Praise for *Russia in the 21st Century*

“In this timely and important work, Steven Rosefielde, a foremost expert on Russia, underlines the extent to which Russia’s past is part of the present, and sets its conditions on the future. The result is a disturbing picture, conveying neither the end of history nor Russia as a normal state.”

– Pekka Sutela, Bank of Finland and the Helsinki School of Economics

“This is an important book that effectively challenges much of the conventional thinking about Russia and the path it will take. Professor Rosefielde has been ahead of Western intelligence communities on the USSR and now Russia for many years, and I believe he continues to be ahead with this book. Many of its conclusions are chilling. The author argues persuasively that Russia will be less inclined to follow the liberal and globalist ideas of the West and far more challenging to the West than commonly expected. Moreover, Russia’s military-industrial complex is dormant but not gone and Russia has the resources – and plan – to resurrect itself as a great military power. Such conclusions are based upon extensive original research in Russian as well as English sources, keen analysis, and nearly unassailable logic.”

– William Van Cleave, Southwest Missouri State University
RUSSIA IN THE 21ST CENTURY

This book demonstrates that Russia intends to reemerge as a full-fledged superpower before 2010, challenging America and China and potentially threatening a new arms race. Contrary to conventional wisdom, this goal is easily within the Kremlin’s grasp, but the cost to the Russian people and global security would be immense. A sophisticated strategy is proposed to dissuade President Vladimir Putin from pursuing this destabilizing course. The book also explains why the Soviet Union imploded, why Western experts missed the signs of the collapse, and how Russia has metamorphosed into an authoritarian regime instead of pursuing a transition to fully democratic free enterprise. It demonstrates that the Soviet Union was “structurally militarized” and that Russia’s military-industrial complex is intact. The Cold War image of the Soviet Union as a westernizing, mass consumption society committed to “peaceful coexistence” is exposed as a statistical illusion. A critique of American foreign policy making is also provided that emphasizes the confusion caused by tampering with evidence to conform with public expectations and the damage to the national interest caused by attempting to satisfy a consensus of particular special interests.

Steven Rosefielde is Professor of Economics at the University of North Carolina, Chapel Hill, and Adjunct Professor of Defense and Strategic Studies, Center for Defense and Strategic Studies, Southwest Missouri State University, Springfield. The author or editor of eleven books on Russia and the Soviet Union, he has also published more than a hundred articles in journals such as the American Economic Review, European Economic Review, Economica, Soviet Studies, and Europe-Asia Studies. Professor Rosefielde is a member of the Russian Academy of Natural Science and was a Fellow of the Carnegie Corporation of New York from 2000 to 2003. He has served as a consultant to the Office of the Secretary of Defense as well as advised several directors of the U.S. Central Intelligence Agency and the U.S. National Intelligence Council. Professor Rosefielde has also worked continuously with the Swedish Defense Agency and the Central Economics and Mathematics Institute (Moscow) for more than a quarter century and with the Center for Defense and Foreign Policy (Moscow) for more than a decade.
RUSSIA IN THE 21ST CENTURY

The Prodigal Superpower

STEVEN ROSEFIELD

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ACRONYMS

ACW  advanced conventional weapon
ALCM  air-launched cruise missile
CER  cost-estimating relationship
CBW  chemical-biological warfare
CFE  Conventional Forces in Europe treaty
CIA  Central Intelligence Agency
DIA  Defense Intelligence Agency
DOD  Department of Defense
GDP  gross domestic product
Genshtab  general staff
GNP  gross national product
Goskomstat  Soviet state statistical agency
Gosplan  Soviet state central planning agency
Gossnabsbyt'  Soviet state wholesale allocation system
GRU  Main intelligence administration of the Russian general staff (Glavnoe Razvedovatel'noe Upravlenie)
Khozraschyot  economic cost accounting
IW  information warfare
KGB  Komitet Gosudarstvennoi Bezopasnosti (Soviet Committee on State Security)
MBMW  machine building and metalworking
MEAC  Military-Economic Analysis Center (CIA)
MEAP  Military-Economic Analysis Panel (CIA)
Minatom  Ministry of Atomic Energy
xii

**Acronyms**

**MIRV** multiple independently targetable reentry vehicle  
**MOD** Russian Ministry of Defense  
**MVD** Ministerstvo vnestrinikh del (Ministry of Internal Affairs)  
**NATO** North Atlantic Treaty Organization  
**NMD** national missile defense  
**OPK** oboronnyi-promyshennyi kompleks (defense-industrial complex)  
**OSD** Office of the Secretary of Defense  
**PGM** precision guided munitions  
**RDT&E** research, development, testing, and evaluation  
**RMA** revolution in military affairs  
**Roskomstat** Russian statistical agency  
**Rosvooruzhenie** Russian arms export agency  
**SORT** Strategic Offensive Arms Reduction Treