷⁰ Leffler, *For the Soul of Mankind*, 397-403;

Although there was “dramatic movement,” as Reagan said, on arms control, other differences between the United States and Soviet Union remained to be solved. Reagan told the American people, “Summits must be discussions not just about arms but about the fundamental differences that cause nations to be armed.”⁴⁷¹ The administration used the four-part agenda to broaden these discussions during the INF negotiations and after concluding the treaty. On April 13, 1987, Shultz met with Shevardnadze in Moscow. Arms control and regional issues dominated these discussions. Whenever U.S. officials pressed the Soviets on human rights, Soviet representatives typically stressed they would not bow to U.S. pressure; the Soviet Union would only adopt reforms that were in their national interest. Before this April meeting, Shultz searched for a way to make the Soviet leadership realize that liberal human rights were in their interest. When the opportunity arose, the secretary of state elaborated on “human rights in the information age.” These rights were necessary to reap the benefits of the information revolution. He told Shevardnadze that the Soviet Union, without these reforms, would continue to fall behind the West economically. The Soviet Union will not be a “full participant in the information revolution. Such a Soviet failure will heighten tensions, suspicion, and insecurity. Neither of us want that.” In other words, if the Soviet Union wanted to promote peace and remain a global power in the twenty-first century, it had to liberalize its treatment of individuals. Shevardnadze did not respond to Shultz’s argument.⁴⁷²

The next day, Shultz met with Gorbachev. After a two-hour arms control discussion, the participants decided to take a break, and Shultz used this moment to

⁴⁷¹ Reagan, “Address to the Nation on the Soviet-United States Summit Meeting,” Dec. 10, 1987, *Public Papers*, <https://reaganlibrary.archives.gov/archives/speeches/1987/121087d.htm> (accessed 10 Mar. 2016).

⁴⁷² Shultz, *Turmoil and Triumph*, 887-888.

conduct another “classroom in the Kremlin” session. He placed two pie charts on the historical and future distribution of the world’s gross national product before the general secretary. As Shultz explained, the charts revealed that more countries were achieving substantial production and economic growth. Prosperity was no longer enjoyed solely by the nations of Europe and North America. Driving this growth was the revolution in science and technology “hitched to an incentive-based, market-oriented economic system.” Shultz did not specifically state that liberal human rights helped a nation succeed in these new economic realities. Nevertheless, he stressed that “knowledge-based productivity” was the key to success. “Scientists will have to be in constant touch with the ‘thinking community’ around the world,” Shultz remarked. Global financial markets “react almost instantly” to new information and events. Throughout the discussion, Shultz implied that any nation that hindered the free flow of information was doomed to fall behind.⁴⁷³

The discussion lasted about thirty minutes, but it appeared to leave an impression on Gorbachev. When Shultz visited Moscow one year later, Gorbachev expressed a desire to build on the gains achieved with the INF Treaty by concluding more agreements and deepening bilateral cooperation. He mentioned Shultz’s pie charts from the year before, suggesting that if economic power was becoming more dispersed than the Soviet Union and United States, as the leading global powers, had to cooperate to manage these new realities in the interest of peace. And cooperation was developing in these other areas. In February 1988, Gorbachev announced the Soviet military would be withdrawing from Afghanistan, settling one of the outstanding U.S.-Soviet disagreements. Human

⁴⁷³ Ibid., 891-893.

rights were also improving in the Soviet Union. Political prisoners were being released, emigration rates were on a gradual rise, and international radio broadcasts were no longer jammed. Yet, Washington and Moscow still had to resolve differences over their involvement in regional conflicts in Latin America, Africa, and the Middle East, and pluralism and democracy were not institutionalized in the Soviet Union. Too many problems remained to normalize economic relations at this point.⁴⁷⁴

In a joint statement after signing the INF Treaty, Reagan and Gorbachev had instructed their trade officials to “develop concrete proposals” for expanding “mutually beneficial trade and economic relations” during another JCC meeting. That past July, Baldrige had died in a rodeo accident, and Reagan appointed C. William Verity, Jr., a former co-chair of USTEC, as the new commerce secretary. Now, in mid-April 1988, Verity traveled to Moscow to suggest a number of ways the United States and Soviet Union could cooperate to strengthen economic contacts. Trade negotiations between U.S. businesses and Soviet officials remained lengthy and expensive. At the JCC meeting, both sides agreed to create bilateral working groups aimed at easing the burden of joint venture and sales negotiations involving medical, construction, and energy equipment as well as consumer goods. These talks would “continue to be laborious and time-consuming,” Verity told Reagan, but these working groups would help strengthen economic relations. In addition, the Soviet Union permitted the Commerce Department to launch a new marketing and advertising program in Moscow, and Soviet enterprises were

⁴⁷⁴ Ibid., 1096-1098; Memcon, Shultz-Gorbachev, Apr. 22, 1988, folder “8890449,” box 17 [System II 8791321-8890497], Executive Secretariat, NSC, System Files, RRL; Leffler, 403; Zubok, *Failed Empire*, 298; Christian Philip Peterson, “Wielding the Human Rights Weapon” (PhD diss., Ohio University, 2009), 439.

given more access to the U.S. Commercial Office. U.S. and Soviet officials would also begin holding seminars explaining Soviet joint venture and investment laws to interested businesses. The volume of U.S.-Soviet trade remained small—total trade was about two billion dollars in 1987—but Washington and Moscow’s commitment to deepening the economic relationship was stronger than any time since the 1970s.⁴⁷⁵

But normalizing the economic relationship was off the table. “We did not come to Moscow to make any trade breakthroughs,” Verity told the press. Trade relations remained a “part of the overall bilateral relationship and fundamental improvements cannot occur without parallel improvements in other areas, especially human rights.” The Reagan administration still supported the Jackson-Vanik amendment, though Verity suggested to Soviet officials that a “sustained increase in emigration” might lead to presidential waiver. In response, Minister Nikolai Ryzhkov asked “if [Henry] Jackson and [Charles] Vanik weren’t both dead,” suggesting their amendment also deserved a burial. Jackson had died in 1983, but Vanik lived. Vanik no longer served in the House of Representatives, but the amendment endured. The U.S. delegation also refused to discuss revising U.S. export controls on strategic goods and said GATT membership remained out of the question until more reforms were implemented.⁴⁷⁶

⁴⁷⁵ “Joint Statement on the Soviet-United States Summit Meeting,” Dec. 10, 1987, *Public Papers*, RRL, <https://reaganlibrary.archives.gov/archives/speeches/1987/121087a.htm> (accessed 11 Mar. 2016); Clyde H. Farnsworth, “Administration Mourns Baldrige, Skilled Master of Its Trade Policy,” *New York Times*, Jul. 27, 1987, A1; Farnsworth, “Cabinet Approves Effort to Widen Trade with Soviet in 5 Categories,” *New York Times*, Apr. 7, 1988, A1; Fact Sheet, “Results of the Joint U.S.-USSR Commercial Commission Meetings,” Apr. 12-14, 1988, and Verity’s Report to the Pres., Apr. 19, 1988, both in folder “Soviet Union (Joint Commercial Commission) (1 of 13),” RAC box 12, Danzansky Files, RRL.

⁴⁷⁶ Verity Press Briefing, U.S. Commercial Office in Moscow, Apr. 14, 1988, folder “Soviet Union (Joint Commercial Commission) (1 of 13),” RAC box 12, Danzansky Files, RRL; Verity Report to Pres., Apr. 19, 1988; “Jackson, Henry Martin,” and “Vanik, Charles Albert,” *Biographical Directory of the United States Congress*, <http://bioguide.congress.gov> (accessed 11 Mar. 2016).

Conclusion

After the end of the Cold War, Matlock wrote, “The four-part agenda we had forged during the Reagan administration had deliberately omitted economic relations.” He explained that Soviet international behavior and human rights violations made economic cooperation impossible. While he was correct that economic relations were not a part of the four-part framework, trade did play a role in the transition from confrontation to cooperation in U.S.-Soviet relations. Steps in the economic sphere like reconvening the JCC and promoting non-strategic trade, along with small steps in other bilateral areas, helped build confidence in the superpower relationship and paved the way for more substantial agreements. In meetings with Soviet trade officials, Baldrige and his aides conveyed the president’s wish to expand mutually beneficial trade, not wage economic war on the Soviet system. Once Gorbachev revealed he intended to open the Soviet Union to the global community, Reagan and Shultz attempted to reinforce Gorbachev’s thoughts and actions by speaking to him about the new realities of the information age. If the Soviet Union failed to join the international economic system and permit the free flow of information, its economic system would continue to rot. Recognizing economic relations had a role in creating a stable bilateral relationship, the Reagan administration also helped U.S. businesses enter the Soviet market through promotional activities and new joint ventures.⁴⁷⁷

In undertaking these efforts, Reagan and his pragmatic allies faced intense pressures from within the administration, from American companies, and from Soviet officials. Administration hardliners resisted attempts to reverse the strategy and policies

⁴⁷⁷ Jack F. Matlock, Jr., *Autopsy on an Empire* (New York: Random House, 1995), 178.

of economic war. But Shultz worked directly with President Reagan, augmenting his control over the policymaking process and out-maneuvering the hardliners. Once U.S.-Soviet rapprochement began, U.S. businesses pushed the administration to remove the restrictions on bilateral trade. Gorbachev and Soviet trade officials repeatedly asked the United States to revise its export controls and normalize the economic relationship. Time after time, the Reagan administration resisted these pressures and prioritized the four-part framework over trade. U.S.-Soviet economic relations could not be normalized until both nations settled their outstanding differences, especially on human rights matters.

The Reagan administration's economic strategy towards the Soviet Union in the mid-to-late 1980s was wise and effective. Limited economic engagement helped open a U.S.-Soviet dialogue, advance issues on the four-part agenda, and contain pressures from American businesses to normalize economic relations. Soviet officials, including Gorbachev and Shevardnadze, continued to resist U.S. attempts to link normalized economic relations and human rights but embracing the Jackson-Vanik amendment was a sensible strategy for President Reagan. In the tense U.S.-Soviet atmosphere of the 1980s, the American public would not have supported dramatic moves like waiving or repealing the amendment. By embracing this linkage, Reagan did not risk political backlash at home over trade and human rights, controversies that may have undermined his attempts to improve U.S.-Soviet relations. Instead, "hanging back," as Reagan said before the Geneva Summit, on trade granted the United States leverage to push for an end to Soviet human rights abuses.

To be clear, Gorbachev did not improve the treatment of Soviet Jews and political dissidents because Reagan promised to reward such actions with trade. Gorbachev believed that improving human rights was in the Soviet Union's own interest. In this case, linkage placed additional pressure on Gorbachev to continue reforming the Soviet system. Reagan risked nothing by maintaining this linkage and withholding action to normalize economic relations until the superpowers settled their outstanding disagreements. Why would Reagan sacrifice this additional leverage to meet the Soviets half-way when Gorbachev was already moving, albeit slowly, towards the U.S. position on trade and human rights? At the same time, Shultz's classroom in the Kremlin sessions with Gorbachev showed the Soviet leader that economic prosperity belong to the open, market-oriented economies that respected individual human rights and encouraged the free flow of information. These sessions likely reinforced Gorbachev's predilection to reform Soviet society, and by 1990, as shown in chapter seven, the Soviet leader no longer considered a transition towards a market-oriented system outside of the realm of possibilities. Overall, as Reagan's presidency came to an end, U.S.-Soviet relations were more stable than any time since the early 1970s. While the INF Treaty was the most apparent sign of better times, the administration's transition from economic war to limited economic engagement also contributed to the thaw in the Cold War.

CHAPTER 7: “CURRENCY OF PEACE”: AN END TO THE ECONOMIC COLD WAR

On March 8, 1989, former Representative Charles A. Vanik (D-OH) delivered a statement before the U.S. Feed Grains Council in Phoenix. He declared, “The Soviet Union is being rapidly transformed from the ‘Evil Empire’ of past decades into a nation reaching out and exciting its neighbors with dynamic economic and social change.” In 1974, his and Senator Henry M. Jackson’s (D-WA) amendment to a trade act blocked most-favored-nation status for the Soviet Union because Moscow restricted Jewish emigration. But the Kremlin now permitted tens of thousands of Jewish citizens to emigrate annually. With this “revolution underway,” Vanik said President George H. W. Bush should put most-favored-nation status for the Soviet Union on the bilateral and congressional agenda. Trade was the “currency of peace.” Vanik thought it was time to normalize economic relations with the Soviet Union as a way to promote deeper stability in the bilateral relationship. Vanik passed this statement on to the Bush administration, arguing that eighty percent of the American-Jewish community would support the new president using his authority under the 1974 Trade Act to grant a yearly waiver of the amendment for the Soviet Union.⁴⁷⁸

When Bush assumed the presidency in 1989, Eastern Europe and the Soviet Union were on the cusp of unexpected, far-reaching, and dramatic changes. Before the

⁴⁷⁸ Charles A. Vanik, “The Changing Atmosphere in U.S.-USSR Trade Relations,” Mar. 8, 1989, U.S. Feed Grains Council, Phoenix, AZ, enclosed in Letter, Vanik to Robert Blackwell, Mar. 13, 1989. Also see Letter, Vanik to Blackwell, Mar. 2, 1989, all in Folder “Jackson-Vanik,” OA/ID CF00719-003, Condoleezza Rice Files, Soviet Union/USSR Subject Files, National Security Council, Bush Presidential Records, George Bush Presidential Library (GBL); for information on the executive’s authority to waive the Jackson-Vanik amendment, see Ch.1.

end of the year, democratic revolutions swept the communist regimes from power in Eastern Europe, and the East Europeans began the arduous process of institutionalizing democracy and building market-oriented economies. Soviet power collapsed in Eastern Europe, and in less than three years, the Soviet Union itself ceased to exist. As one historian has shown, Bush improvised a response to these revolutions aimed at reducing conventional military forces in Europe and reconstituting the NATO alliance for a post-Cold War era.⁴⁷⁹ In the realm of economic statecraft, improvising meant organizing a multilateral effort to extend economic assistance and humanitarian relief to the nascent democracies in Eastern Europe and the Soviet Union. Bush pursued this multilateral aid initiative as a way to assert U.S. leadership over the Atlantic alliance and aid market reforms in the communist world without adding to the mounting budget deficits at home or supporting ill-conceived reforms that preserved the command economies. On Vanik's suggestion, Bush also moved to normalize economic relations with the Soviet Union, a measure receiving widespread public support for the first time since the early 1970s. In many ways, the Bush administration used economic strategy and policies to help construct a more stable international system. But as the Soviet Union descended into political and economic chaos, President Bush refused to bail out the Soviet economy or subsidize Gorbachev's vague economic plans. The president did not expect the Soviet Union to disintegrate, but the United States did not have the means to offer the Soviet Union large-scale financial assistance. Instead, the United States and its allies offered the Soviets food aid, technical assistance, and advice on market-oriented economic reforms.

⁴⁷⁹ James Graham Wilson, *The Triumph of Improvisation* (Ithaca: Cornell University Press, 2014), Ch. 7.

The West was prepared to grant the Soviets deeper economic assistance if, and only if, Gorbachev introduced meaningful market reforms.

The Strategic Review and Democratic Revolutions

Bush's election to the presidency marked the culmination of a long career in public service. As the son of successful investment banker and U.S. senator, Bush enjoyed a privileged upbringing and learned to hold public service in the highest regard. This sense of duty led the future president to postpone his enrollment at Yale University and enlist in the navy after the Japanese attack on Pearl Harbor. In World War II, he served with distinction as a navy pilot, flying fifty-eight missions, including one in which he was shot down over the Pacific. After the war, Bush graduated from Yale then moved to Texas, eventually co-founding a lucrative oil company, Zapata Petroleum. In 1966, Texans elected the oilman to the House of Representatives. Over the next decade, Bush added a wealth of experiences to his resume: U.S. Ambassador to the United Nations, Chairman of the Republican National Committee, chief diplomatic representative to China, Director of Central Intelligence, and Ronald Reagan's vice president. Throughout this time, Bush forged personal and professional relationships with influential people at home and abroad. He respected Reagan but, as a moderate Republican, he did not share Reagan's principled conservatism, strong anti-communist ideology, or vision of a world without nuclear weapons. Also unlike Reagan, Bush was determined to have a hands-on

role in the making of foreign policy. He intended to continue working with Gorbachev, but he was anxious to make his own mark on international affairs.⁴⁸⁰

Bush's ambition to distinguish his policies from his predecessor's was reflected in the foreign policy team he assembled. He appointed former Air Force lieutenant general and Russian history professor at West Point Brent Scowcroft as national security advisor. Scowcroft was familiar with this role: he had served as national security advisor under President Gerald Ford. Bush saw Scowcroft as a "trusted friend" with a "deep knowledge of foreign policy matters." Scowcroft's appointment signaled that Bush's foreign policies would be more cautious than Reagan's. Privately, Scowcroft criticized Reagan's public condemnations of the Soviet Union and opposed his quest for a nuclear-free world. He believed nuclear deterrence was a vital component of national security strategy and remained "suspicious of Gorbachev's motives." Scowcroft feared the Soviet leader did not pursue cooperation to move beyond the Cold War but buy time to revitalize the Soviet system in order to wage it more effectively. "He was attempting to kill us with kindness, rather than bluster," Scowcroft said.⁴⁸¹

Bush picked another close friend to be secretary of state, James A. Baker, III. Friends for decades, Bush and Baker were also political partners. After his wife passed away, Baker got involved in politics by working on Bush's unsuccessful 1970 Senate campaign. In 1975, President Ford, on Bush's suggestion, appointed Baker as under

⁴⁸⁰ John Robert Greene, *The Presidency of George H. W. Bush*, 2nd ed., rev. and expanded (Lawrence: University Press of Kansas, 2015), Ch. 1; Don Oberdorfer, *From the Cold War to a New Era*, updated ed. (Baltimore: The Johns Hopkins University Press, 1998), 328-332.

⁴⁸¹ Greene, *Presidency of George H. W. Bush*, 58-59; Christopher Maynard, *Out of the Shadow: George H. W. Bush and the End of the Cold War* (College Station, TX: Texas A&M University Press, 2008), 6-7; George Bush and Brent Scowcroft, *A World Transformed* (New York: Alfred A. Knopf, 1998), 19, 13.

secretary of commerce. Baker also followed Bush into the Reagan administration, serving as chief of staff and secretary of the treasury. Like Scowcroft, Baker had misgivings about the Reagan administration. "I can't remember any extended period of time," Baker recounted, "when someone in the National Security cluster wasn't at someone else's throat." He called the policymaking process "a witches' brew of intrigue, elbows, egos, and separate agendas."⁴⁸² While campaigning in 1988, Bush announced his intention to shake up the national security establishment in order to forge his own path, rather than carrying out the policies of his predecessor. By selecting Scowcroft and Baker to fill significant posts within his administration, Bush kept this promise. After the election, Bush told hundreds of Reagan appointees to submit their resignations, and Baker cleaned house in the State Department to assert his control over the bureaucracy. "This is *not* a friendly takeover," Baker told an aide.⁴⁸³

President Bush inherited a U.S.-Soviet relationship increasingly marked by cooperation. As vice president, Bush helped Reagan work with Gorbachev to ease tensions, producing significant breakthroughs that improved human rights in the Soviet Union, deepened bilateral exchanges, and furthered nuclear disarmament. But during the last year of the Reagan administration, Gorbachev appeared to be the visionary leading the world into the post-Cold War era. He no longer wanted the Soviet Union to be a pariah in the international community and moved to calm Western fears about Soviet military power and aggressiveness. In February 1988, Gorbachev announced Soviet

⁴⁸² James A. Baker, III with Thomas M. DeFrank, *The Politics of Diplomacy* (New York: G.P. Putnam's Sons, 1995), Ch. 2, for quotations see p. 26.

⁴⁸³ Greene, *Presidency of George H. W. Bush*, 55-56; Maynard, *Out of the Shadow*, 4-5; Baker quoted in Michael R. Beschloss and Strobe Talbott, *At the Highest Levels* (Boston: Little, Brown and Company, 1993), 26.

forces would withdraw from Afghanistan. Speaking before the United Nations General Assembly in December, he unveiled plans to reduce the size of the Soviet military unilaterally. Gorbachev pledged to cut a half million personnel and tens of thousands of tanks, artillery, and aircraft. The Soviet Union would also remove six tank divisions from Eastern Europe. Western audiences cheered Gorbachev's actions. The new president and his advisors remained optimistic about Soviet intentions but wanted to proceed in a cautious manner. "Realism demands prudence," Baker said in a cabinet meeting days after inauguration. The Soviet Union was "still a heavily-armed superpower hostile to American values and interests."⁴⁸⁴

In light of recent developments, President Bush ordered a comprehensive national security review of U.S. relations with the Soviet Union and Eastern Europe on February 15, 1989. The president intended these studies to evaluate the assumptions guiding U.S. policy, ensure the rapid pace of rapprochement was not compromising national security, and develop "bold and innovative" ideas that asserted "American leadership in shaping the international agenda." Bush understood the need to respond to Gorbachev's actions and proposals but "did not want to make a foolish or short-sighted move." Bush also asked analysts to assess Gorbachev's long-term military and public diplomacy objectives, the prospects for his domestic political and economic reforms, and the implications for U.S.-Soviet relations "if Gorbachev were to be removed from office." Bush wondered whether it was in the U.S. interest to aid Moscow in meeting its international and

⁴⁸⁴ Melvyn P. Leffler, *For the Soul of Mankind* (New York: Hill and Wang, 2007), 403, 414-422; Oberdorfer, *Cold War to a New Era*, 316-319; Baker's Notes and Talking Points, Jan. 23, 1989 Cabinet Meeting, Folder 1, Box 108, Subseries 8C, Secretary of State, James A. Baker III Papers (hereafter JAB), 1957-2011, Public Policy Papers, Department of Rare Books and Special Collections, Princeton University Library.

domestic goals, possibly using “such ‘help’ . . . to induce the USSR to pay a political price.”⁴⁸⁵

The United States had always sought to roll back the Soviet domination of Eastern Europe. But the last policy review and directive on the region was National Security Decision Directive 54 in 1982. This directive made it official U.S. policy to encourage liberalization in Eastern Europe by rewarding states, through trade benefits and bilateral agreements, that demonstrated independence from Moscow in their foreign or domestic policies. In other words, policymakers recognized the Soviet bloc was not monolithic and U.S. actions had to differentiate between the Soviet Union and Eastern Europe. But much had changed since 1982. The Polish government, for example, had lifted martial law and reinstated some liberal reforms. Solidarity remained outlawed, but the Reagan administration sought to encourage further reforms by lifting economic sanctions and promoting high-level exchanges.⁴⁸⁶ The Bush administration thought it was time to reassess these strategies. The communist regimes across the region faced “economic problems . . . so severe that some of the leaders now seek to revise the outmoded socialist principles on which they have relied for forty years.” Bush searched for recommendations on the most effective ways to aid liberal reform and promote U.S. interests without provoking an adverse Soviet reaction. Furthermore, as Scowcroft later explained, the United States tended to grant preferential treatment to regimes showing the most independence from Moscow but not necessarily respect for human rights or a

⁴⁸⁵ Bush and Scowcroft, *World Transformed*, 37, 8, 9; National Security Review (NSR) 3, Feb. 15, 1989, GBL, <https://bush41library.tamu.edu/archives/nsr> (accessed 9 May 2016).

⁴⁸⁶ National Security Decision Directive 54, Sep. 2, 1982, Ronald Reagan Presidential Library (RRL), <https://reaganlibrary.archives.gov/archives/reference/NSDDs.html#.VzC9SeBf2Uk> (accessed 9 May 2016); Gregory F. Domber, *Empowering Revolution* (Chapel Hill: University of North Carolina Press, 2014).

willingness to undertake political and economic reforms. Bush and Scowcroft wanted U.S. policies to prioritize rewarding the latter, hopefully encouraging more liberalization.⁴⁸⁷

The Soviet component of the national security review was completed in a couple weeks, but the results were poor. The policy suggestions left Baker unimpressed while Scowcroft thought they lacked the “imaginative initiatives needed to set US-Soviet relations on a productive path.” After scrapping the review, Scowcroft asked the National Security Council (NSC) to draft an analysis about Gorbachev’s policies and intentions. He passed the NSC’s recommendations on to the president on March 1. The NSC argued that the United States had to seize the initiative from Gorbachev, whose unilateral troop reductions enhanced Soviet public relations and threatened to “turn adversaries into potential sources of support.” The analysts thought “weakening NATO remains his prime international objective,” despite his talk about East-West cooperation. The administration welcomed Gorbachev’s actions at home and abroad but recognized that bilateral disagreements over regional conflicts, human rights, and armaments remained. Until the administration knew whether Gorbachev and perestroika represented a fundamental, irreversible break with the hostile Soviet past, the NSC advised the president to assert U.S. leadership by strengthening domestic bipartisan support for U.S. foreign policies, modernizing the nuclear deterrent, and working with the Soviet Union to enhance stability in the Third World. The NSC also recommended the administration to use

⁴⁸⁷ NSR 4, Feb. 15, 1989, GBL <https://bush41library.tamu.edu/archives/nsr> (accessed 9 May 2016); Bush and Scowcroft, *World Transformed*, 38-39.

economic assistance and political support to encourage the East Europeans to seize “Gorbachev’s invitation to exercise greater control over their own affairs.”⁴⁸⁸

The NSC’s analysis effectively completed the review of U.S.-Soviet relations while the study of Eastern European policies continued into early April. Meanwhile, the Bush administration faced widespread criticism over the review. U.S. Ambassador to the Soviet Union Jack F. Matlock, Jr. thought the Bush administration had an unprecedented opportunity to influence change within the Soviet system. As a member of Reagan’s NSC, Matlock had helped craft the four-part agenda, leading to dramatic breakthroughs in U.S.-Soviet relations. Now, the ambassador encouraged Bush “to bring our economic might to bear . . . by supporting steps to bring the Soviet Union into the community of free nations, to lead it into a partnership.” He argued the United States should use economic leverage, in the form of trade benefits and technical cooperation, to push Gorbachev down the path of developing a market-oriented economy, democratization, and demilitarization. NSC Soviet specialist Condoleezza Rice passed Matlock’s “controversial proposal” on to Scowcroft, calling it “an argument for setting our sights on literally transforming the character of the Soviet Union at home and abroad.” The ambassador believed Bush was wasting precious time with the national security review. As Soviet political and economic problems continued to mount, Gorbachev’s authority would weaken. He advised the president to use economic engagement to lock in gains while Gorbachev could still deliver. After Bush pushed aside his suggestions, Matlock

⁴⁸⁸ Baker, *Politics of Diplomacy*, 68; Bush and Scowcroft, *World Transformed*, 40-41; Memo, Scowcroft to the President, Mar. 1, 1989, Folder “USSR Collapse: U.S.-Soviet Relations Thru 1991 (January-April 1989),” OA/ID 91117-001, USSR Collapse Files, U.S.-Soviet Relations Chronological Files, Brent Scowcroft Collection, Bush Presidential Records, GBL.

vented to his State Department colleagues, “Our marching orders are clear: ‘Don’t just do something, *stand there!*’”⁴⁸⁹

Nevertheless, the administration had developed a strategy to guide the United States through coming challenges, and Baker traveled to Moscow in early May to lay it out. Baker assured Gorbachev and Shevardnadze that President Bush wanted perestroika to succeed in making a democratic Soviet Union that played a constructive role in international relations. But the United States wanted to ensure Gorbachev’s “new thinking” represented a fundamental shift in Soviet policy. Bush decided to reward the Soviet withdrawal from Afghanistan by lifting the policy of no export licensing exceptions for the Soviets in COCOM, but he wanted further proof of good intentions. In particular, Baker asked the Soviets to stop funneling arms to the socialist Sandinista government in Nicaragua, permit self-determination and reform in Eastern Europe, and institutionalize human rights in the Soviet Union. Arms control talks would continue, but the administration thought there was an “overemphasis on arms control” that overshadowed these other issues. Acting in these areas, Baker insisted, would demonstrate a genuine Soviet commitment to moving past the Cold War.⁴⁹⁰

Gorbachev denied claims that the Soviets were still supplying arms to the Sandinistas and was concerned about assertions in the United States that perestroika

⁴⁸⁹ Jack F. Matlock, Jr., *Autopsy on an Empire* (New York: Random House, 1995), 177-178; Memo, Rice to Scowcroft, Mar. 2, 1989, Folder “USSR Collapse: U.S.-Soviet Relations Thru 1991 (January-April 1989),” OA/ID 91117-001, Scowcroft Collection, GBL; Matlock quoted in Beschloss and Talbot, *At the Highest Levels*, 34.

⁴⁹⁰ The administrations officially articulated this Soviet policy in National Security Decision 23, “United States Relations with the Soviet Union,” Sep. 22, 1989. NSD 12, “Lifting the No-Exceptions Policy,” Jun. 6, 1989, GBL, <https://bush41library.tamu.edu/archives/nsr> (accessed 9 May 2016); Memcon, Baker and Gorbachev, May 11, 1989, Folder “FM Shevardnadze, Edouard-USSR [3],” OA/ID CF00718-018, Condoleezza Rice Files, 1989-1990 Subject Files, NSC, Bush Presidential Records, GBL; Baker, *Politics of Diplomacy*, 71-83, for quotation see p. 71.

would fail, leading to the disintegration of the Soviet Union. Secretary of Defense Dick Cheney recently said Gorbachev would “ultimately fail” to create an “efficient, modern” Soviet Union. Baker dismissed the secretary’s remarks. “Perestroika is a reality,” Gorbachev argued. He maintained a revitalized Soviet Union was in the U.S. interest since both nations could work towards building a more stable international system. Towards this end, the general secretary publicly announced the removal of five hundred tactical nuclear missiles from Eastern Europe and proposed negotiations for both sides to remove all such missiles. “It was a patently one-sided offer,” Baker remembered. The Soviets still held “a huge tactical nuclear weapons advantage in Europe.” The Atlantic alliance had yet to decide how to handle this issue, and Gorbachev merely sought to “score public relations points.” Even so, this May meeting helped the new administration get acquainted with the Soviet leader and lay foundations for a working relationship.⁴⁹¹

On May 12, President Bush publicly unveiled his approach to U.S.-Soviet relations. In a commencement address at Texas A&M University, he pledged “to move beyond containment.” The United States sought “the integration of the Soviet Union into the community of nations” provided Moscow continued pursuing democratic reforms and “responsible international behavior.” Bush was prepared to work with Gorbachev in reducing the level of conventional military forces in Europe, supporting self-determination in Eastern Europe, resolving regional conflicts, promoting human rights, and addressing global problems like the international drug trade and environmental degradation. To promote bilateral transparency, Bush resurrected President Dwight D.

⁴⁹¹ Memcon, Baker and Gorbachev, May 11, 1989; Cheney quoted in Beschloss and Talbott, *At the Highest Levels*, 54; Baker, *Politics of Diplomacy*, 82.

Eisenhower's Open Skies proposal to permit unarmed U.S. and Soviet reconnaissance aircraft survey one another's territory, scrutinizing military activities. Last, Bush expressed an interest in granting the Soviet Union a freedom of emigration waiver to the Jackson-Vanik amendment if Moscow codified liberal emigration laws. This proposal represented a significant break with Reagan's policies. The Reagan administration had no desire to reopen controversial political debates over the amendment and Soviet Jewish emigration. Such debates helped doom détente in the 1970s. With bilateral relations on the mend and Moscow permitting higher levels of emigration, Bush thought it was time to reconsider Soviet most-favored-nation status.⁴⁹²

While the administration worked to fill this "beyond containment" strategy with concrete initiatives, dramatic events in Eastern Europe presented new challenges and opportunities. The Soviet empire began to crumble, and, in responding to these developments, the Bush administration established a pattern for aiding democratic, market-oriented reforms in the communist world. The United States and its allies granted these nations substantial economic assistance predicated on the implementation of sound political and economic reforms. Bush would offer Gorbachev this same arrangement in 1990 and 1991.

The democratic revolutions of 1989 began in Poland. Throughout the decade, the Polish communist government, under General Wojciech Jaruzelski, pursued measures intended to arrest and reverse economic decline without precipitating political unrest. In

⁴⁹² George Bush, "Remarks at the Texas A&M University Commencement Ceremony in College Station," May 12, 1989, *The Public Papers of President George Bush* (hereafter *Public Papers*), GBL, <https://bush41library.tamu.edu/archives/public-papers/413> (accessed 7 June 2016); Bush and Scowcroft, *World Transformed*, 53-54.

the late 1980s, the regime sought new Western credits to modernize Polish industries and stimulate exports, hoping profits could be used to finance debt repayment. But Western creditors remained reluctant to lend money to Warsaw since it already had a significant external debt problem. By the end of 1990, Polish debt amounted to \$48.8 billion, about two-thirds of which Poland owed to Western governments. Even though the regime and creditors concluded over half-a-dozen debt rescheduling agreements in the 1980s, Poland still faced significant problems. In February 1988, the government attempted to resolve these issues through drastic price increases on foodstuffs and consumer goods. The measure sparked a wave of worker strikes reminiscent of the 1980 protests that led to the Gdansk Accords. In steelworks and shipyard across Poland, workers demanded higher wages and the legalization of Solidarity.⁴⁹³

Hoping to end the unrest without the use of force, the communist leadership began private talks with Lech Walesa, the influential leader of Solidarity, and other members of the political opposition. Jaruzelski wanted Walesa to ask workers to end the strikes and support the regime's reform process. Walesa, however, demanded the government legalize Solidarity and implement political reforms as a condition of support. By September 1988, the strikes were over, and the regime pledged to enter into political negotiations, or roundtable talks, with Solidarity and other opposition groups. The roundtable talks concluded on April 5 with a historic agreement to promote democracy and political pluralism. The regime legalized Solidarity and created a new one-hundred-

⁴⁹³ Patricia A. Wertman, "Polish Official Debt Accord: A Problem of Containment," May 17, 1991, *CRS Report for Congress*, Pub. Num. 91-474 E, *ProQuest Congressional*, 2; Iliana Zloch-Christy, *Debt Problems of Eastern Europe* (New York: Cambridge University Press, 1987), 105-113; Domber, *Empowering Revolution*, 207-211.

seat upper house of parliament, the Senat, with the ability to veto legislation from the lower house, the Sejm. A two-thirds Sejm vote could overturn the veto. More important, Poland would hold elections on June 4. These elections were to be semi-free, meaning opposition candidates were only permitted to run for all the Senat seats and 161 of the 460 Sejm seats. The remaining Sejm seats were reserved for communist party candidates. They also agreed to create a new office of the president to control Polish armed forces. Jaruzelski was to be the only contender for the presidency, thus, preserving Poland's commitment to the Warsaw Pact.⁴⁹⁴

The Roundtable Agreement “signified the end of the Polish Communist Party’s forty-five-year monopoly on power,” Bush and Scowcroft remembered. The Bush administration, following its conception of differentiation, desired to reward Warsaw for these moves towards democracy. The president believed these elections could not only undermine communist rule in Poland but perhaps inspire democratic reforms throughout Eastern Europe, helping to free the region from Soviet domination. Although this long-held U.S. objective finally appeared in reach, Washington’s ability to promote this outcome was more limited than ever. “Funds were tight, and the deficit tied our hands,” Bush later confessed. Tax cuts and increased budgetary outlays under President Reagan had spawned a ballooning budget deficit. In 1989, the deficit totaled \$152.6 billion dollars, and it would continue growing throughout the early 1990s. All the while, Poland was desperate for economic assistance. While visiting the United States in late 1988, one Solidarity spokesman suggested the West launch a ten billion dollar economic support program if the regime legalized Solidarity. In December 1981, Reagan had said positive

⁴⁹⁴ Domber, *Empowering Revolution*, 212-221.

Polish reforms would lead to the United States “help[ing] the shattered Polish economy, just as we helped the countries of Europe after both World Wars,” an allusion to the Marshall Plan. Solidarity and the Polish people now expected the Bush administration to implement a massive official economic aid program for Poland.⁴⁹⁵

But the United States could not afford a new Marshall Plan for Poland and the rest of Eastern Europe. At the same time, some White House advisors decried the use of economic incentives to reward political reforms, especially for a regime already holding massive debts. During an NSC meeting on April 4, Treasury Secretary Nicholas Brady argued economic assistance to Poland should only be predicated on sound economic reforms. He reminded the president that Poland’s present debt problems resulted from the West granting it credits for political reasons in the 1970s. It was foolish to make the same mistake again. But Scowcroft, with the help of his NSC aides and supporters in the State Department, countered that the United States could not pass up the opportunity to promote its interests by rewarding the profound liberalization entailed in the Roundtable Agreement. “We had to help the dramatic changes underway there,” Bush concluded. The precarious economic situation in Poland might limit “the usefulness of aid . . . [but] we had to try.”⁴⁹⁶

On April 17, Bush visited Hamtramck, Michigan, a Polish-American community near Detroit, to announce his intentions to aid Poland. Bush declared, “The winds of

⁴⁹⁵ Bush and Scowcroft, *World Transformed*, 48, 49; Congressional Budget Office, “Budget and Economic Data: Historical Budget Data,” https://www.cbo.gov/about/products/budget_economic_data (accessed 7 June 2016); Domber, *Empowering Revolution*, 216, 229; Reagan, “Address to the Nation About Christmas and the Situation in Poland,” Dec. 23, 1981, *The Public Papers of President Ronald W. Reagan*, RRL, <http://www.reagan.utexas.edu/archives/speeches/1981/122381e.htm> (accessed 30 January 2014).

⁴⁹⁶ Beschloss and Talbott, *At the Highest Levels*, 53-54; Robert L. Hutchings, *American Diplomacy and the End of the Cold War* (Washington, DC: The Woodrow Wilson Center Press, 1997), 37-38; Domber, *Empowering Revolution*, 224-226; Bush and Scowcroft, *World Transformed*, 49.

change are shaping a new European destiny. . . . Eastern Europe is awakening to yearnings for democracy, independence, and prosperity.” Poland was leading the way towards building this new Eastern Europe, and President Bush pledge U.S. support. The administration was “not going to offer unsound credits” or “aid without requiring sound economic practices in return.” Nor would the United States, at this time, question Polish membership in the Warsaw Pact; Bush did not want to alarm Gorbachev, who supported Polish reforms, by compromising Soviet security interests. The president promised to grant Poland tariff relief and private sector investments and guarantees through the Generalized System of Preferences and Overseas Private Investment Corporation. In addition to offering humanitarian and technical assistance, Bush supported private sector loans through international financial institutions, encouraged the International Monetary Fund to work with Polish officials on developing “sound, market-oriented economic policies,” and recommended the Western allies reschedule Polish debts. As historian Gregory F. Domber shows, Solidarity and Polish reformers were disappointed by the size of U.S. assistance and consistently pressed Washington for more aid over the coming months. Bush and Scowcroft later wrote, “The speech made embarrassingly obvious our lack of resources to provide real rewards for Eastern Europe.” At the time, this pledge to encourage the private sector and international institutions to spearhead assistance to Poland was the best the Bush administration could conceive.⁴⁹⁷

⁴⁹⁷ Bush, “Remarks to Citizens in Hamtramck, Michigan,” April 17, 1989, *Public Papers*, GBL, <https://bush41library.tamu.edu/archives/public-papers/326> (accessed 8 June 2016); NSD 9, “Actions to Respond to Polish Roundtable Agreement,” May 8, 1989, GBL, <https://bush41library.tamu.edu/archives/nsr> (accessed 9 May 2016); Domber, *Empowering Revolution*, 228-232; Bush and Scowcroft, *World Transformed*, 52.

The historic outcome of the Polish elections on June 4 sent the Bush administration scrambling to “add some further meat” to the Hamtramck proposals. Solidarity candidates won all the open Sejm seats and all but one Senat seat, legitimizing their movement. In the wake of this election, NSC staffers Rice, Adrian Basora, and Tim Deal wanted to present Bush “with more dramatic options to underscore our support for the democratization process.” Without U.S. or international economic assistance, they feared this political revolution would fail to institutionalize. “There is no exaggeration,” they told Scowcroft, “in saying that the future of the democratic reforms rests on finding a solution to the short-term economic problems.” In addition, the NSC thought reforms in Hungary deserved similar reward. After permitting the formation of independent political parties in January 1989, Hungarian reformers were considering holding free elections in 1990. The NSC suggested President Bush lead an effort in the Group of Seven (G7) to form a “consortium” in which nations pledged various levels and types of bilateral assistance to the East. Members could offer technical assistance, management cooperation and training initiatives, debt rescheduling, private sector investment, environmental cooperation, and cultural exchanges. The administration could also press the World Bank to approve two loans, totaling \$325 million, to finance projects in Poland.⁴⁹⁸ These new proposals, emphasizing a multilateral response led by the United

⁴⁹⁸ Proposed Agenda for Meeting with the President, Jun. 21, 1989, Folder 6, Box 115, Subseries 8E, Secretary of State, JAB, Princeton; Bush and Scowcroft, *World Transformed*, 112-113; Memo, Rice, Basora, and Deal to Scowcroft, Jun. 14, 1989, Folder “Soviet Power Collapse in Eastern Europe (March-April 1989),” OA/ID 91124-001, USSR Chronological Files, Scowcroft Collection, GBL; Domber, *Empowering Revolution*, 223-224; Leffler, *Soul of Mankind*, 430; Memo, Rice to Scowcroft, Jun. 23, 1989, Folder “Aid to Poland/Hungary [2],” OA/ID CF00716, Rice Files, Subject Files, NSC, Bush Presidential Records, GBL.

States, had the potential to overcome U.S. budgetary constraints and encourage continued liberalization in Eastern Europe.

The administration was willing to spend some money on Poland and Hungary. The White House decided to seek congressional approval for a \$100 million and \$25 million Enterprise Fund for Poland and Hungary, respectively. These funds would be private organizations, managed by a board of U.S. and Polish or Hungarian representatives and financed by the government, corporations, and non-governmental institutions. This money would fund the privatization of state firms, development of joint ventures, and technical assistance and training programs. The administration intended these funds to be the principal U.S. contribution to the international aid consortium. Bush planned to unveil the fund, consortium initiative, and other proposals while visiting Eastern Europe and attending the Paris G7 Summit in early July. Announcing these proposals in Europe, NSC aides argued, would enhance the president's "credibility" and build momentum for G7 discussions over the consortium. Scowcroft feared the aid package remained "embarrassingly meager" but recognized it would serve as a symbol of U.S. support for the reform process.⁴⁹⁹ These measures established a pattern for aiding transformations in the communist world. The administration's economic approach to the East European revolutions of 1989 would be adapted to respond to political and economic developments in the Soviet Union in 1990 and 1991.

⁴⁹⁹ Hutchings, *American Diplomacy*, 63; Enterprise Fund Concept Paper, Aug. 11, 1989, Folder "Aid to Poland/Hungary [1 of 2]," OA/ID CF00716, Rice Files, NSC, Presidential Records, GBL; Office of the Press Secretary, "Fact Sheet: A Program in Support of Hungarian Reform," Jul. 12, 1989 and "Fact Sheet: An Action Plan for Poland," Jul. 10, 1989, Folder "Economic Summit [President's Trip to Poland, Hungary, Paris Economic Summit, and the Netherlands (7/89)] 1989 [1]," OA/ID CF00868-016, Roman Popadiuk Files, President's Trip Files, NSC, Bush Presidential Records, GBL; Memo, Basora to Scowcroft, Jul. 3, 1989, Folder "Soviet Power Collapse in Eastern Europe (June-July 1989)," OA/ID 91124-003, USSR Chronological Files, Scowcroft Collection, GBL; Bush and Scowcroft, *World Transformed*, 114.

On July 10, Bush arrived in Warsaw, beginning his tour of Poland, Hungary, and France. In private meetings with Polish officials, the president revealed the new U.S. measures to aid their revolution. He told Polish Prime Minister Mieczyslaw Rakowski that the United States, due to its deficit, “cannot present Poland with a blank check” but intended to organize a multilateral aid effort to “help in innovative ways with the Polish economy.” Rakowski replied that any “check would bounce.” Poland did not request “untied credits” but international financial and technical assistance, as well as debt rescheduling, to create a vibrant private sector. Bush reiterated these points to Jaruzelski, who affirmed his commitment to sharing power with the opposition and pursuing serious market-oriented economic reforms. That afternoon, Bush delivered an address to the Polish parliament, unveiling his Western aid consortium, Enterprise Fund, debt rescheduling, and World Bank loans proposals. “Poland is where the cold war began,” Bush remarked, “and now the people of Poland can help bring the division of Europe to an end.” With the ongoing democratic revolutions in Eastern Europe and improving U.S.-Soviet relations, Bush envisioned a “Europe . . . open, whole, and free” in the coming post-Cold War era.⁵⁰⁰

After meeting with Walesa the next day, Bush flew to Budapest, becoming the first U.S. president ever to visit Hungary. He met with Hungarian reformers and leaders of the political opposition, praising their strides towards democracy and encouraging continued reforms. The Hungarian economy was stronger than the Polish one and did not

⁵⁰⁰ Memcons, Bush and Rakowski, Bush and Jaruzelski, Jul. 10, 1989, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 26 April 2016); Bush, “Remarks to the Polish National Assembly in Warsaw,” Jul. 10, 1989, *Public Papers*, GBL, <https://bush41library.tamu.edu/archives/public-papers/655> (accessed 9 June 2016).

require as much assistance. Nevertheless, Bush pledged to create in Hungary an Enterprise Fund, expand cultural exchanges, and support permanent most-favored-nation trading status once it passed planned freedom of emigration laws. Next, the president headed to Paris for the G7 summit where he “hoped to convince our partners to bear some of the economic burden for those countries.”⁵⁰¹ The West Europeans were already taking some steps to assist the East. France, Poland’s largest official creditor, rescheduled almost one half of Poland’s official debt and extended a few million francs in new short and medium-term credits. London offered Warsaw a five million pound “‘Know How’ Fund” to finance training and technical assistance programs. But the Bush administration sought to coordinate these international efforts and attract assistance from more nations. As NSC staffer Robert L. Hutchings explained, Washington wanted to ensure international aid programs “would be complementary rather than competitive” and be “conditional” on sound economic reform plans. Initially, Bush proposed the G7 manage this consortium, but French President Francois Mitterrand objected, fearing this process might institutionalize the G7 and compromise its informal character. In return for allied cooperation, the administration let the European Community (EC) organize the consortium.⁵⁰²

Although the EC took the lead, the Bush administration moved to shape the agenda to its liking. On July 18, Robert Blackwill, the senior NSC advisor on European

⁵⁰¹ Beschloss and Talbott, *At the Highest Levels*, 89-92; Bush and Scowcroft, *World Transformed*, 112-127, quotation on 127.

⁵⁰² Cable, Embassy Paris to DC, Jul. 24, 1989 and Cable, Embassy London to DC, Jul. 21, 1989, both in Folder “Aid to Poland/Hungary [2],” OA/ID CF00716, Rice Files, GBL; Hutchings, *American Diplomacy*, 68; Bush and Scowcroft, *World Transformed*, 127-128; G7, “Declaration on East-West Relations,” Jul. 15, 1989, G7 Information Centre, University of Toronto, <http://www.g8.utoronto.ca/summit/1989paris/east.html> (accessed 9 June 2016).

and Soviet affairs, and Deal recommended “the US move fast to influence the composition and agenda of the group . . . to assure an effective partnership with the EC.” Days later, Baker advised U.S. ambassadors in the G7 nations to explain U.S. aid proposals to the host governments, noting that the administration “envision[ed] a possible division of labor” within the aid effort. Each nation, depending on its available resources, could determine the type and volume of aid it offered the East. Some countries, for instance, could prioritize private sector development and technical assistance while others managed food aid. G7 members accepted this concept. Shortly after, the EC approved an approximately \$120 million food assistance package for Poland, involving 500,000 tons of wheat and 10,000 tons of beef. It also scheduled a meeting on August 1 to coordinate their policies and invited a dozen other developed nations to attend, forming a Group of 24 (G24).⁵⁰³

The EC met with U.S. officials before the August 1 session, and, as Rice reported, the EC “went out of its way to accommodate U.S. views on the structure of the meeting and on the agenda for the future meeting” scheduled in the fall. Representatives discussed the coordination of additional emergency food aid for Poland and shared information about their individual bilateral assistance programs to the East. Although the Bush administration consistently worried U.S. aid programs were meager, Rice claimed the United States had “by far the most detailed and broadest program of assistance.” All members agreed that “large-scale cash flows” would not solve the problems in these

⁵⁰³ Memo, Blackwill and Deal to Scowcroft, Jul. 18, 1989; Cable, DC to G7 Embassies, Jul. 22, 1989; Cable, Embassy Brussels to DC, Jul. 20, 1989; These documents, as well as various cables on the G7 response to Baker’s July 18 cable, can be found in Folder “Aid to Poland/Hungary [2],” OA/ID CF00716, Rice Files, GBL.

reforming command economies. Instead, the G24 endorsed continued talks between the IMF and Poland over economic reform and pledged to coordinate efforts to promote foreign investment and private sector development in Eastern Europe. At the same time, the Paris Club, the group of official Western creditors, proposed new debt rescheduling talks with Poland in the early fall.⁵⁰⁴

While the international community conducted negotiations, Solidarity seized an opportunity to form the first democratically elected, non-communist government within the Soviet bloc. Emboldened by the June election results, Walesa and other Solidarity members argued they should head the new government, not the communists. Jaruzelski, whom the Polish National Assembly elected president in July, consented. In mid-September, a Solidarity-led coalition government, under Prime Minister Tadeusz Mazowiecki, took charge of Poland.⁵⁰⁵ These developments sent the Bush administration searching, once again, for a way to deepen U.S. commitments to Poland without breaking the budget. The White House believed the “stakes are high” in Poland. As one policy paper explained, “Poland’s economic chaos—which helped bring Solidarity to power—could prove its undoing.” Continued economic unrest could undermine Solidarity’s rule and end the democratic experiment. On September 15, the White House doubled the amount of long-term food assistance for Poland from fifty to one hundred million dollars, pledging funds from the FY 1991 budget. While the administration reviewed other aid options, though, some congressional members criticized Bush for not doing enough.

Senate Majority Leader George J. Mitchell (D-ME) accused Bush of “timidity,” arguing

⁵⁰⁴ Memo with attached G24 Summary of Conclusions, Rice to Scowcroft, Aug. 3, 1989, Folder “Aid to Poland/Hungary [2],” OA/ID CF00716, Rice Files, GBL; Domber, *Empowering Revolution*, 246.

⁵⁰⁵ Domber, *Empowering Revolution*, 244-249.

the U.S. commitment “must go beyond symbolic nods and meager gestures.” On September 20, Democrats on the Senate Foreign Relations Committee approved, over the budgetary objections of their Republican colleagues, a three-year \$1.2 billion economic aid program for Hungary and Poland. The day before, Blackwill had suggested Bush unveil a similar program as a way to “recapture the initiative” and receive “credit for what Congress will do in any case.” Now it was too late. The Democrats shoved budgetary woes aside to launch partisan attacks on the president.⁵⁰⁶

In late September, Polish ministers visited the United States, holding meetings with Bush, Scowcroft, and representatives from the IMF and World Bank. Poland recently adopted a serious economic reform program aimed at rapidly converting to a market system through price deregulation, anti-inflationary measures, and international assistance in stabilizing the economy. Two NSC staffers described it as “radical surgery.” In a brief meeting with Bush, Polish Foreign Minister Krzysztof Skubiszewski recognized “we do not live in an era of Marshall Plans” and thanked the president for his “moral support.” The ministers, however, requested a one-billion dollar stabilization fund from the international community. On October 4, Bush proposed the United States cover twenty percent, or two hundred million dollars, of the massive stabilization fund and asked G7 to raise the remaining amount. Congress tried to take credit for Bush’s action.

Representative Lee H. Hamilton (D-IN), Chair of the House Foreign Affairs

⁵⁰⁶ Discussion Paper on Poland, Aug. 30, 1989, Folder “Aid to Poland/Hungary [1 of 2],” OA/ID CF00716, Rice Files, NSC, Bush Presidential Records, GBL; Bush and Scowcroft, *World Transformed*, 138-139; David Hoffman, “Pressed by Congress, Bush Doubles Food Assistance to Poland,” *The Washington Post*, Sep. 15, 1989, A28; Helen Dewar, “Panel Votes \$1.2 Billion to Aid Poland, Hungary,” *Washington Post*, Sep. 21, 1989, A37; Memo, Blackwill to Scowcroft, Sep. 19, 1989, Folder “Aid to Poland/Hungary [1 of 2],” OA/ID CF00716, Rice Files, NSC, Bush Presidential Records, GBL.

Subcommittee on Europe and the Middle East, said the president only made this new commitment “because of pressure from the Congress.”⁵⁰⁷

Later in the month, the president announced a special mission to Poland to examine reforms plans and advise the administration on the most effective ways to use U.S. assistance. Secretary of Agriculture Clayton Yeutter, Secretary of Commerce Robert Mosbacher, Secretary of Labor Elizabeth Dole, and Chairman of the Council of Economic Advisors Michael Boskin headed the delegation of government officials, academics, business executives, and labor leaders. After returning from Poland in early December, Yeutter reported “the Poles need our counsel more than our money.” Economic aid would do no good unless Polish reformers knew how to build the foundations of free enterprise, and Western advisors would ensure assistance went towards a meaningful restructuring of the Polish economy. Even so, Yeutter noted that Warsaw was “counting on the \$1 billion stabilization fund,” debt rescheduling, and bridge loans in order to minimize political unrest during the “economic trauma” that laid ahead.⁵⁰⁸ This mission established another pattern for responding to change in the East. In

⁵⁰⁷ Memo, Hutchings and Basora to Scowcroft, Sep. 23, 1989, and Memo, Hutchings to Scowcroft, Sep. 25, 1989, Folder “Soviet Power Collapse in Eastern Europe (October 1989),” OA/ID 91124-008, USSR Chronological Files, Scowcroft Collection, Bush Presidential Records, GBL; Memcon, Bush and Skubiszewski, Sep. 25, 1989, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 26 April 2016); Bush and Scowcroft, *World Transformed*, 138-140; Hutchings, *American Diplomacy*, 75-76; Hamilton quoted in “Poland, Hungary Aid Launched in 1989,” in *CQ Almanac 1989*, 45th ed., 503-18 (Washington, DC: Congressional Quarterly, 1990), <http://library.cqpress.com/cqalmanac/cqal89-1139368> (accessed 29 April 2016).

⁵⁰⁸ Memo, Basora to Scowcroft, Oct. 30, 1989, Folder “Soviet Power Collapse in Eastern Europe (October 1989) [2],” OA/ID 91124-009, USSR Chronological Files, Scowcroft Collection, Bush Presidential Records, GBL; “White House Fact Sheet on the Presidential Mission to Poland,” Oct. 30, 1989, *Public Papers*, GBL, <https://bush41library.tamu.edu/archives/public-papers/1109> (accessed 10 June 2016); Memo, Yeutter to Pres., Dec. 5, 1989, Folder “[1989]:9/26/89, (9:00 a.m.), Poland Initiatives, Situation Room [1],” OA/ID CF01113-008, Michael Boskin Files, NSC Meeting Files, Council of Economic Advisors, Bush Presidential Records, GBL.

response to Soviet assistance requests in 1990 and 1991, Bush sent similar missions to assess Soviet economic problems and recommend action.

While the United States and its allies worked to raise money for the stabilization fund, democratic revolutions continued sweeping Eastern Europe. In May 1989, Hungary dismantled its border fence with Austria. Tens of thousands of East German refugees fled to the West through Hungary, outraging East German leader Erich Honecker, who shut down the East German border. While the Hungarian communists abandoned Marxist-Leninism and announced intentions to hold free elections, Honecker sought to hold on to power. But in response to growing peaceful protests against the regime, the East German communist party ousted Honecker, ended the communist party's monopoly on power, and permitted its citizens to travel to the West. On the night of November 9, German citizens took sledgehammers to the Berlin Wall, tearing down the ugly barrier that had divided East and West Berlin since 1961. Democracy then spread to Bulgaria, Czechoslovakia, and Romania through similar protests.⁵⁰⁹ For the first time since the end of World War II, the people of Eastern Europe were free to pursue their own destinies.

Two weeks after the fall of the Berlin Wall, Congress passed the Support for East European Democracy Act, approving President Bush's proposed aid programs for Poland and Hungary. Yet, Congress authorized and appropriated far more money than he requested. During aid debates, congressional Democrats talked about tripling Bush's proposals, claiming they were acting to promote U.S. interests and aid Eastern Europe in securing democracy. They argued Bush remained too cautious and timid. "We intend to

⁵⁰⁹ Oberdorfer, *Cold War to a New Era*, 361-366; Leffler, *Soul of Mankind*, 430-438; Vladislav M. Zubok, *A Failed Empire* (Chapel Hill: The University of North Carolina Press, 2009), 321-330; Maynard, *Out of the Shadow*, 41-42.

provide the leadership that has been lacking up to now,” said John D. Dingell (D-MI), Chair of the House Energy and Commerce Committee. In total, Congress authorized \$938 million over three years for the program (about twice the requested amount) and appropriated \$532.8 million for the first year. This authorization included \$240 million and \$60 million for the Polish and Hungarian Enterprise Funds, respectively. Bush had only requested \$100 million for Poland and \$25 million for Hungary. Congress increased authorizations, and in many cases allocations, across the board. In 1990 and 1991, Congress and the president increased allocations for the Enterprise Funds and created funds for Czechoslovakia and Bulgaria. Using this authority and funding, the United States shipped food, promoted trade and business development, aided environmental cleanup, offered technical assistance and training, helped the sick, and supported a range of other exchanges across Eastern Europe.⁵¹⁰

Despite the claims of some congressional members, President Bush was acting to help these newly democratic nations. Bush and his advisors promoted multilateral aid initiatives as a means to promote U.S. interests without significantly adding to the budget deficit. By the end of 1989, these initiatives came to fruition. The G24 had raised over six billion dollars for Poland and two billion dollars for Hungary by late November. These amounts included \$880 million towards Poland’s stabilization fund, almost \$400 million in food aid grants, \$92 million in training and management grants, and \$732 million in

⁵¹⁰ “Poland, Hungary Aid Launched in 1989,” *CQ Almanac 1989*; Helen Dewar and David Hoffman, “Democrats Propose to Triple Aid to Poland and Hungary,” *Washington Post*, Oct. 4, 1989, A33; Hutchings, *American Diplomacy*, 201-203; “Reluctant Approval for \$15.4 Billion Aid Bill,” in *CQ Almanac 1990*, 46th ed., 830-44 (Washington, DC: Congressional Quarterly, 1991), <http://library.cqpress.com/cqalmanac/cqal90-1111856>; “Foreign Aid Funded by Short-Term Bill,” in *CQ Almanac 1991*, 47th ed., 646-60 (Washington, DC: Congressional Quarterly, 1992), <http://library.cqpress.com/cqalmanac/cqal91-1109824> (both accessed 13 June 2016).

debt reduction. In addition, some G24 members offered \$2.3 billion in export credits and guarantees and \$1.4 billion to finance private sector projects in Poland and Hungary. After an appeal by Secretary Baker at the December 13 session, G24 members pledged the remaining \$120 million for the Polish stabilization fund, helping Poland launch its economic restructuring program on January 1, 1990. The G24 package for Poland may not have amounted to the ten billion dollar initiative some Solidarity members proposed, but it was nonetheless a significant sum. The G24 also helped the rest of Eastern Europe. By early 1991, the G24 had extended almost \$26 billion in credits, loans, and grants to the region. Including financial assistance packages from multilateral institutions like the World Bank, IMF, and EC, this number rose to over \$44 billion.⁵¹¹

And the West went beyond this G24 effort. In April 1990, more than forty nations, including the United States and Soviet Union, founded the European Bank for Reconstruction and Development (EBRD). The United States and nations of the European Community contributed the majority of the bank's twelve billion dollar capitalization. Using this money, the bank aided the transition towards market economies across Eastern Europe. Two years later, the new institution had committed \$770 million towards 20 projects.⁵¹² But the task before these newly democratic nations was monumental. Most of them had not had any experience with the functions and institutions of a market economy for over forty years. In early 1991, the Bush administration believed

⁵¹¹ Memo with attached G24 meeting synopsis, Basora to Scowcroft, Nov. 27, 1989, Folder "Soviet Power Collapse in Eastern Europe (November 1989) (Part II)," OA/ID 91125-002, USSR Chronological Files, Scowcroft Collection, Bush Presidential Records, GBL; Hutchings, *American Diplomacy*, 76; "G-24 Assistance Efforts in Eastern Europe," Undated, Folder "Eastern Europe [1991][3]," OA/ID CF00756-009, Meg Lundsager Files, Subject Files, NSC, Bush Presidential Records, GBL.

⁵¹² Steven Greenhouse, "A New Bank Plans East European Aid," *The New York Times*, May 30, 1990, A14; Roger Cohen, "U.S. Again Splits with Western Europe Over Aid to Eastern Lands," *New York Times*, Apr. 13, 1992, A12.

the outlook for most of Eastern Europe remained negative with economic contraction and mounting unemployment, debt problems, and financing gaps. Poland was the only nation expected to enjoy economic growth in the coming year, due in part to the Western assistance. Besides the massive economic stabilization fund and other aid programs, Poland received one of the “most generous” debt relief deals in history. In March 1991, members of the Paris Club forgave, rescheduled, or lowered the payments on one-half of Poland’s approximately \$33 billion official debt. Under this arrangement, Poland’s annual interest payments decreased from \$3.3 billion to \$660 million. The debt relief package was contingent on Poland accepting a \$2.5 billion IMF economic assistance package. These multilateral programs, initiated by Bush at the Paris G7 Summit, meant the East did not have to begin its difficult economic and political transition alone.⁵¹³

These initiatives were not an unqualified success though. Western leaders intended the G24 process to coordinate assistance efforts and grant contributors the ability to determine their own commitment levels. While this approach worked well in the beginning, coordination broke down after a few years, due in part to the high number of participants. National aid programs duplicated and overlapped, inhibiting their effectiveness. Furthermore, loans and lines of credit became the dominant type of G24 assistance, adding to the East’s significant debt problem. By early 1992, the G24 commitment totaled \$37.5 billion, but only about one-third of this aid consisted of grants. While grants comprised a similar level of U.S. assistance, they typically made up less than ten percent of other nations’ overall commitments. The G24 also failed to establish

⁵¹³ “Outlook for Eastern European Economies,” Undated, Folder “Eastern Europe [1991][3],” OA/ID CF00756-009, Lundsager Files, GBL; Steven Greenhouse, “Poland is Granted Large Cut in Debt,” *New York Times*, Mar. 16, 1991, p. 1; Wertman, “Polish Official Debt Accord,” *CRS Report for Congress*.

adequate stabilization funds for Bulgaria and Romania, and the United States could not afford to bear the costs alone. In 1991, Western focus shifted to meeting the challenges posed by the disintegration of the Soviet Union, leaving many of the nascent East European democracies to make due on paltry assistance as an economic recession gripped the region. In 1989, the Bush administration initiated a multilateral aid effort as a way to overcome limits imposed by the tight U.S. budget. This approach helped the newly independent nations of Eastern Europe, especially Poland and Hungary, launch their economic restructuring programs and democratic experiments. Unfortunately, the United States and its international allies failed to maintain momentum for an effective coordination of this economic initiative throughout the decade.⁵¹⁴ Yet, the U.S.-led multilateral effort established a model for supporting democratic, market-oriented reforms in the communist world, and the Bush administration adapted this model to guide it through the challenges in U.S.-Soviet relations.

Transformations in U.S.-Soviet Relations

Bush had met with Gorbachev several times as vice president. But when the democratic revolutions swept Eastern Europe, he had yet to meet with the Soviet leader as president. Bush, as well as officials across Europe, thought a summit with Gorbachev would help maintain East-West stability in the face of these dramatic changes. “If the superpowers did not begin to manage events,” Bush later wrote, “those very events could destabilize Eastern Europe and Soviet-American relations. We still did not know how much change Gorbachev would allow in the region.” While Poland held its semi-free elections in June, the Chinese communist government used violence to quell pro-

⁵¹⁴ Hutchings, *American Diplomacy*, 196-212.

democracy protests in Tiananmen Square, Beijing. Bush feared there could be “more Tiananmens” if Soviet officials interpreted these political movements as threatening Soviet security interests. Germans, in particular, were talking about reunifying their nation, raising security concerns across Europe, the Soviet Union, and the United States. United Germany had laid waste to Europe and the Soviet Union twice in the twentieth century. Everyone worried a reunified Germany might wage another brutal war in the future. A face-to-face meeting could help calm fears on all sides, and Bush and Gorbachev agreed to hold an informal summit in early December off the coast of Malta.⁵¹⁵

But Bush and his advisors were not just concerned about managing developments in Eastern and Central Europe. The situation in the Soviet Union also caught their attention. Gorbachev’s economic reforms were failing to produce the desired results. In late 1988, CIA analysts thought the Soviet economy would not see “substantial improvement over the next five years.” The general secretary refused to take radical steps towards a market economy, fearing economic disruptions would produce popular unrest and undermine his control of events. Consumer good shortages mounted, and Soviet economic ministries, controlled by conservative communist officials, stalled the implementation of reforms. Under these circumstances, the CIA speculated that “Gorbachev’s economic programs may not survive.” At the same time, nationalist and ethnic unrest was on the rise. In early 1988, ethnic violence broke out between Azerbaijanis and Armenians in the Caucasus. On August 23, 1989, citizens of Estonia, Latvia, and Lithuania protested the forced Soviet annexation of their nations. They

⁵¹⁵ Oberdorfer, *Cold War to a New Era*, 366-368; Bush and Scowcroft, *World Transformed*, 130, 131.

organized a human chain that stretched hundreds of miles across all three Baltic States. Yet, Gorbachev pressed on with his plans to democratize and reform the Soviet system. More and more, he saw conservative party officials as an impediment to reform so he took action to minimize their influence. During the Nineteenth Communist Party Conference in the summer of 1988, Gorbachev secured party approval to reform the political system. He used this authority to hold elections for a new legislative body, the U.S.S.R. Congress of People's Deputies, in early 1989. Gorbachev intended this new institution to augment the power of reform-minded communists like him by harnessing the people's will through elections. The Soviet Union remained a single-party state, but these reforms marked a significant step on the road to democracy.⁵¹⁶

In late November, Scowcroft speculated on three possible outcomes to perestroika. First, economic reforms could succeed. The national security advisor dismissed this outcome as “rosy” but “unlikely.” He believed it was more likely that Gorbachev would launch a “violent crackdown” on nationalist and labor unrest. This course of action, however, would tarnish the image Gorbachev cultivated as a reformer. The most likely outcome was a slow decline for the Soviet Union. It would be “the sick man of Europe—too weak to recover but too strong to die.” Whatever outcomes, Scowcroft stressed that “there are no guarantees that the Soviet empire will go quietly

⁵¹⁶ National Intelligence Estimate 11-23-88, “Gorbachev’s Economic Programs: The Challenges Ahead,” Dec, 1988, available through the Reagan Collection, CIA FOIA Reading Room (hereafter, CIA RC), <http://www.foia.cia.gov/collection/reagan-collection> (accessed June 2014). The website has changed since conducting my initial research, making it more difficult to navigate. I recommend accessing the collection through the Wayback Machine: <http://web.archive.org/web/20130412234252/http://www.foia.cia.gov/collection/reagan-collection>; Serhii Plochy, *The Last Empire: The Final Days of the Soviet Union* (London: Oneworld Publications, 2014), 33-34; Matlock, *Autopsy on an Empire*, 125-132; Mikhail Gorbachev, *Memoirs* (New York: Doubleday, 1995), 255-260, 278-285.

into the night.” Developments in Eastern Europe and the possible reunification of Germany could precipitate Soviet military action in the region:

In all the war games over the years, the most convincing scenario for a European central front war has been a Soviet military act of desperation rather than of calculation: a situation in which vital interests were on the line and not acting was believed in Moscow to be more dangerous than acting.

The Bush administration had to do everything possible to prevent a confrontation. Bush had to convince Gorbachev that democratic states in Eastern Europe and, potentially, a reunited Germany did not pose a risk to Soviet security.⁵¹⁷

While preparing for the Malta Summit, the White House was concerned Gorbachev might surprise President Bush with initiatives that enhanced Soviet public relations, similar to his tactical nuclear weapons proposal during Baker’s visit to Moscow in May. In order to prevent this possibility, Baker advised Bush to unveil “a package of initiatives on every subject” at the start of the meeting. As a part of this package, Bush would reiterate his willingness to waive the Jackson-Vanik amendment for the Soviet Union provided Moscow codified an open emigration policy. In the late 1980s, Moscow significantly reduced barriers to emigration, permitting more Jews to leave than at any time since the late 1970s. In 1986, only 914 Jews were granted the right to emigrate. In 1988, almost 20,000 left. In September, Shevardnadze informed Baker the Soviets intended to have these open emigration practices codified by the end of the year.⁵¹⁸

⁵¹⁷ Memo, Scowcroft to Pres., Nov. 29, 1989, Folder “Malta [2],” OA/ID CF00703-020, Popadiuk Files, Subject Files, NSC, Bush Presidential Records, GBL.

⁵¹⁸ Bush and Scowcroft, *World Transformed*, 160; Baker, *Politics of Diplomacy*, 170; Soviet Jewish Zionist Forum Statement on Jackson-Vanik Amendment, Feb. 16, 1989, Folder “Jackson-Vanik,” OA/ID

Soviet actions demonstrated it had turned a corner on its emigration policies making the Jackson-Vanik amendment no longer necessary. For the first time since the late 1970s, movement on the Jackson-Vanik amendment garnered widespread public support in the United States. Vanik wrote letters to the White House, urging the administration waive the amendment and deepen bilateral relations through economic initiatives. Prominent American-Jewish organizations also supported a waiver for the Soviet Union.⁵¹⁹

On the morning of December 2, as a severe storm raged along the Maltese coast, President Bush sat down with Gorbachev on the Soviet cruise liner *Maxim Gorky*. “The world will be a better place if perestroika succeeds,” Bush said at the start of the meeting. The president then launched a barrage of proposals, beginning with his economic initiatives. Besides a Jackson-Vanik waiver, he wanted to begin negotiations on a new trade agreement immediately and remove U.S. legal restrictions to granting the Soviet Union financial credits. To remove these restrictions, U.S. and Soviet negotiators had to settle the Soviet Union’s World War II lend-lease debt and a three hundred million dollar debt (almost two billion dollars including interest) dating back to the Russian Revolution. The Soviets repudiated the latter debt in the 1920s, and the Johnson Debt Default Act of 1934 made it illegal for banks to lend to any nation in default on its debts. Bush also suggested U.S. officials and businesses work with the Soviets on numerous technical cooperation projects, ranging from agricultural development to statistical analysis and

CF00719-003, Rice Files, Soviet Union/USSR Subject Files, NSC, Bush Presidential Records, GBL; Memcon, Baker and Shevardnadze, Third Small Group Meeting, Sep. 22, 1989, Folder “Jackson Hole, Wyoming-Baker/Shevardnadze-September 19891 [1],” OA/ID CF00717-016, Rice Files, 1989-1990 Subject Files, NSC, Bush Presidential Records, GBL.

⁵¹⁹ Letters, Vanik to Robert Blackwell, Mar. 2 & 13, 1989; Press Release, “Statement on Jackson-Vanik Amendment Adopted by National Conference on Soviet Jewry’s Board of Governors,” Jun. 13, 1989, Folder “Jackson-Vanik,” OA/ID CF00719-003, Rice Files, GBL; Soviet Jewish Zionist Forum Statement on Jackson-Vanik Amendment, Feb. 16, 1989.

fiscal policy. The president stressed that these measures were not meant to “bail out the USSR,” nor did they reflect the “superiority of one system” over the other. Bush sought genuine economic cooperation to build a better bilateral relationship.⁵²⁰

Bush’s proposals did not end there. The United States invited the Soviet Union to join the GATT as an observer once GATT members completed the current round of trade negotiations in Uruguay. Moscow had expressed interest in being an observer in 1986, but the Reagan administration worked with U.S. allies to block Soviet observer status through a moratorium on new members until after the Uruguay Round. While GATT negotiations concluded over the next year, Bush suggested the Soviets begin implementing market reforms. In addition to these economic proposals, Bush called the Soviet relationship with Cuba and Nicaragua “the single most disruptive factor” in bilateral relations. Nicaragua continued funneling Soviet arms to communist rebels in El Salvador while Fidel Castro continued supporting anti-American activities. Bush urged Gorbachev to drop support for Castro and promote peace in Central America. Lastly, the president proposed the superpowers accelerate negotiations to ban chemical weapons, reduce the level of conventional forces in Europe, and cut the number of strategic nuclear weapons on both sides.⁵²¹

⁵²⁰ Malta Memcon, Bush and Gorbachev, First Expanded Bilateral Session, Dec. 2, 1989, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 26 April 2016); Memo, Nicholas Brady to Pres., Nov. 29, 1989, Folder “[1991]: U.S./Soviet Economic Relations,” OA/ID CF01113-043, Boskin Files, Council of Economic Advisors, Staff and Office Files, Bush Presidential Records, GBL; Memo, James F. Dobbins and Eugene McAllister to Robert B. Zoellick, Mar. 28, 1990, Folder “Soviet Economics,” OA/ID CF00720-010, Rice Files, 1989-1990 Subject Files, NSC, Bush Presidential Records, GBL; Philip J. Funigiello, *American-Soviet Trade in the Cold War* (Chapel Hill: University of North Carolina Press, 1988), 3-4.

⁵²¹ Malta Memcon, Bush and Gorbachev, Dec. 2, 1989; Memo, Brady to Pres., Nov. 29, 1989, Folder “[1991]: U.S./Soviet Economic Relations,” GBL.

President Bush took over an hour to go through his initiatives. Scowcroft remembered Gorbachev appearing “nonplussed after having been buried in the avalanche of US proposals.” Gorbachev had feared the limited U.S.-Soviet dialogue over the past months meant the Bush administration did not seek to continue rapprochement. Some Americans, Gorbachev said, believed the United States should not end the Cold War confrontation but “keep its baskets ready to gather the fruit” of victory as Soviet power collapsed in Eastern Europe. The president’s opening remarks put the general secretary’s concerns to rest. He interpreted U.S. economic proposals as “very encouraging” and reiterated Soviet intentions “to adjust to the world economy.” He talked briefly about plans to reform property laws, restructure the price system, and make the ruble convertible. Gorbachev welcomed Bush’s arms control proposals and claimed the Soviets were no longer supplying arms to Nicaragua. In another meeting session, the Soviet leader suggested the United States normalize relations with Cuba, but Bush ruled out that possibility unless Castro respected human rights and instituted democratic reforms.⁵²²

Gorbachev did not make any elaborate proposals in this session or any of the others. Rather, he offered his thoughts on the changing superpower relationship and perestroika. Despite the deep advances in bilateral relations, Gorbachev did not think either side had “entirely abandoned old approaches.” In the interests of peace and global stability, “the U.S. and the USSR are doomed to cooperate.” Regional developments, like the revolutions in Eastern Europe, created tensions, but they had a responsibility to manage these “new realities.” Bush agreed, emphasizing he did not want to do anything

⁵²² Maynard, *Out of the Shadow*, 48; Bush and Scowcroft, *World Transformed*, 163; Malta Memcon, Bush and Gorbachev, Dec. 2, 1989.

that “complicate[d] your life. That’s why I have not jumped up and down on the Berlin Wall.” On the second day of the summit, Gorbachev promised “the Soviet Union will under no circumstances start a war,” endorsed the right of national self-determination, and accepted that the United States had a constructive role to play in the stability of Europe. As their summit came to an end, Bush and Gorbachev agreed to work towards overcoming the division of Europe through the promotion of “universal human values” like democracy and human rights. Aboard the *Maxim Gorky*, Bush and Gorbachev began forging a personal relationship that allayed suspicions on both sides and helped them work through the challenges ahead. In time, the two leaders became friends, often referring to one another on a first-name basis.⁵²³

While U.S.-Soviet officials negotiated a new trade agreement during spring 1990, the White House launched a review of the multilateral strategic embargo. Two weeks after the Malta Summit, Bush told reporters he planned to ask the alliance to review the COCOM control list in light of the developments in Eastern Europe, and Mosbacher envisioned a “substantial shortening” of the list, possibly de-controlling one hundred thousand individual items. On January 12, 1990, the president ordered his cabinet to prepare interim policy proposals for U.S. officials to present at a February COCOM meeting. “We now face a situation where the military threat posed to COCOM members by the Warsaw Pact is changing. In particular, the threat from Eastern Europe appears to have diminished,” Bush noted. He wanted to make sure the control system reflected this

⁵²³ Malta Memcon, Bush and Gorbachev, Dec. 2, 1989 and Malta Memcon, Bush and Gorbachev, Second Expanded Bilateral Session, Dec. 3, 1989, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 26 April 2016); Gorbachev, *Memoirs*, 510-515; Bush and Scowcroft, *World Transformed*, 173; Baker, *Politics of Diplomacy*, 168-171.

“changing environment” and did not “interfere with legitimate trade,” trade that could help the nascent democracies improve their economies. Eventually, the president wanted a comprehensive reform initiative for the high-level COCOM review in June.⁵²⁴

Policymakers recommended the control list be “rewritten from scratch” to accomplish a “complete restructuring, as well as reduction, of COCOM controls.” They advised COCOM immediately delete a third of the item categories on the Industrial Control List to make further review “more manageable.” Among COCOM members, the United States tended to be the staunchest supporter of expanding controls. An immediate deletion of approximately thirty item categories would demonstrate to the allies “we are serious about significantly reducing controls.” In addition, policymakers suggested COCOM adopt the British control model: a “core list” of broad categories under which controlled items were classified. A core list of seven categories would be more organized than the current system involving two broad lists—strategic, military critical goods and non-strategic goods with indirect military potential—and numerous sub-lists. Last, policymakers recommended controls be relaxed on goods and technologies for Eastern Europe in order to help these nations integrate into the global economy. Fiber optics cables, for instance, would help the region build better telecommunications systems, aiding the development of private enterprise. But since the fiber optics also facilitated the command and control of military forces, COCOM members would not export the item to the Soviet Union. After an uncontentious NSC meeting in late April, President Bush

⁵²⁴ Clyde H. Farnsworth, “U.S. Said to Weigh New Export Rules for Eastern Bloc,” *New York Times*, Dec. 17, 1989, 1; NSR 22, “COCOM Policy towards Eastern Europe and the Soviet Union,” Jan. 12, 1990, <https://bush41library.tamu.edu/archives/nsr> (accessed 14 April 2016).

approved these proposals with National Security Directive 39.⁵²⁵

U.S. allies supported the Bush administration's proposals almost entirely. Throughout the history of the embargo, Western Europe and Japan consistently pressed the United States to accept a more streamlined control system. The reviews in the 1980s had produced a shorter control list with tightened national enforcement measures, but the United States and its allies were now prepared to restructure the whole system. The West Europeans resisted the administration's East European differentiation proposal, however. Thatcher "strongly opposed" differentiation because her government did "not want to appear to discriminate against Gorbachev" and feared the East Europeans would not prevent items from falling into Soviet hands. The United States understood these concerns and maintained that the East would only receive special treatment provided it instituted proper safeguards against diversion and severed ties with Soviet intelligence agencies. In addition to these concerns, West Germany wanted the German Democratic Republic removed from the list of controlled destinations in order to help facilitate reunification. Both Germanys pledged to cooperate on preventing the re-export of items to the Soviet Union, and the Bush administration accepted the request since the planned elimination of borders between East and West Germany made enforcement almost impossible.⁵²⁶

⁵²⁵ "Comprehensive Proposals for Modernizing COCOM," Jan. 20, 1990 and NSC Meeting Minutes, Apr. 30, 1990, Folder "NSR-22 [1990] [1]," OA/ID CF01517-001, Richard Barth Files, Subject Files, NSC, Bush Presidential Records, GBL; NSD 39, "COCOM Policy towards Eastern Europe and the Soviet Union," May 1, 1990, GBL, <https://bush41library.tamu.edu/archives/nsr> (accessed 9 May 2016); For information on how the control lists were originally organized, see Michael Mastanduno, *Economic Containment* (Ithaca: Cornell University Press, 1992), 78-82.

⁵²⁶ Memo, Richard Barth to Robert Gates, Apr. 12, 1990 and Cable, Embassy London to DC, May 3, 1990, Folder "NSR-22 [1990] [1]," OA/ID CF01517-001, Barth Files, GBL.

In June, COCOM unanimously agreed to eliminate 30 of the 116 item categories and move towards a core list under the principle of building “higher fences around fewer products.” They even relaxed controls on items that were only added to the control list in the 1980s like personal and industrial computers and floating dry docks. These items could not be exported to the Soviet Union, but Eastern Europe was permitted to import them without limits. Over the next two years, COCOM continued de-controlling items and approached former Warsaw Pact members about preventing the diversion of high technologies to rogue regimes like North Korea and Iraq. The United States and its allies had managed the multilateral strategic embargo through COCOM since 1949. The significant loosening of these controls symbolized the economic Cold War was coming to an end. Although the organization moved to restrict high technology exports to emerging international threats, it never repurposed itself for the post-Cold War era. In 1994, the United States and its allies abolished COCOM.⁵²⁷

With the COCOM review underway, the United States continued engaging the Soviet Union on the bilateral agenda adopted in the spring of 1989. During the Reagan administration, Shultz talked with Gorbachev and Shevardnadze about the information revolution and pace of globalization. But these talks always remained musings about the impact of economic and technological transformations, not discussions about concrete economic policy and market functions. During the Bush administration, however, U.S.

⁵²⁷ Alan Riding, “High-Tech Embargoes on Eastern Bloc Eased,” *New York Times*, Jun. 8, 1990, A1; Steven Greenhouse, “U.S. and Allies Move to Ease Cold War Limits on Exports,” *New York Times*, May 25, 1991, 1; Greenhouse, “A Move to Restrict Exports of Strategic Technologies,” *New York Times*, May 28, 1992, D8; Keith Bradsher, “U.S. and Allies Ease Sales to Former Soviet Republics,” *New York Times*, Jun. 3, 1992, D18; Thomas L. Friedman, “U.S. Ending Curbs on High-Tech Gear to Cold War Foes,” *New York Times*, Mar. 31, 1994, A1.

and Soviet officials began candidly discussing Soviet economic and political problems and the prospects of reform. When Baker visited Moscow in May 1989, Shevardnadze reviewed the Soviet economic agenda, noting plans to revitalize industrial and consumer good production. Baker suggested Gorbachev restructure the price system first then move to make the ruble convertible. Industrial reforms could wait. Price reform would be a “quick fix approach” that tackled inflation and excess savings, but the Soviet foreign minister discounted Baker’s advice. “You have to go at [a] pace that [the] political system will support, move in a balanced way,” Shevardnadze replied. Gorbachev and Shevardnadze feared price reform would cause deep economic disruptions that undermined popular support for perestroika. They maintained that reforming production would end consumer good shortages, keeping citizens content during the economic transition. The Soviet foreign minister returned Baker’s visit during a three-day summit in Jackson Hole, Wyoming. Shevardnadze briefed Baker on the internal economic and political situation in the Soviet Union, and the two decided to make these discussions a regular part of their meetings.⁵²⁸ Institutionalizing these talks was a remarkable development. For decades, Moscow had refused to discuss Soviet internal affairs with Washington, especially when those talks involved human rights. Now, Gorbachev, Bush, and their advisors were consulting extensively on the Soviet Union’s internal situation and reform plans.

⁵²⁸ Baker’s Handwritten Memcon on Meeting with Gorbachev in Shevardnadze, Moscow, May 11, 1989, Folder 5, Box 108, Subseries 8C, JAB, Princeton; Memcon, Meeting with Shevardnadze, Sep. 21, 1989, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 16 June 2016); Baker, *Politics of Diplomacy*, 144-152; Memcon, Third Small Group Meeting, Sep. 22, 1989, Folder “Jackson Hole, Wyoming-Baker/Shevardnadze-September 19891 [1],” OA/ID CF00717-016, Rice Files, 1989-1990Subject Files, NSC, Bush Presidential Records, GBL; Memcon, Fifth Small Group Meeting, Sep. 23, 1989, Folder “Jackson Hole, Wyoming-Baker/Shevardnadze-September 19891 [2],” OA/ID CF00717-017, Rice Files, GBL.

The Bush administration believed Soviet economic reform was “in a state of flux” in early 1990. Soviet economic plans and goals remained nebulous. In 1989, Moscow decided to move towards a mixed market and command economy, but reformers could not agree on the speed of the transition, which reform steps to take first, or the role central economic authorities should play in reform. As a result, the United States remained “skeptical” that the Soviet Union would adopt radical measures. In February 1990, during a meeting with State Department counselor Robert Zoellick, Soviet Deputy Foreign Minister Ernst Obminskiy noted that Moscow was revising its economic plans, hoping to stabilize the economic situation then institute a smooth transition to the market. There was no doubt that the “old system” of central planning was “losing.” Zoellick suggested the Soviets learn from the Polish example. At the start of 1990, Poland instituted “shock therapy” involving a rapid de-control of prices, tight monetary and fiscal policies, and privatization of state assets. But a swift transition to a more market-oriented economy was out of the question for the Soviets. Obminskiy said the leadership could only do what “the mood of the masses will allow.” The Soviet people expected “the state to protect and save them, to maintain certain social guarantees.” As the Soviet economic situation continued deteriorating, the Bush administration expected Soviet reformers to adopt a radical reform agenda, one that pursued meaningful reform now rather than merely stabilizing the economy.⁵²⁹

⁵²⁹ Executive Summary, “Soviet Economic Reform,” U.S. Economic Package Briefing Book, April 1990, and Cable, DC to Embassy Moscow, Feb. 22, 1990, Folder “Soviet Economics,” OA/ID CF00720-010, Rice Files, 1989-1990 Subject Files, NSC, Bush Presidential Records, GBL; Philip Hanson, *The Rise and Fall of the Soviet Economy* (New York: Longman, 2003), 222-224.

In the meantime, Gorbachev continued moving the Soviet Union towards democracy and cultivating political power outside of the communist party. Through a special congress in March, he secured decisions abolishing the party's monopoly on power and establishing a presidential system. The congress then elected Gorbachev president. He hoped to use this new institution to outmaneuver conservative opponents of perestroika. Even though Gorbachev gave the Soviet people more rights, he refused to recognize the Baltic States' desire for self-determination. On March 11, the Lithuanian parliament declared independence. Gorbachev vowed to maintain Soviet territorial integrity and threatened to cut off Lithuania's oil and gas supplies unless it withdrew the declaration. The United States never accepted the Baltic States' forced inclusion into the Soviet Union, but the Bush administration did not recognize Lithuanian independence, fearing it would provoke Moscow. The president urged Gorbachev to negotiate with Lithuanian officials and resolve the crisis peacefully. But hardliners within the Soviet government and military pressured Gorbachev not to back down. On April 17, the Soviet Union embargoed Lithuania. Soon after, Estonia and Latvia announced intentions to transition to independence as well.⁵³⁰ More and more, Gorbachev found himself besieged by events as the Soviet economy continued deteriorating, ethnic unrest rose, the Baltic crisis deepened, Germany reunified, and Soviet control in Eastern Europe disintegrated. Over the next year, Gorbachev's political capital continued declining in the face of these challenges, leading ultimately to the breakup of the Soviet Union.⁵³¹ Throughout these

⁵³⁰ Matlock, *Autopsy on an Empire*, 322-359; Bush and Scowcroft, *World Transformed*, 215-229; Esther B. Fein, "Moscow Says Cuts in Energy Supplies to Lithuania Begin," *New York Times*, Apr. 18, 1990, A1.

⁵³¹ Philip Zelikow and Condoleezza Rice, *Germany Unified and Europe Transformed* (Cambridge: Harvard University Press, 1995), 118-125, 167-172; Leffler, *Soul of Mankind*, 439-443.

challenges, the Bush administration prodded Gorbachev to continue his political reforms and promised Western economic assistance if he adopted radical economic initiatives. But Bush never expected the Soviet Union to collapse and, ultimately, was powerless to prevent it.

Under the weight of these events at home and abroad, the Soviet leadership pressed on with perestroika. In making a transition towards a market-oriented economy, the Soviets had to tackle the problem of citizens hoarding rubles due to supply shortages and a lack of consumer demand. If Soviet authorities immediately de-controlled prices, the surplus rubles, referred to as an “overhang,” would produce an inflationary explosion. On May 24, in an effort to soak up these excess rubles, Soviet Prime Minister Nikolai Ryzhkov proposed raising prices in six months. Rather than removing price controls and enduring a rapid, albeit difficult, transition towards markets, the Soviet Union sought to carry out reform from above. But the announcement sent citizens on a buying panic that created more severe shortages. All the while, Soviet officials continued debating the merits of economic reform measures. The United States did not hold out hope that Gorbachev would accomplish his economic agenda. As Brady stated, “All indications are that the current path of Soviet economic reform efforts has very little chance of success. The measures announced to date have been disjointed and tentative.”⁵³²

Around this time, the Soviets began turning to the West for economic assistance. In early May, Shevardnadze approached West German Chancellor Helmut Kohl about a

⁵³² Hanson, *Soviet Economy*, 227-228; Gorbachev, *Memoirs*, 376-377; Leonard Silk, “The 2-Front Battle Facing Moscow,” *New York Times*, Mar. 30, 1990, D2; Memo, Brady to Pres., May 24, 1990, Folder “[1991]: U.S./Soviet Economic Relations,” OA/ID CF01113-043, Boskin Files, Council of Economic Advisors, Bush Presidential Records, GBL.

loan to fund vital imports and assist in stabilizing the Soviet economy while reforms were implemented. Moscow requested approximately twelve billion dollars in new financial credits and suggested the Western governments guarantee these loans since Western banks increasingly questioned Soviet creditworthiness. Kohl sought to use the assistance as leverage for obtaining German reunification. He dispatched Horst Teltschik, his security advisor, and two prominent German bankers to Moscow for talks. In these secret discussions, Gorbachev and Ryzhkov disclosed Soviet financial troubles and estimated they would require billions of dollars in long-term credits with generous financial terms to meet current obligations and proceed with economic reforms. Moscow always monitored its debt and trade levels with the West since it did not want to become dependent on potential Soviet enemies for economic survival. As hard currency earnings dwindled in the late 1980s, the Soviets cut Western imports and increased trade with their communist allies rather than take on more debt. In an unprecedented move, Gorbachev proposed the West subsidize the Soviet economy as he attempted to overcome the economic crisis.⁵³³

In an Oval Office meeting on May 17, Kohl passed this information on to President Bush. Kohl was prepared to offer Gorbachev five billion Deutsche Marks (about three billion dollars) and thought the United States and other allies could provide the remaining amount. “He sounds desperate,” Bush replied, noting that entire situation was “very discouraging.” Regardless, the United States could not act. Congress and the American people would not tolerate giving taxpayer money to Moscow while it

⁵³³ Zelikow and Rice, *Germany Unified*, 257-260; See Chs. 1,2 and 6 for Soviet debt and import policies in the past.

embargoed Lithuania. If Gorbachev peacefully resolved the Baltic crisis, Bush explained, “We can energetically move forward.” Kohl asked Bush to reconsider. He argued that there was more at stake than Lithuanian independence, and given the precarious political situation in the Soviet Union, Gorbachev could be ousted from power. But Bush’s hands were tied. He promised to treat Gorbachev “as an equal” at the upcoming June summit in Washington, hopefully bolstering the Soviet leader’s public image, but the president could not grant economic assistance at this time.⁵³⁴

That same week, Baker, Rice, and Zoellick were in Moscow for talks about German reunification and the upcoming summit. During the meetings, Gorbachev and Soviet Finance Minister Valentin Pavlov requested U.S. participation in the international loan. The Soviets desired sixteen to twenty billion dollars in long-term loans and credits and believed they could raise a significant amount in U.S. financial markets. Baker suspected Gorbachev thought U.S. involvement would serve as a symbol that “his policies were succeeding in getting the United States to contribute to Soviet needs.” But the Johnson Act blocked Soviet access to U.S. markets. The United States and Soviet Union had to settle their outstanding lend-lease and pre-revolutionary debts first. The secretary then asked “how they can ask for loans while they are so active elsewhere in the world?” As long as Moscow continued sending aid to communist regimes in Cuba and Vietnam and rejected a dialogue with the Lithuanians, the United States could not offer the Soviets financial assistance or waive the Jackson-Vanik amendment. Even if the Soviets passed an emigration law, the American public would not support a waiver while

⁵³⁴ Ibid., 259-260; Memcon, Bush and Kohl, May 17, 1990, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 26 April 2016).

Baltic freedom hung in the balance. Gorbachev noted that he was under intense pressure to place the region under martial law. He pledged to lift the sanctions and negotiate with the Lithuanians if they suspended their declaration of independence. But Vilnius refused.⁵³⁵

Scowcroft thought the general secretary “will undoubtedly place high priority on economic matters” at the Washington Summit. Thanks to U.S. support, the Soviet Union recently joined the GATT as an observer. In May, U.S. and Soviet officials concluded negotiations on a new trade agreement and settled the Soviet lend-lease debt. As a result, Scowcroft believed Gorbachev reiterate his request for financial assistance and urge Bush to sign the trade deal. He advised the president against these measures. The U.S. budget already had a severe deficit, and the Baltic crisis “will make it all but impossible for you to win Hill approval” for the trade agreement. The Soviets were working on codifying an emigration law, and Vanik asked Bush to waive the Jackson-Vanik amendment right away. Former President Jimmy Carter offered “to help convince any reluctant Democrats in Congress” to approve the trade agreement. But Bush planned not to sign the agreement until Gorbachev opened a dialogue with the Lithuanians. He did not want to risk the political controversies.⁵³⁶

⁵³⁵ Zelikow and Rice, *Germany Unified*, 261-265; Baker, *Politics of Diplomacy*, 249; Memcon, Baker and Pavlov, Undated, Folder 15, Box 108, Subseries 8C, JAB, Princeton; Memorandum for the Record, Aid to the Soviet Union, May 29, 1990, Folder “USSR Collapse: U.S.-Soviet Relations Thru 1991 (April-May 1990) [2],” OA/ID 91118-003, U.S.-Soviet Relations Chronological Files, Scowcroft Collection, Bush Presidential Records, GBL.

⁵³⁶ Clyde H. Farnsworth, “Negotiations Concluded Over U.S.-Soviet Trade,” *New York Times*, May 29, 1990, A6; Memo, Scowcroft to Pres., Undated, and Memo, Scowcroft to Pres., May 24, 1990, Folder “POTUS Meeting with Gorbachev-May 31, 1990-June 3, 1990 [1],” OA/ID CF01308-008, Nicholas R. Burns Files, Subject File, NSC, Bush Presidential Records, GBL; Stuart Auerbach, “Soviets Granted GATT Status After U.S. Withdraws Objection,” *Washington Post*, May 17, 1990, A43; Susan F. Rasky, “U.S. Lawmakers Tie Soviet Trade Pact to Kremlin Progress on Lithuania,” *New York Times*, Jun. 3, 1990,

The Soviet leader arrived in Washington on May 31. In a White House hallway that night, Gorbachev approached Bush about signing the trade deal. “He told me that if we did not have a trade agreement, it would be a disaster,” Bush recalled. This issue would “make or break the summit for him.” Gorbachev understood that most-favored-nation status would not substantially increase U.S.-Soviet trade. The agreement, however, would serve as an important symbol of deepening bilateral cooperation, bolstering Gorbachev’s image at home. But Bush refused to sign it unless Gorbachev moved to settle the Baltic crisis peacefully. He feared signing would be too politically costly. The next day, Gorbachev defended his position on Lithuania. He accepted Lithuania’s right to self-determination but insisted Vilnius follow the legal procedures for pursuing independence. “You have chosen the Baltics over me,” Gorbachev concluded, “and let’s leave it at that.” The two leaders then continued their meeting discussing strategic nuclear weapons reduction, and, at the end of the day, they signed numerous agreements, including one to cut their stockpiles of chemical weapons and another to limit nuclear testing. In a remarkable turn of events, Gorbachev also consented to a reunified Germany joining NATO as a way to limit German military power and maintain European stability. The Soviets opposed German NATO participation for months, but Gorbachev finally recognized that the Germans should be free to choose their own alliances.⁵³⁷

10; Letter, Vanik to Pres., May 30, 1990, Folder “Chron File: May 1990-June 1990 [1],” OA/ID CF01309-001, Burns Files, Chronological File, NSC, Bush Presidential Records, GBL; Letter, Carter to Pres., May 31, 1990, Folder “Chron File: May 1990-June 1990 [2],” OA/ID CF01309-002, Burns Files, Chronological File, NSC, Bush Presidential Records, GBL.

⁵³⁷ Bush and Scowcroft, *World Transformed*, 283-284; Gorbachev, *Memoirs*, 539-540; Bush and Gorbachev, “Remarks on Signing Soviet-United States Bilateral Agreements,” Jun. 1, 1990, *Public Papers*, GBL, <https://bush41library.tamu.edu/archives/public-papers/1936> (accessed 20 June 2016).

But the summit was not over yet. On June 2, Gorbachev accompanied Bush to Camp David. After shedding their suits and ties, the two leaders continued their talks, shared jokes, and enjoyed the outdoors. Bush reconsidered his stance on the trade agreement. As the president recalled, “Given his hesitation on Germany, I wanted to try to accommodate him. I know he had to go home with something tangible.” The trade agreement was linked to the codification of an emigration law. Bush did not want to link the deal to the Baltic crisis as well. Congress would not approve an agreement, however, until the crisis was peacefully resolved. Bush and Gorbachev worked out a solution: The president would sign the deal now giving Gorbachev his symbol of cooperation. He would not send the agreement to the Hill, though, until the Soviets passed the emigration law and made progress towards resolving the Baltic crisis. Officially, most-favored-nation status remained linked to emigration, yet Gorbachev understood the agreement had no hope of congressional approval until he entered into a dialogue with Lithuanian leaders. In a press conference the next day, President Bush denied there was any linkage between most-favored-nation status and Lithuania. The Baltic crisis was “one of the thorns in the side” of the U.S.-Soviet relationship but most-favored-nation status “is hooked into the emigration law being passed. That’s it.” Gorbachev later called Bush’s decision to sign the agreement a “turning-point” in bilateral relations in which the administration went “from verbal support for our perestroika to real action.” He believed this “symbolic gesture” would have an important “political impact” on his standing in the Soviet Union.⁵³⁸

⁵³⁸ Bush and Scowcroft, *World Transformed*, 285-288; Gorbachev, *Memoirs*, 540-542, for quotation see, p. 542; Memcon, Bush and Gorbachev, Jun. 2, 1990, GBL, <https://bush41library.tamu.edu/archives/memcons->

One month later, as Western leaders gathered in Houston for the annual G7 economic summit, they were well aware of the Soviet Union's deepening economic and financial problems. To facilitate reunification, West Germany assumed all of East Germany's economic obligations to Moscow, granted the Soviets five billion deutsche marks in assistance, and promised to fund the costs of Soviet troop withdrawals from East Germany. Since May, Kohl urged his allied counterparts to meet Gorbachev's request for substantial economic aid. The Bush administration remained hesitant to lend money to Moscow. U.S. laws still prevented the disbursement of large-scale official and private aid to the Soviet Union, and President Bush thought Soviet economic reforms were ill-defined. The Soviets claimed they were moving towards a market-oriented economy, but substantial reforms remained to be planned and implemented. He did not want the United States to fund ineffective reforms, especially while Moscow continued spending a significant amount of money on its military and Third World allies. He wanted perestroika to succeed, but he did not want the West to grant Gorbachev assistance for a mere promise to institute vague reforms. The other heads of state were not as cautious as Bush, though. At the Houston G7 summit, the president had to fend off calls for an international assistance effort to save Gorbachev.⁵³⁹

Among the allied leaders, Kohl and Mitterrand were the most adamant about aiding Gorbachev. On the morning of July 9, Bush met with them individually in an

[telcons](#) (accessed 26 April 2016); "News Conference of President Bush and Mikhail Gorbachev of the Soviet Union," Jun. 3, 1990, *Public Papers*, GBL, <https://bush41library.tamu.edu/archives/public-papers/1946> (accessed 20 June 2016).

⁵³⁹ Bush and Scowcroft, *World Transformed*, 295-296; Memo, Lael Brainard to Boskin, Jun. 28, 1990, Folder "[1991]: U.S./Soviet Economic Relations," OA/ID CF01113-043, Boskin Files, Council of Economic Advisors, Staff and Office Files, Bush Presidential Records, GBL.

attempt to convince them to support a more-measured approach. The president could not dismiss the issue outright, lest Bonn, Paris, and others might funnel assistance to the Soviet Union that subsidized its military spending and inhibited real reform. Such an approach would also sacrifice allied cohesion during a crucial turning point in East-West relations. Rather, Bush proposed the G7 encourage Gorbachev to continue drafting reforms and ask the IMF to review the Soviet economic situation by the end of the year. All the while, the G7 and G24 would offer the Soviets technical assistance, as opposed to large-scale loans with little oversight. Everyone wanted Gorbachev and perestroika to succeed. “He is the best there is in the Soviet Union. I like him,” Bush told Mitterrand. A successor to Gorbachev might not be as prone to institute reforms or cooperate with the West. Yet, Bush thought “it is so difficult for Gorbachev to understand . . . the free market,” and Mitterrand suggested “the [Soviet] man in the street is even worse.” While Bush argued the West should hold back substantial assistance until Gorbachev adopted radical market reforms, Mitterrand believed they had to act to strengthen Gorbachev’s domestic position, even if that meant subsidizing ineffective reforms. Mitterrand feared a post-Gorbachev Soviet Union would return to its aggressive foreign policies. “Beyond the realm of reason and logic,” the French president said, “time may overtake us. . . . We have so little time.” Kohl expressed similar concerns to President Bush, but he had no qualms about discussing the issue over the next few months before settling on a unified position.⁵⁴⁰

⁵⁴⁰ Memo, Brainard to Boskin, Jun. 28, 1990, Folder “[1991]: U.S./Soviet Economic Relations,” OA/ID CF01113-043, Boskin Files, GBL; Memcon, Bush and Mitterrand, Jul. 9, 1990, and Memcon, Bush and Kohl, Jul. 9, 1990, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 20 June 2016).

Later that day, during the summit's opening session, Mitterrand appealed to the other Western leaders to grant Gorbachev aid. Thatcher rebutted the French president, suggesting any aid had to "be tied to conditions." The other G7 members were not as hesitant about aid as Bush and Thatcher but also not as enthusiastic as Mitterrand and Kohl. With the help of Thatcher, Bush undercut Mitterrand's pleas and convinced the other heads of state to support his proposals. In the G7 communique, the West praised Gorbachev for instituting democratic reforms and promised to provide technical assistance to the Soviet Union. They asked the IMF, World Bank, OECD, and EBRD to conduct a review of the Soviet economy, noting ways "Western economic assistance could effectively support these reforms." Lastly, the G7 stated that Soviet decisions to implement far-reaching market reforms, to shift resources away from its military, and to cut aid to Third World allies "will all improve the prospect for meaningful and sustained economic assistance." In effect, the West linked the potential of substantial economic assistance to the implementation of meaningful reform and changes in Soviet foreign policy.⁵⁴¹

The Houston Declaration came one week after a NATO declaration in which members pledge to transform the alliance from a defense pact into a political organization that reached out to the East and built foundations for a democratic and stable Europe. In a telephone call to Gorbachev on July 17, Bush said these declarations "should make clear to public opinion everywhere that the U.S.-Soviet confrontation is over, and that, working

⁵⁴¹ Memcons, Houston G7 Summit, Opening Session, Jul. 9, 1990, and First Plenary Session, Jul. 10, 1990, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 20 June 2016); G7, "Houston Economic Declaration," Jul. 11, 1990, G7 Information Centre, University of Toronto, <http://www.g8.utoronto.ca/summit/1990houston/declaration.html> (accessed 21 June 2016).

together, we'll make a peaceful post-war world." Bush may have thought the Cold War had come to an end, but vestiges of the economic Cold War, such as the Jackson-Vanik amendment remained. East and West claimed to be partners now, but the West only offered the Soviets technical economic assistance, not the large-scale bailout Gorbachev requested. Even if Gorbachev adopted radical reforms in the summer of 1990, he would not have received the requested financial assistance. The West had struggled to raise eight billion dollars for Poland and Hungary in 1989. These obligations were ongoing, and the West, especially the United States, could not afford to take on far larger aid commitments to the Soviet Union. Yet Western aid promises were not empty gestures. While offering substantial technical assistance, they began constructing aid initiatives involving limited financial help, trade benefits, and a deeper Soviet relationship with the international financial institutions. Gorbachev, however, believed the success of perestroika rested not just on his actions but also on significant Western financial help. In that same telephone conversation with President Bush, Gorbachev implied that financial aid was paramount to resolving Soviet problems. "If we have enough resources, including financial resources at this important stage in the development of a market economy—enough resources, then we could move to a market economy." If the Soviets did not receive "enough resources and financial reserves, we will have to rely more on state-regulated measures."⁵⁴²

Days after the Houston Summit, the president picked up Ambassador Matlock's latest diplomatic cable on Soviet affairs. "Looking into the Abyss," the subject line read.

⁵⁴² Bush and Scowcroft, *World Transformed*, 292-293; Telecon, Bush and Gorbachev, Jul. 17, 1990, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 20 June 2016).

The Baltic crisis challenged the legitimacy of the entire union while the “Soviets themselves are increasingly talking in apocalyptic terms.” Matlock warned there was a possibility the Soviet Union could descend into civil war or collapse into a series of successor states holding nuclear weapons in the near future. He suggested the administration push Gorbachev to continue reforms while expanding its contacts with the various Soviet republics; the United States would have to cooperate with these republics in a worst case scenario. Matlock also considered prudent the G7’s offer to aid reform through technical assistance. The Soviet Union was a vast country with “enormous resources and an educated (albeit badly trained and almost totally unmotivated) population.” The Soviets merely needed help on how to tap this potential within a market-oriented economy. Above all, the White House needed a strategy that “minimizes the probability of extreme outcomes and minimizes the risk to the U.S.” Gorbachev could survive these challenges, but “happier outcomes demand less forethought.”⁵⁴³

President Bush asked the NSC to comment on the cable, and Rice said, “The President was clearly disturbed.” Bush may have wondered whether Mitterrand was right. Were events beginning to overtake Gorbachev and the West’s ability to act? In mid-August, Scowcroft reported that the NSC found the cable to be “more alarmist than warranted,” but “its bottom line is unassailable—control is slipping rapidly out of the hands of the central authorities and most especially Gorbachev.” More and more, local Soviet authorities in the republics were taking it upon themselves to address their problems, “view[ing] Gorbachev as either unable or unwilling to take decisive steps.”

⁵⁴³ Cable, Embassy Moscow to DC, Jul. 13, 1990, Folder “USSR Collapse: U.S.-Soviet Relations Thru 1991 (July 1990),” OA/ID 91118-007, U.S.-Soviet Relations Chronological Files, Scowcroft Collection, Bush Presidential Records, GBL.

Yet, the NSC did not think the Soviet Union would disintegrate. Scowcroft said Matlock was painting an “alarmist and unrealistic picture of crazed nationalists threatening a nuclear holocaust against the United States.” Political authority was weakening in Moscow, the political center of Soviet the empire. But Gorbachev still held firm control over Soviet diplomatic and military policy. As a result, the administration could continue negotiations with him on arms reduction and regional conflicts. Even if Gorbachev fell, the West’s recent achievements—German reunification within NATO, arms control agreements, and the liberation of Eastern Europe—will “likely stand.” The NSC calmed the president’s fears.⁵⁴⁴

Over the summer of 1990, the political situation in the Soviet Union worsened, impeding Moscow’s ability to settle on an economic reform plan. After the Washington Summit, Gorbachev began talks with Lithuanian officials and lifted the embargo once the Lithuanian parliament suspended the declaration of independence. Negotiations remained stalemated, however. At the same time, the Russian Supreme Soviet declared Russian “sovereignty,” a measure short of independence that placed the republic’s laws and authority above the Soviet Union’s. The Russians no longer wanted their interests subordinated to the union. Russia wanted to negotiate a new relationship between it and the other republics, reconstituting the power structure of the Soviet Union. By the end of October, the remaining republics followed suit, desiring more control over their own affairs at the expense of the Kremlin. This political struggle between the republics and the union threatened the implementation of economic reforms. Since the Soviet Union

⁵⁴⁴ Memo, Rice to Scowcroft, Aug. 2, 1990, and Memo, Scowcroft to Pres., Aug. 18, 1990, Folder “USSR Collapse: U.S.-Soviet Relations Thru 1991 (August 1990),” OA/ID 91118-008, U.S.-Soviet Relations Chronological Files, Scowcroft Collection, Bush Presidential Records, GBL.

remained a single economic space, reforms had to be implemented throughout the union to be effective. Piecemeal reform would only undermine the system. From this point on, Gorbachev sought to negotiate a new union treaty with the republics that preserved his power to implement any economic agenda.⁵⁴⁵

Meanwhile, the Soviets still had yet to agree on how to transition to a market-oriented economy. The all-Union Supreme Soviet dismissed Ryzhkov's May economic proposal and requested a new reform program be submitted for review by September. The Russian government, under Boris Yeltsin, opposed the Kremlin's moderate reform plans, claiming a rapid transition to the market would solve Soviet economic problems. He wanted Russia to take control of its economic affairs, enhancing its sovereignty. In an effort to maintain control over the economic agenda and preserve central authority, Gorbachev suggested the union and the Russian governments jointly develop an acceptable program. Cooperation between Soviet and Russian officials fell apart, however, and each side presented its own program in September. Yeltsin endorsed a radical plan to move to a market economy within five hundred days through severe budget cuts, the privatization of state enterprises, price decontrol, and more. Opposing Yeltsin, Ryzhkov proposed gradually moving towards a market system over a few years. At Gorbachev's urging, both governments worked out a compromise plan designed to give the republics more influence in implementing reforms without undermining central authority. In mid-October, the Supreme Soviet endorsed a draft of this moderate initiative. But precise details of the plan remained to be sorted out, and the union and republics would have to negotiate a new union treaty in order to implement any initiatives

⁵⁴⁵ Matlock, *Autopsy on an Empire*, 378-382, 372-375, 390.

effectively. In general, the debate strengthened Russian sovereignty and Yeltsin's public image at the expense of Gorbachev and the Kremlin. As Gorbachev remembered, economic reform was increasingly becoming a "hostage of politics."⁵⁴⁶

The emerging struggle between the central government and republics complicated the implementation of Western technical cooperation and made large-scale financial assistance impractical. Nevertheless, President Bush pressed on with technical assistance and supported limited Western financial assistance and other measures if the Soviets settled the political situation. In Helsinki on September 9, Bush told Gorbachev, "we don't have the cash for large economic assistance" and Western companies hesitated to invest in the Soviet Union due to the political struggle between the republics and central authorities. The Soviet Union could not turn to private U.S. lenders since U.S. law barred it from receiving substantial private loans until it settled debts dating back before the 1917 communist revolution. Gorbachev promised he was working to restore political stability and begin transitioning to the market in late 1991 or early 1992.⁵⁴⁷

Later that day, a presidential mission, under Baker and Mosbacher, arrived in Moscow. Like with Eastern Europe, Bush sent the week-long mission to facilitate cooperation between Soviet agencies and American industries and to receive feedback on how U.S. technical assistance could best aid the market transition. The delegation, whose members included fifteen American business leaders, toured Moscow and Leningrad, meeting with Gorbachev, Ryzhkov, and various other Soviet officials. Lodwick Cook,

⁵⁴⁶ Gorbachev, *Memoirs*, 377-387, for quotation see, p. 387; Hanson, *Soviet Economy*, 226-228; Matlock, *Autopsy on an Empire*, 406-409.

⁵⁴⁷ Memcon, Bush and Gorbachev, Sep. 9, 1990, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 20 June 2016).

the chairman of the oil giant Arco, found it “incredible to hear words like markets, profits, capital, and stocks repeated over and over in the halls of the Kremlin.” The mission believed U.S. public and private assistance could be most effective in helping reform the Soviet energy, transportation and distribution, food processing, housing, financial services, and telecommunications sectors. In conjunction with Commerce officials, for example, American business leader could teach Soviet interns the basic management skills required to operate a private company. Investing in the Soviet Union still entailed a “substantial risk . . . at this time” and “the Soviets will have to make a profound change in their economy.” Mosbacher later said the experience “only hardened my resolve never to do any business there in the region myself.”⁵⁴⁸

His assessment to the president was more positive, however, and after returning from the Soviet Union, Mosbacher and Yeutter pushed the president to waive the Jackson-Vanik amendment in order to grant the Soviets export credits for the purchase of U.S. grains. Since the Soviet Union had not yet passed the emigration law, they argued Bush should still withhold most-favored-nation status. Waiving the amendment permitted the Export-Import Bank to issue up to \$300 million in credit guarantees, boosting U.S. agricultural sales and helping the Soviets overcome recent food shortages. Even though the NSC and the Departments of State and Treasury opposed the proposal, Bush issued a six-month waiver on December 12.⁵⁴⁹

⁵⁴⁸ Report of the Presidential Business Development Mission to the U.S.S.R., Sept. 9-14, 1990, Folder “USSR-Economic Affairs,” OA/ID CF01487-008, Burns Files, Subject Files, NSC, Bush Presidential Records, GBL; Robert A. Mosbacher, Sr., *Going to Windward* (College Station: Texas A&M University Press, 2010), 235, 238.

⁵⁴⁹ Jackson-Vanik Options Paper, Oct. 18, 1990, Folder “USSR Collapse: U.S.-Soviet Relations Thru 1991 (October 1990),” OA/ID 91119-001, U.S.-Soviet Relations Chronological Files, Scowcroft Collection, Bush Presidential Records, GBL; “White House Fact Sheet on the Waiver of the Jackson-Vanik

The president enacted the waiver just as the conclusions of the IMF-led study of the Soviet economy were released to the public. With the Soviet Union's mounting budget deficits, debts, negative balance of payments, supply shortages, and inflationary pressures, the command economy was on an irreversible path of decline. Analysts argued Moscow could not return to central planning. The only "viable option" was to transition to a market economy as soon as possible. The study found Soviet reform initiatives to date to be too conservative and "advocat[ed] the more radical approach." Gradual reforms would only drag out a grueling transition and inhibit the development of an effective market system. The Soviet Union had to overcome vested bureaucratic interests in the old system to achieve financial and macroeconomic stabilization. Doing so required de-controlling prices and liberalizing trade policies to join the international economy. Most of all, Moscow had to build the legal foundations for private enterprise, including the right of private property. The group advised the Soviets to maintain a social safety net in order to help people through the unpreventable production decline and rise in unemployment.⁵⁵⁰

To aid reform, the study recommended Western private sector groups, with the support of Western governments, assist Soviet authorities in designing new policies and institutions and training a new workforce. Western expertise could help the Soviets analyze statistical information, build management skills among workers, and craft laws and regulations. Lastly, the West could offer humanitarian relief to Soviet citizens,

Amendment," Dec. 12, 1990, *Public Papers*, GBL, <https://bush41library.tamu.edu/archives/public-papers/2550> (accessed 23 June 2016).

⁵⁵⁰ IMF, World Bank, OECD, and EBRD, *The Economy of the USSR: Summary and Recommendations* (Washington, DC: The World Bank, 1990), 2, 19.

helping them weather the struggles ahead.⁵⁵¹ In essence, the IMF-led study vindicated the technical assistance approach President Bush proposed during the Houston Summit. At best, Western bailout of the Soviet Union would only keep the old system afloat and inhibit meaningful reforms. Due to their ill-defined reforms and precarious political situation, the Soviets would likely squander any financial assistance. The West would be throwing taxpayer money away. Rather, the United States and its allies had to encourage and assist the Soviets in implementing market reforms. In other words, the West had to help the Soviets help themselves. In light of the IMF-led report, the Bush administration prepared a more detailed technical assistance package to present to the Soviet Union and U.S. allies. In the short term, the United States sought to address immediate humanitarian needs through emergency medical and food aid. In the long term, policymakers suggested the West expand technical cooperation efforts, possibly by granting the Soviet Union special associate status in the IMF and World Bank. The Soviets would not be permitted to borrow money from these institutions, but the special status would permit the IMF and World Bank to cooperate with Soviet officials on financial and economic measures.⁵⁵²

Meanwhile the Soviet political crisis deepened. In a remarkable show of cooperation, the United States and Soviet Union opposed the Iraqi invasion of Kuwait in August 1990. Iraq had been an ally of the Soviet Union. Now the superpowers condemned the aggression, and Baker and Shevardnadze worked together to secure United Nations resolutions demanding an Iraqi withdrawal and authorizing the use of

⁵⁵¹ IMF, World Bank, OECD, and EBRD, *The Economy of the USSR: Summary and Recommendations* (Washington, DC: The World Bank, 1990), 47-49.

⁵⁵² Memo, Baker to Pres., Dec. 7, 1990, Folder "USSR Collapse: U.S.-Soviet Relations Thru 1991 (December 1990)," OA/ID 91119-003, U.S.-Soviet Relations Chronological Files, Scowcroft Collection, Bush Presidential Records, GBL.

military force if necessary. The Bush administration organized an international coalition that launched a brief war, expelling Iraqi forces from Kuwait in January and February 1991. But in December 1990, during the lead up to military action, some Soviet conservatives opposed the use of U.S.-led force against a former ally in a strategic region of the Middle East. Seeking to maintain his political authority at home, Gorbachev took these views into consideration and attempted to broker a peaceful resolution at the last-minute, despite the Iraqi leadership's clear refusal to negotiate. Frustrated by conservative interference in foreign policy, Shevardnadze unexpectedly resigned on December 20. He feared Gorbachev was moving too close to these conservatives, jeopardizing U.S.-Soviet cooperation and perestroika. "Comrade democrats," he declared in his resignation speech, "you have run away. . . . A dictatorship is coming." Shevardnadze had been instrumental in working with Shultz and Baker to improve U.S.-Soviet relations. The resignation "alarmed" President Bush, and Scowcroft feared Gorbachev was now "vulnerable to the conservatives" with "no telling what the implications would be for foreign policy."⁵⁵³

The next month, Pavlov replaced Ryzhkov, who suffered a massive heart attack, as Prime Minister, and violent confrontations took place in Vilnius. Protests against planned price increases weakened political authority in Lithuania. Seeking to exploit this weakness, Gorbachev sent military troops into Lithuania and demanded Vilnius rescind the declaration of independence. The confrontation turned deadly as Soviet troops fired

⁵⁵³ Wilson, *Triumph of Improvisation*, 188-196; Oberdorfer, *Cold War to a New Era*, 442-445; Shevardnadze quoted in Matlock, *Autopsy on an Empire*, 429; Bush and Scowcroft, *World Transformed*, 430, 431.

on civilians, injuring hundreds and killing fifteen.⁵⁵⁴ Disturbed, Bush wrote Gorbachev on January 23, reminding the Soviet leader about the deal they reached at the Washington Summit. “I honored your personal request and signed the Trade Agreement in spite of the economic blockade” on Lithuania while “you gave me assurances that you would take steps to settle peacefully all differences with the Baltic leaders.” Since then, Bush even waived the Jackson-Vanik amendment, expanding economic cooperation. “I cannot in good conscience, and indeed, will not continue along this path,” Bush warned. The use of force in Vilnius was unacceptable, and Bush sought to use the prospect of deepening economic relations as leverage to resolve the crisis. If Gorbachev did not reverse course, the president threatened to “freeze” the U.S.-Soviet economic relationship by ending Soviet export credits and credit guarantees, technical assistance cooperation, and support for Soviet special associate status with the IMF and World Bank. “No one wishes to see the disintegration of the Soviet Union.” Bush concluded, “But Mikhail, I cannot help but recall that you, yourself, told me that you personally could not sanction the use of force in the Baltic states because it would mean the end of perestroika.”⁵⁵⁵

The violence in Lithuania exacerbated tensions between the Soviet center and republics. Yeltsin, for example, supported the Baltic States, fearing Soviet authorities would make a similar assault on the Russian sovereignty. In the face of these separatist tendencies, the Soviet people voted overwhelmingly, in a March referendum, for negotiating a new treaty preserving the union.⁵⁵⁶ The Bush administration observed these

⁵⁵⁴ Gorbachev, *Memoirs*, 391; Matlock, *Autopsy on an Empire*, 449-450; Oberdorfer, *Cold War to a New Era*, 444.

⁵⁵⁵ Letter, Bush to Gorbachev, Jan. 23, 1991, Folder 9, Box 109, Subseries 8C, JAB, Princeton.

⁵⁵⁶ Gorbachev, *Memoirs*, 576-594; Oberdorfer, *Cold War to a New Era*, 444-445.

events with trepidation. “Whatever the fate of the union,” wrote NSC staffer Ed Hewett, “the economy is heading for stagflation.” The Soviet political crisis kept economic reform at a standstill. Strikes and protests were spreading while government “confusion and ineptitude . . . leaves large enterprises with tremendous freedom of action.” Criminal elements and former party officials were beginning to seize economic enterprises for their own enrichment. The growing political and economic chaos, Hewett argued, meant “any *politically* feasible economic package will most likely be *economically* infeasible.” Scowcroft found the staffer’s analysis “very interesting,” and these chaotic developments highlighted the West’s inability to affect affairs within the Soviet Union in any fundamental way.⁵⁵⁷

All the while, Moscow remained committed to arresting economic decline through a mix of limited liberalization and strong administrative controls. On April 22, Pavlov unveiled his “Anti-Crisis” economic package before the Supreme Soviet. The prime minister claimed the plan was a “third variant” between the old command system and free markets. The program entailed limited price liberalization in 1991 with rapid decontrol throughout 1992. At the same time, central authorities would cut budgets drastically, gradually deregulate some state enterprises, and attack inflation. Yet, the program also sought to use strong government actions to maintain economic stability. For instance, Pavlov proposed cracking down on black market activity, banning strikes to maintain worker discipline, and suspending any laws in the republics that contradicted

⁵⁵⁷ Memo, Ed A. Hewett to Scowcroft, Apr. 9, 1991, Folder “USSR Collapse: U.S.-Soviet Relations Thru 1991 (March-May 1991),” OA/ID 91119-005, U.S.-Soviet Relations Chronological Files, Scowcroft Collection, Bush Presidential Records, GBL.

Soviet laws. In general, the Anti-Crisis program was a continuation of the moderate reform approach endorsed by the Supreme Soviet in October 1990.⁵⁵⁸

The latest Soviet plans failed to impress the Bush administration. In a telephone conversation with Gorbachev on May 11, President Bush said, “In the spirit of frankness, our experts don’t believe Pavlov’s anti-crisis program will move you fast enough to market reform.” Once again, Bush urged the Soviets to speed up the pace of reform, promising the United States and the international financial organizations could then do more to help. He reiterated support for the Soviet Union joining the IMF and World Bank as a special associate and pledged to send the trade agreement to Congress once the Soviets codified the emigration law. If the Soviets developed sound economic measures to abolish central planning and unleash free enterprise, Bush was prepared to help. Gorbachev understood Bush’s concerns but countered that the Anti-Crisis program was the only politically feasible reform agenda. Gorbachev was counting on the United States and its allies to assist its implementation and decided to send two aides, Yevgeny Primakov and Grigory Yavlinsky, to Washington to discuss reforms as well as potential G7 support.⁵⁵⁹

The White House was intrigued to learn Yavlinsky was participating in the Soviet economic policymaking. He was a former deputy prime minister in the Russian government and coauthored the radical 500-day market reform program in 1990. After Moscow rejected the plan, Yavlinsky worked with Harvard political scientist Graham

⁵⁵⁸ Serge Schmemmann, “Kremlin Offers ‘Anti-Crisis’ Plan, to No Applause,” *New York Times*, Apr. 23, 1991, A7; Hanson, *Soviet Economy*, 233; Beschloss and Talbott, *At the Highest Levels*, 383-384

⁵⁵⁹ Telecon, Bush and Gorbachev, May 11, 1991, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 20 June 2016).

Allison to promote the idea of a “grand bargain” between the Soviet Union and international community. Under the grand bargain, Moscow would institute sweeping measures to decontrol the economy and foster private enterprises while the West provided humanitarian aid, technical cooperation, and large-scale financing. Allison and Yavlinsky estimated reform to cost around twenty billion dollars annually for three years. Harvard economist Jeffrey Sachs put the price tag much higher at \$300 billion total. The Bush administration thought the grand bargain was ludicrous. The United States and international community could never find \$60 billion, let alone \$300, to finance Soviet reforms. The allies struggled to raise one billion dollars for the Polish stabilization fund in 1989. Yet, Bush and his advisors were glad Gorbachev was consulting Yavlinsky, a man clearly dedicated to radical reform. Primakov, however, was Yavlinsky’s superior and a conservative supporter of the Anti-Crisis program. While preparing for the Soviet visit, the administration decided to encourage Primakov to embrace Yavlinsky’s radical agenda.⁵⁶⁰

The Soviet delegation arrived in late May. The administration expected Primakov to request a grand bargain: U.S. and international aid to finance the Anti-Crisis program. U.S. officials told Primakov they had no faith in the Anti-Crisis plan since it relied on administrative controls to impose a heavily regulated market system. The Soviets had to abandon such methods entirely, freeing private initiative. Yavlinsky agreed, stating that Moscow had to end price controls and pursue “aggressive privatization” to build a market system. Afterwards Primakov told Zoellick that Yavlinsky’s views did not represent

⁵⁶⁰ Memo, Hewett to Scowcroft, Jun. 17, 1991, Folder “USSR Chron File: June 1991 [1],” OA/ID CF01407-004, Nicholas R. Burns and Ed Hewett Files, Chronological File, NSC, Bush Presidential Records, GBL; Beschloss and Talbott, *At the Highest Levels*, 381-386; Baker, *Politics of Diplomacy*, 478.

official policy and, in a meeting with Baker, maintained the Soviet plan would arrest economic decline and transition smoothly to the market. In his meeting with President Bush, Primakov stressed the need for “large-scale assistance,” saying it was “taking on strategic importance.” But Bush explained the United States could not offer aid unless the Soviets presented a sound reform agenda. “I have to be able to go to our Treasury and the IMF and present something which is economically feasible,” the president said.⁵⁶¹

Throughout the Soviet visit, the administration prodded Primakov to embrace Yavlinsky’s ideas. But the president, himself, undermined this effort when reporters asked about the meetings. He said, “I was very impressed with Mr. Primakov’s presentation. . . . I liked what I heard.” He clarified that he was still reviewing U.S. policy options but the statement, nonetheless, sounded like an endorsement of the Anti-Crisis plan. After another reporter pointed out that Baker did not think the plan went “far enough,” Bush replied, “I have great respect for Jim Baker’s views, and I don’t know what that means.” Bush feared that public criticisms of Gorbachev and his reforms would undermine the Soviet leader and strengthen reactionary elements within the Soviet Union. Rather than retract his initial comments, the president unintentionally undermined Baker’s valid criticisms of Soviet reforms. Primakov left the White House believing President Bush supported the Anti-Crisis plan. Days later, Baker said this “parting boost” caused “confusion” among the Soviets, especially Yavlinsky. Gorbachev was attending the London G7 Summit, July 15-17, to review his reform agenda and request G7 financial

⁵⁶¹ Beschloss and Talbott, *At the Highest Levels*, 386-390, Primakov and Yavlinsky quoted from p. 387; Baker’s Talking Points for Primakov Meeting, May 28, 1991, Folder 3, Box 110, Subseries 8C, JAB, Princeton; Memcon, Bush and Primakov, May 31, 1991, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 20 June 2016).

support. In light of recent U.S.-Soviet discussions, Gorbachev chose to revise the Anti-Crisis plan, hoping mild changes would elicit international support. He refused to scrap the program entirely as the Bush administration and Yavlinsky advised.⁵⁶²

Meanwhile, on June 3, the principal members of the NSC discussed policy recommendations for the president. Unless Gorbachev embraced a rapid, radical transition to a free market economy, the United States would not offer any support. The NSC worried, however, that Gorbachev would propose a grand bargain at the G7 summit, and U.S. allies, eager to help the extraordinary Soviet leader, would grant large-scale financing for Soviet promises to implement ill-defined reforms. Baker explained that \$250 billion or more of aid might be “politically unrealistic,” but Gorbachev could secure lesser amounts that allowed the Soviets to maintain high defense spending, central economic controls, and support for Third World allies. The primary U.S. task was to make sure the Soviets initiated meaningful market reforms before the West granted financial aid. This approach would not only ensure the Soviets pursued effective measures but also end the Soviet military threat. “If the Soviets go to a market system,” Baker maintained, “then they can’t afford a large defense establishment. A real reform program would turn them into a third-rate [military] power, which is what we want.”⁵⁶³

⁵⁶² Bush, “Exchange with Reporters on Soviet-United States Relations,” May 31, 1991, *Public Papers*, GBL, <https://bush41library.tamu.edu/archives/public-papers/3044> (accessed 24 June 2016); Beschloss and Talbott, *At the Highest Levels*, 389-390; Baker’s Notes for NSC Principals Meeting on U.S. Economic Relationship with the USSR, Jun. 3, 1991, Folder 4, Box 110, Subseries 8C, JAB, Princeton; Cable, Embassy Moscow to DC, Jul. 8, 1991, Folder “G-7,” OA/ID CF01486-026, Burns and Hewett Files, Subject Files, NSC, Bush Presidential Records, GBL.

⁵⁶³ NSC Meeting Minutes, Jun. 3, 1991, Folder “USSR Chron File: June 1991 [1],” OA/ID CF01407-004, Burns and Hewett Files, Chronological File, NSC, Bush Presidential Records, GBL; Baker’s Notes for NSC Principals Meeting on U.S. Economic Relationship with the USSR, Jun. 3, 1991, Folder 4, Box 110, Subseries 8C, JAB, Princeton.

But rejecting the grand bargain outright would undermine U.S. claims it wanted to help Soviet reform and allow Soviet reactionaries to paint the United States as an enemy, further undermining Gorbachev's position. In order to move the Soviets in the desired direction, the NSC reviewed the U.S. assistance package involving technical cooperation, aid in converting Soviet defense industries to consumer goods, credit and credit guarantees, and a Soviet relationship with the IMF and World Bank. The Supreme Soviet codified an emigration law in late May. Officials now thought it was also time for Bush to submit the trade agreement to Congress and seek legislation repealing restrictions on granting substantial credits to the Soviet Union. But the United States would only institute these measures, apart from ratifying the trade agreement, if Gorbachev abandoned the Anti-Crisis program for radical initiatives.⁵⁶⁴ Ahead of the summit, U.S. officials told the Soviets not to expect the West to unveil a substantial aid package at the summit. The heads of state would only consult with Gorbachev about the economic plan and potential future aid. On June 21, Bush promised Gorbachev, "We won't blindside you." In order to avoid embarrassing the Soviet leader, Bush pledged to let him know "what the Europeans are thinking" before he met with the G7.⁵⁶⁵

Days before the summit, Gorbachev wrote the leaders of the G7. Despite "putting an end to the Cold War," Gorbachev claimed, "the sphere of economic relations has seen

⁵⁶⁴ NSC Meeting Minutes, Jun. 3, 1991, Folder "USSR Chron File: June 1991 [1]," OA/ID CF01407-004, GBL; Baker's Notes for NSC Principals Meeting, Jun. 3, 1991, Princeton; "Trade Barriers Lifted for Soviets, Bulgaria and Mongolia, with Baltic States Approved for Most-Favored Nation Status," in *CQ Almanac 1991*, 47th ed., 125-27 (Washington, DC: Congressional Quarterly, 1992), <http://library.cqpress.com/cqalmanac/cqal91-1110110> (accessed 13 October 2015); Memo, Scowcroft to Bush, Jun. 13, 1991 and Paper, "The U.S. Response to the New Soviet Pluralism," Undated, Folder "USSR Chron File: June 1991 [1]," OA/ID CF01407-004, Burns and Hewett Files, GBL.

⁵⁶⁵ Bush and Scowcroft, *World Transformed*, 503; Beschloss and Talbott, *At the Highest Levels*, 406-407; Telecon, Bush and Gorbachev, Jun. 21, 1991, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 20 June 2016).

no noticeable change.” He believed it was time to have the “Soviet economy organically integrated in the world economic system” through trade barrier reductions, private investment, and full Soviet participation in the international financial institutions. As leader of the Soviet Union, Gorbachev had taken remarkable steps to promote democracy, human rights, and peaceful international relations. Between 1988 and 1991, Gorbachev said, Soviet arms procurement dropped twenty-nine percent in real terms. Now he was prepared to introduce “radical economic reform.” Over the next two years, he intended to implement a revised Anti-Crisis program aimed at stabilizing the economy and transitioning to a regulated market system. The plan involved privatizing eighty percent of retail outlets and public services, cutting budget subsidies, and liberalizing the majority of prices while making the ruble a convertible currency. He wanted G7 assistance on tackling Soviet debt problems and achieving financial stability.⁵⁶⁶

G7 members remained committed to offering the Soviet Union technical assistance. The EC recently approved a \$530 million technical cooperation deal. U.S. officials and business leaders traveled to Moscow, consulting with Soviet officials on economic policies. Bush also credited Moscow \$1.5 billion to purchase U.S. agricultural products.⁵⁶⁷ At the London economic summit, the heads of state held a session before meeting with Gorbachev and concluded that any assistance beyond these measures required deeper Soviet reforms. The revised Anti-Crisis program remained insufficient. None of them wanted instability in the Soviet Union and sought to integrate the former

⁵⁶⁶ Letter, Gorbachev to G7 Heads of State, Jul. 11, 1991, Folder “USSR/Summit [1],” OA/ID CF00756-013, Lundsager Files, Subject Files, NSC, Bush Presidential Records, GBL.

⁵⁶⁷ State Department Briefing Paper, “Soviet Union: Economic Outlook, Status of Reforms, and Support Measures,” Undated, Folder “G-7,” OA/ID CF01486-026, Burns and Hewett Files, Subject Files, NSC, Bush Presidential Records, GBL.

enemy into the global economy. In the opening session, Bush maintained the West “cannot write out checks or give money until the reforms that have been talked about are implemented.” His counterparts concurred. Kohl, for example, said, “Help should be oriented to self-help. The USSR must establish the basics.” British Chancellor of the Exchequer Norman Stewart Hughson Lamont summarized their collective position on the second day of the summit: “We’ve all felt the reform plans lacked details and credibility. Under these circumstances, there could be no financial assistance.” The leaders decided they could not offer any substantial aid, such as a stabilization fund, until Gorbachev settled the struggle between the central government and the republics, committed to “drastic reductions of military expenditures,” and built the institutional foundations for private enterprise.⁵⁶⁸

On July 17, before Gorbachev met with all the heads of state, Bush informed the Soviet leader that market reforms were a prerequisite for any substantial assistance beyond technical cooperation. Agitated, Gorbachev found it “strange” that the West found “\$100 billion for regional war [in the Middle East], but none to make a Soviet Union a new country.” He believed he was taking the measures the West wanted to see and thought “reciprocating steps” were warranted. “What kind of Soviet Union does the US want to see?” Gorbachev asked. Bush replied, “We seek a democratic, market-oriented Soviet Union, integrated into the world economy, having found resolution of the problems between the center and republics. The latter is essential for capital flows.” The United States and Soviet Union were no longer enemies, but the Soviet Union’s

⁵⁶⁸ Memcon, G7 London Opening Session, Jul. 15, 1991 and Memcon, G7 London Second Plenary Session, Jul. 16, 1991, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 20 June 2016).

precarious political situation and vague reform plans made substantial aid imprudent. On numerous occasions, Bush told Gorbachev that the large-scale financial assistance he requested was not politically or economically feasible. But if Gorbachev adopted a clear agenda to create a market economy, the West offered continued technical cooperation, limited financial aid, trade benefits, and a deeper Soviet relationship with the international financial institutions.⁵⁶⁹

Afterwards, Gorbachev made his presentation to the G7 leaders. In April, nine Soviet republics agreed to negotiate a new union treaty; the remaining six republics were moving towards independence. With negotiations almost complete, Gorbachev claimed relations between the central government and the republics were improving. Businesses could begin investing in the Soviet Union. But the economic program appeared short on details, and the Western leaders prodded him for clarifications. “We’re radicalizing economic reforms,” he maintained, then disclosed plans to decontrol only seventy percent of prices. In one revealing statement, Gorbachev said, “We’re in transition from centralized demand to economic regulation of business.” The G7 leaders questioned whether the Soviets sought to build a free market system like their own or a system of state capitalism that preserved large-scale government intervention in the economy.⁵⁷⁰

Bush and Canadian Prime Minister Brian Mulroney urged the Soviet leader to eliminate bureaucratic hurdles to foreign investment while Jacques Delors, EC President, challenged Gorbachev about the union treaty. “Will the center levy direct taxes, or rely

⁵⁶⁹ Memcon, Bush and Gorbachev, Jul. 17, 1991, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 20 June 2016).

⁵⁷⁰ Memcon, Gorbachev and G7 Heads of State, London Summit, Jul. 17, 1991, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 20 June 2016); Plokhy, *Last Empire*, 40-41.

on republic assurances of revenues. . . . Will Ukraine issue its own currency?,” he asked. Gorbachev did not provide an answer and instead spoke about the Soviet Union’s need to join the international financial institutions as a full member. “If we’re not admitted . . . it won’t work. We need them to provide oxygen to breathe,” the Soviet leader pleaded. The West supported special associate status for the Soviets but did not think it was prepared for the obligations of full membership. As the questioning continued, Bush worried the heads of state “put Gorbachev on the spot with a hail of questions on his reform measures—delivered in lecturing tones.” Gorbachev appeared not to mind, though. He did not secure a grand bargain but thought he obtained a “fundamental political agreement about the integration of our country in the world economy.”⁵⁷¹ But the West supported Soviet integration into the global economy since 1989. They were merely waiting on Gorbachev to settle the political situation and institute market reforms.

About two weeks after the London Summit, Bush flew to Moscow to sign the Strategic Arms Reduction Treaty (START), significantly cutting the U.S. and Soviet strategic nuclear arsenals. While there, Gorbachev made another plea for Western assistance. He asked Bush to have U.S. and Soviet officials re-examine “membership [for the USSR] in the IMF. I have big problems in the next 1-2 years. Call us what you like—‘associate members,’ ‘half associate members.’ It is important for us to *use* that fund.” The President responded, “Associate membership is not an effort to put down the USSR,” but the West did not believe the Soviets were prepared for the “burdens of full membership.” Under this special relationship, Moscow had access to limitless technical

⁵⁷¹ Memcon, Gorbachev and G7 Heads of State, London Summit, Jul. 17, 1991; Bush and Scowcroft, *World Transformed*, 507, Gorbachev, *Memoirs*, 617.

assistance and, potentially, financial aid as long as the Soviets adopted sound reforms. Despite failing to obtain the desired financial assistance, Gorbachev's political situation appeared to be improving. Before the president arrived, Gorbachev and the leaders of the republics announced plans to sign a new union treaty on August 20. Under the new structure, the republics would have more control over their economic policies while the Kremlin remained in charge of military and national security matters. The central government would be weaker, of course, but it appeared the union would hold together.⁵⁷² Bush did not want the Soviet Union to disintegrate, and he believed the plans to sign the new union treaty meant the Soviet political crisis was passing.

But the Soviet Union would disintegrate before the end of 1991. On August 19, while Gorbachev was on vacation, conservative opponents of perestroika and the new union treaty declared a state of emergency, claiming the general secretary was in poor health. Pavlov was among the conspirators whose members included KGB Chief Vladimir Kriuchkov, Interior Minister Boris Pugo, Defense Minister Dimitri Yazov, and Vice President Gennadii Yanaev. At the request of republican leaders, Gorbachev planned to replace these officials with reformers. The conspirators hastily acted to protect their power and undermine the new union. They held Gorbachev hostage in his Crimean villa and asked him to transfer power to a temporary committee that would crack down on dissent and reassert the power of the Kremlin. Gorbachev refused, and Yeltsin denounced the coup d'état, urging the Soviet people to protest against the plotters. Before the end of the day, Yeltsin and his supporters occupied a Russian government building,

⁵⁷² Memcon, Bush and Gorbachev, Jul. 30, 1991, GBL, <https://bush41library.tamu.edu/archives/memcons-telcons> (accessed 20 June 2016); Bush and Scowcroft, *World Transformed*, 510-517; Plokhy, *Last Empire*, 40-41, Ch. 3.

surrounded by the Soviet military. Everyone was surprised by the attempted coup. President Bush cautiously called the power grab an “extra-constitutional” action. He did not want to denounce the perpetrators, fearing he would have to work with them if they succeeded. But over the next two days, the attempted takeover collapsed. Faced with mass demonstrations and soldiers turning against the coup, the conspirators freed Gorbachev and ended the state of emergency.⁵⁷³

The attempted coup radically transformed the political situation within the Soviet Union. Yeltsin, with mass popular support, was now the most powerful political figure in the nation. Gorbachev was possibly the weakest. The Soviet people viewed the general secretary as an ineffective leader at best or a co-conspirator in the coup at worst. Yeltsin outlawed the Russian Communist Party, pressured Gorbachev to appoint new ministers, and asserted Russian control over Soviet government institutions. Yeltsin recognized Baltic independence and diminished Gorbachev’s power. While Yeltsin expanded Russian power, the Ukrainians opted for freedom. On August 24, the Ukrainian parliament overwhelmingly voted to declare independence. Before the putsch, the struggle between the Kremlin and the republics appeared resolved. Yeltsin’s actions and Ukrainian independence re-opened the issue. After Russia, Ukraine was the Soviet Union’s most populous and economically powerful republic. As historian Serhii Plokhy explains, “Neither Gorbachev nor Yeltsin imagined a viable Union without Ukraine.” The remaining republics depended on subsidies and resources from the central

⁵⁷³ Plokhy, *Last Empire*, Chs. 4-6; Bush, “Remarks and an Exchange with Reporters in Kennebunkport, Maine, on the Attempted Coup in the Soviet Union,” Aug. 19, 1991, *Public Papers*, GBL, <https://bush41library.tamu.edu/archives/public-papers/3314> (accessed 27 June 2016); Bush and Scowcroft, *World Transformed*, 521.

government. Russia had no interest in bearing these costs alone. In a referendum on December 1, more than ninety percent of Ukrainian voters supported independence. Between August and the December referendum, both Yeltsin and Gorbachev tried to convince Ukrainian leaders to remain in the union or at least maintain the single economic space through a new economic relationship. The Ukrainians were not interested. As a result, Yeltsin, Ukrainian leader Leonid Kravchuk, and Belarusian leader Stanislav Shushkevich decided to dissolve the Soviet Union days after the referendum. On Christmas Day, Gorbachev delivered a televised address to the Soviet public, announcing his resignation. The Soviet Union was no more.⁵⁷⁴

That same holiday evening, President Bush addressed the nation from the Oval Office, proclaiming “a victory for the moral force of our values” in the Cold War. “You and I have witnessed one of the greatest dramas of the 20th century,” he explained, “the historic and revolutionary transformation of a totalitarian dictatorship, the Soviet Union, and the liberation of its people.” The specter of nuclear destruction was diminishing, Eastern Europe was free, and the United States embraced its former enemies as friends. After the failed coup, the Bush administration watched powerlessly as the Soviet Union descended further into political and economic chaos. By mid-September, the Soviet economy was in a “serious freefall,” as Brady stated. Bush and his advisors expressed support for continued negotiations between the Kremlin and republics, hoping an agreement would maintain the union. The administration recognized, however, that the United States had a limited ability to shape the outcome of the Soviet crisis. The NSC maintained that it was not “useful for the U.S. to pretend that we can play a major role in

⁵⁷⁴ Plochy, *Last Empire*, Chs. 7-8, 18, and pp. 292, 303-316, for quotation see p. 399.

determining the outcome of the current debate. The Soviets will define their own future and we ought to resist the temptation to react to . . . each development in this rapidly changing situation.” Throughout this crisis, the West continued its technical cooperation and humanitarian assistance efforts. Large-scale financial aid remained off the table. In late November, Congress approved the U.S.-Soviet trade agreement, granting the Soviet Union most-favored-nation status and symbolizing the normalization of the economic relationship. Most-favored-nation status removed the last vestige of the economic Cold War. Congress also approved \$500 million to assist the dismantling of Soviet nuclear weapons and provide humanitarian relief. After the Soviet Union disintegrated, this aid went to the successor states.⁵⁷⁵

Conclusion

President Bush built on the breakthroughs achieved in U.S.-Soviet relations under his predecessor and worked with Gorbachev to end the Cold War peacefully. After pausing rapprochement for a brief national security review, Bush seized the initiative by unveiling proposals to move “beyond containment” and welcome a reformed Soviet Union into the community of nations. Economic strategies and policies played a vital role in furthering this agenda. In response to Soviet human rights progress, Bush waived the Jackson-Vanik amendment and signed a new trade agreement granting the Soviet Union

⁵⁷⁵ Bush, “Address to the Nation on the Commonwealth of Independent States,” Dec. 25, 1991, *Public Papers*, GBL, <https://bush41library.tamu.edu/archives/public-papers/3791> (accessed 27 June 2016); Memo, Brady to Pres., Sep. 21, 1991 and Memo with attached Cabinet Meeting Talking Points, Phillip Brady to William F. Sittmann, Sep. 4, 1991, Folder “USSR Chron File: September 1991,” OA/ID CF01407-009, Burns and Hewett Files, Chronological File, NSC, Bush Presidential Records, GBL; “Trade Barriers Lifted for Soviets,” *CQ Almanac 1991*; “\$500 Million Approved for Soviet Aid,” in *CQ Almanac 1991*, 47th ed., 463-70, <http://library.cqpress.com/cqalmanac/cqal91-1111085> (accessed 29 April 2016).

most-favored-nation status. For the first time since the 1970s, these actions enjoyed widespread public support and symbolized an end to the economic Cold War.

But the Bush administration's response to the Soviet economic crisis, perhaps more than anything else, showed the U.S.-Soviet relationship had moved from confrontation to cooperation. As the Soviet economic and political situation deteriorated, Gorbachev pleaded for Soviet membership in the international financial institutions and significant sums of money. Hardline Cold Warriors of the early Reagan administration had dreamed of such a moment in which they could demand an end to communism in return for financial largesse. President Bush chose a less hostile option. He candidly told Gorbachev the United States did not have the resources to grant the Soviets significant financial aid and, in the absence of sound economic reforms, such financial assistance would only prop up an inefficient system that centralized economic control and spent too much on armaments. The political struggle between the Soviet central government and republics also meant any Western aid would be squandered. Instead, Bush offered the Soviets extensive technical cooperation and food aid while promising limited financial assistance, trade benefits, and membership in the international financial institutions if Gorbachev instituted sound economic reforms. He convinced the G7 leaders to follow his lead at the Houston Summit, maintaining allied unity. Throughout these discussions, Bush treated Gorbachev as an equal and, more importantly, an international partner. If Gorbachev stabilized the political situation and instituted radical, market-oriented reforms, Bush was prepared to organize a multilateral effort to aid Soviet economic reform.

These proposed measures were not what Gorbachev requested, but he had no reason to doubt the West was acting in good faith. The United States and its allies demonstrated their willingness to help former communist enemies transition to democracy and market-oriented economies in Eastern Europe. The sudden triumph of democracy in Eastern Europe and collapse of the Berlin Wall stunned the world. The dramatic developments had the potential to upset East-West cooperation and produce violence throughout the region. The West feared Moscow would not let this vital security region slip from Soviet control peacefully. Bush refused to propagandize the collapse of Soviet power in the region and engaged Gorbachev about managing these developments in the interest of stability. Thankfully, Gorbachev, unlike past Soviet leaders, viewed democratic reform as compatible with Soviet interests.

At the same time, the Bush administration initiated efforts to help these newly democratic nations institutionalize democracy and transition towards a market system. Mounting budget deficits meant the United States could not create a Marshall Plan for Eastern Europe, despite the wishes of the region. To overcome the limits imposed by debts and deficits, the Bush administration launched a multilateral aid effort, culminating in the G24 aid initiatives. G24 members encouraged private groups to invest in the region, aid the formulation of economic reforms, train a new workforce, and foster private enterprise. The West also offered targeted debt relief and financial assistance to help stabilize the reforming economies. As a part of this effort, President Bush established Enterprise Funds for Poland and Hungary and funded job training, infrastructure development, environmental cleanup, education, and more. In cooperation

with U.S. allies, the administration also spearheaded an unprecedented restructuring of the strategic embargo, allowing Eastern Europe limitless access to sophisticated goods and technologies.

All of this assistance only materialized once the East European nations demonstrated intentions to pursue meaningful economic reform. Bush offered Gorbachev the same deal, but Gorbachev refused. The president did not want to see the Soviet Union collapse, but, in the end, the administration could not shape events on the ground in Eastern Europe and the Soviet Union. The president recognized the peoples of those regions had to determine their own destinies. But when appropriate, Bush used the economic tools of statecraft to reinforce movements towards democracy and free enterprise. These actions complemented a multitude of other U.S. initiatives like arms control, summitry, and public diplomacy, helping to settle the Cold War on terms favorable to U.S. interests.

CONCLUSION

Americans thought the collapse of communism heralded the triumph of free enterprise and liberal democracy. Communism was discredited as an alternative model of socio-economic development, and a consensus reigned that market capitalism, democracy, and freedom were inseparable. President George W. Bush's 2002 national security strategy declared that the end of the Cold War marked a "decisive victory for the forces of freedom—and a single sustainable model for national success: freedom, democracy, and free enterprise." During the late 1980s and early 1990s, the Reagan and George H. W. Bush administrations repeatedly told Gorbachev that only nations that protected individual rights, adopted market-oriented policies, and opened their economies would prosper in the information age. Echoing this view, the younger President Bush stated, "Only nations that share a commitment to protecting basic human rights and guaranteeing political and economic freedom will be able to unleash the potential of their people and assure their future prosperity." The United States had won the ideological competition with the Soviet Union, and Americans exuded confidence in liberal market capitalism.⁵⁷⁶

This history of U.S. economic statecraft since the late 1970s reveals that developments in East-West economic relations played a prominent role in the fall of détente, the U.S.-Soviet tensions of the early 1980s, and the peaceful resolution of the conflict. In the 1970s, the Great Grain Robbery, fears about trade enhancing Soviet

⁵⁷⁶ Nelson Lichtenstein, "Market Triumphalism and the Wishful Liberals" in *Cold War Triumphalism*, ed. Ellen Schrecker (New York: The New Press, 2004), 103-125; National Security Strategy of the United States, Sept. 17, 2002, available through the Internet Archive Wayback Machine: <http://web.archive.org/web/20020925223803/http://www.whitehouse.gov/nsc/nssall.html> (accessed 2 Aug. 2016).

military capabilities, and, most importantly, the Jackson-Vanik amendment to the 1974 Trade Act ended movement towards normalized U.S.-Soviet economic relations and helped undermine détente. Meanwhile, Western Europe continued to deepen its economic relationship with the East, leading to conflicting U.S. and allied visions about how to use economic statecraft to shape the Cold War. While the United States, under Carter and Reagan, sought to use economic measures to bargain with and punish Moscow for its international behavior, Western Europe attempted to shield East-West economic relations from political controversies. Reagan's economic war in 1982, in particular, bred discord within the alliance and Soviet suspicions about U.S. motives. In the early 1980s, these policies helped elevate Cold War tensions. After the allies cooperated to reduce the security risks of trade, though, Reagan resurrected suspended economic agreements with Moscow and concluded new ones to build confidence in the U.S.-Soviet relationship, easing tensions. Finally, Bush employed economic strategies to continue superpower rapprochement and support liberalization in Eastern Europe, helping to end the Cold War peacefully on terms favorable to U.S. interests.

This analysis deepens our understanding of foreign economic policymaking and strategy within the Carter, Reagan, and Bush administrations and the impact of those policies. All of these presidents relied more on economic statecraft to wage the Cold War than previously understood. Carter turned to economic policies in an attempt to rescue détente from declining popular support and promote human rights in the Soviet Union. He linked normalized U.S.-Soviet economic relations to the improved treatment of Soviet dissidents, hoping to build enduring public support for superpower rapprochement. This

economic linkage complemented Carter's public criticisms of Soviet human rights abuses. The president's strategy failed, however, as Moscow resisted this linkage and cracked down on political dissidents. In response, Carter instituted economic sanctions against the Soviet Union, a measure he repeated with the grain embargo after the Soviet invasion of Afghanistan. In essence, Carter primarily relied on economic policies to signal to Moscow the U.S. terms of détente and pressure Moscow to abide by those terms. If the Soviet Union wanted détente and the benefits derived from lessened tensions, such as expanded trade and most-favored-nation status, it first had to respect human rights and international norms. But like the human rights sanctions, the grain embargo proved unsuccessful. International cooperation on the embargo broke down, and U.S. allies in Western Europe refused to act in solidarity with the United States by curtailing their own trade with the Soviet Union. In 1980, the Western security relationship fractured over conflicting economic interests.

President Reagan dreamed of cutting off all trade with the Soviet Union, but Carter's experiences and the divided alliance helped him recognize Western Europe's economic interests in the East. In 1981, Reagan cast aside his staunch, anti-communist predilections in order to settle on a pragmatic and prudent strategy that reconciled the West's conflicting security and economic interests. Bureaucratic in-fighting plagued the development and finalization of this East-West economic agenda, as with many issues in the administration, and Reagan hesitated to settle these policy disagreements amongst his advisors. Outraged over Polish martial law, however, Reagan instituted the hardliners' suggested oil and gas sanctions, stumbling into an economic war against the Soviet Union

and precipitating a public showdown with Western Europe over the pipeline. Yet, Reagan's hands-off management style also gave Shultz room to out-manuever the hardliners and revive the prudent strategy. Of course, this policy maneuvering and the pipeline fiasco may have all been unnecessary had the president been more willing to impose a decision that empowered the pragmatists early on in the administration. Despite waging an economic war on the Soviet Union in 1982, Reagan was a pragmatist on East-West economic relations.

In the years following the abandonment of economic warfare, the prudent strategy and limited economic engagement with the Soviet Union produced significant results. Ultimately, these moves helped reunite the Atlantic alliance, strengthen Western security while maintaining allied economic interests, and build a more stable U.S.-Soviet relationship. Like Carter, Reagan relied on economic statecraft to push Moscow to abide by international norms and respect human rights. Carter used these policies to express to Moscow, in public and private, explicit prerequisite steps to advance the relationship and impose clear punishments for Soviet misbehavior. The Reagan administration, however, did not send Moscow such rigid criteria for rapprochement. Instead, the administration prodded the Kremlin to recognize that reform and East-West cooperation were in the Soviet Union's best interest. In private conversations with Gorbachev and Shevardnadze, Shultz explained the ongoing information and technological revolution while highlighting the profound benefits the Soviet Union could gain from integrating into the global economy. Through personal diplomacy, Reagan and Shultz reinforced Gorbachev and Shevardnadze's belief that an open, reformed Soviet Union would be a prosperous nation

existing within a stable and economically integrated post-Cold War international order. These actions alleviated mutual suspicion and created a foundation for the United States and Soviet Union to settle their political differences.

President Bush built on the advancements in U.S.-Soviet relations achieved in the late 1980s. For the first time since the early 1970s, the American public supported efforts to normalize economic relations with the Soviet Union. Acting on this popular backing, Bush waived the Jackson-Vanik amendment after Moscow codified an open emigration policy and proposed extending the Soviet Union most-favored-nation status provided it continued respecting international norms and instituting democratic reforms. Gorbachev was moving towards the U.S. positions on human rights and democracy, and Bush believed these economic measures would reward Soviet actions and encourage continued reform. In addition, President Bush extended technical assistance to the Soviet Union and promised aid that was more substantial if Gorbachev implemented radical market-oriented economic measures. Meanwhile, Bonn granted Moscow considerable economic aid and assumed East Germany's economic obligations to facilitate German reunification. The other West European nations also considered extending the Soviet Union substantial aid. Bush, however, urged his counterparts not to bail out the Soviet Union unless Gorbachev instituted meaningful reforms. Otherwise, the president feared the West would be wasting taxpayer money propping up an ineffective economic system. Rising nationalist tensions and growing economic problems in the Soviet Union, however, limited Gorbachev's ability to pursue far-reaching reforms, and the August 1991 coup derailed these efforts, accelerating the dissolution of the Soviet Union. Even so, Congress

extended the Soviet Union most-favored-nation status one month before its collapse, removing the last vestige of the economic Cold War.

Like Carter and Reagan, Bush also had to handle unexpected Cold War foreign policy challenges. At least one of Bush's challenges was a positive development: the liberation of Eastern Europe. In 1989, Solidarity's democratic triumph in Poland, liberalization in Hungary, and the fall of the Berlin Wall sent the Bush administration searching for ways to respond to these revolutionary developments. Above all, President Bush and his advisors wanted to aid these liberated nations in institutionalizing democracy and transitioning towards a market economy without raising security concerns in Moscow. At the same time, the growing U.S. budget deficit limited the Bush administration's ability to act. Eastern Europe, especially Poland, desired billions of dollars in Western economic aid, but the United States could not afford a Marshall Plan for Eastern Europe. To overcome the budget deficit, President Bush improvised a response in which the U.S. government partnered with private entities and international allies to extend technical assistance and financial aid to Eastern Europe. Through Enterprise Funds, Bush offered the East federal money, administered by private-sector groups, to train workers, promote businesses, clean up the environment, and more. He also initiated a multilateral process, culminating in the Group of 24, in which the international community pledged to grant the East economic stabilization funds and technical assistance. All the while, President Bush launched a comprehensive restructuring and loosening of the strategic embargo in light of Eastern Europe's entrance into the international community.

Bush's handling of the liberation of Eastern Europe and collapse of the Soviet Union highlighted his penchant for multilateral solutions to international problems, a preference also displayed by the international coalition the president formed to expel Iraq from Kuwait in 1990-1991. There is no doubt that the president's strong involvement in the policymaking process contributed to his successful foreign economic policies. In contrast to Reagan, Bush kept competing bureaucratic interests to a minimum and carefully took action. Unlike Carter and Reagan, Bush also benefited from an allied consensus that the Cold War was coming to an end. Although developments in Eastern Europe and the Soviet Union raised concerns about violent unrest, the West remained confident that it could work with Gorbachev to contain strife and limit any escalations in East-West tensions. Yet, Bush still had to maintain allied cohesion and temper allied willingness to extend financial support for Gorbachev's ill-conceived reform agenda. In the end, Bush proved adept at managing international affairs and using economic statecraft to help promote U.S. interests, aid reforms in Eastern Europe, and bring about a peaceful conclusion to the Cold War.

In addition to deepening our understanding of presidential policymaking and economic statecraft, this analysis suggests that economic action was one of the most effective, and heretofore least understood, means to wage and peacefully conclude the Cold War. Arms control and political negotiations, no doubt, played a prominent role in improving U.S.-Soviet relations, allaying security fears, and ending the division of Europe. But arms control remained a symptom, not a cause, of the Cold War. As Reagan said, "Nations do not mistrust each other because they are armed; they are armed because

they mistrust each other.” The arms control initiatives of the 1970s and 1980s failed to resolve the underlying ideological and geopolitical competition between the United States and the Soviet Union.⁵⁷⁷ While political action and protests pushed leaders within the Soviet bloc to institute changes, economic policies showed reformers the tangible benefits that accompanied an open, decentralized socio-economic system integrated with the global community. Through deeper economic relations and assistance, the United States rewarded reformers for positive steps towards creating democratic, market-oriented societies. If the Soviet Union wanted to remain a superpower into the twenty-first century, it had to adapt to the information age. U.S. actions helped the Soviets make this realization. With these policies, the United States and its allies reached behind the iron curtain in an attempt to change the Soviet Union into a responsible member of the liberal international community. In other words, the United States used economic tools to move beyond containment to aid the liberation of Eastern Europe and help transform the oppressive Soviet system.

The Soviet Union, however, was unable to make this transition. The Soviet Union collapsed, first and foremost, for political reasons. As Gorbachev’s power withered, especially after the August coup, political elites in the republics harnessed popular nationalist sentiments to augment their authority. These actions eventually ripped the union apart. Soviet economic issues acted as a catalyst for these political developments.

⁵⁷⁷ Ronald Reagan, “Address to the 41st Session of the United Nations General Assembly in New York, New York,” Sep. 22, 1986, *The Public Papers of President Ronald W. Reagan*, Ronald Reagan Presidential Library, <https://www.reaganlibrary.archives.gov/archives/speeches/1986/092286a.htm> (accessed 9 Sep. 2016); For an analysis of Carter’s inability to promote a general accommodation with the Soviet Union through arms control, see Olav Njølstad, “Key of Keys? SALT II and the Breakdown of Détente” in *The Fall of Détente*, ed. Odd Arne Westad (Boston: Scandinavian University Press, 1995), 35-71.

By the early 1980s, the Soviet Union faced profound, structural economic problems. For more than a decade, Moscow had sought to reverse economic decline through deeper trade relations with the West to no avail. Gorbachev recognized that the Soviet Union's long-term national survival rested on arresting and reversing this economic decline through fundamental reforms. The Communist Party, however, impeded the general secretary's plans; thus, in the late 1980s, Gorbachev weakened the party. The failure of perestroika to solve the economic issues exacerbated political tensions, allowing nationalist agitators to challenge Soviet authority. In attempting to address Soviet economic problems, Gorbachev unleashed the political forces that dissolved the union in 1991.

These domestic problems, of course, made Gorbachev more willing to negotiate with the United States. He needed a favorable international environment in order to focus on reforming the Soviet system. As the Soviet crisis deepened, Gorbachev grew desperate for Western assistance; he even begged the West for a financial bailout in 1991. Gorbachev's desperation augmented U.S. and allied leverage in settling the Cold War and shaping potential Soviet reforms. In the early 1980s, the Reagan administration feared East-West trade granted Moscow leverage over the West. In truth, economic relations turned out to be one of the West's greatest assets in asserting its interests. The West insisted that the Soviet Union's only hope was a rapid transition to an open, market-oriented system, a transition Gorbachev was unable to implement. Overall, the United States used economic strategies and policies to strengthen Western security, oppose adverse Soviet international actions, and engage Moscow on settling their Cold War

differences. Limited economic engagement helped renew the U.S.-Soviet dialogue and welcome liberated Eastern Europe into the liberal international order. As the Cold War came to a close, the United States and its allies also sought to transform their former adversary into an international partner. Gorbachev, however, refused to heed their advice, and in the end, the United States and Western Europe could not prevent the dissolution of the Soviet Union.

In the post-Cold War era, scholars have deepened debates about whether commercial interactions facilitate peace among the great powers. With developed nations prioritizing economic prosperity and their societies' growing moral aversion to military conflict, one scholar has even suggested that great power wars are becoming obsolete.⁵⁷⁸ Even if war remains, the depth and intensity of contemporary globalization means that states have an unprecedented potential to use economic tools to pursue their goals. What broader implications does this study on the end of the Cold War hold for such circumstances? On the one hand, my analysis reveals the profound challenges actors face in employing economic statecraft to punish adverse international behavior. Trade creates vested interests that hinder the actor's ability to wield economic tools easily. Recall, for example, the strong opposition from the West Europeans and international and American corporations to Reagan's pipeline sanctions in 1982. At the same time, the costs of economic sanctions often fall on narrow constituencies who organize to oppose these measures, such as American farmers during the grain embargo. The global marketplace

⁵⁷⁸ Edward D. Mansfield and Brian M. Pollins, "The Study of Interdependence and Conflict: Recent Advances, Open Questions, and Directions for Future Research," *The Journal of Conflict Resolution* 45, no. 6 (2001): 834-859; David H. Bearce, "Grasping the Commercial Institutional Peace," *International Studies Quarterly* 47, no. 3 (2003): 347-370; John Mueller, *Retreat from Doomsday: The Obsolescence of Major War* (New York: Basic Books, Inc., Publishers, 1989).

also exacerbates these costs as international competitors provide the products that domestic producers are barred from exporting. In effect, globalization and commercial institutions limit a state's ability to act unilaterally or upset international stability. Thus, if policymakers seek to use economic sanctions, they must secure international cooperation, else the sanctions will likely fail and domestic producers will suffer.

On the other hand, this history provides further evidence that states can effectively use economic diplomacy to resolve conflicts and strengthen peace. In negotiations with leaders within the Soviet bloc, Reagan and Bush used promises of action on the Jackson-Vanik amendment and economic assistance as leverage to promote democratic, market-oriented reform. In other cases, U.S. policymakers used commercial institutions, such as the Joint Commercial Commission, Group of Seven, and Group of Twenty-four, as forums to strengthen diplomatic relations, aid the resolution of disputes, and coordinate international action. In other words, trade and commercial institutions promote a stable, peaceful, and prosperous international system. As a result, leaders and policymakers should seek to strengthen these institutions and promote economic integration as a means to guard against the growth of military tensions and conflict. "The freer the flow of world trade," Reagan once said, "the stronger the tides for economic progress and peace among nations."⁵⁷⁹ This history of U.S. economic statecraft and the end of the Cold War demonstrates the ways in which those words hold true.

⁵⁷⁹ Reagan, "Radio Address to the Nation on International Trade," Aug. 6, 1983, *Public Papers*, RRL, <https://reaganlibrary.archives.gov/archives/speeches/1983/80683a.htm> (accessed 15 Jan. 2017).

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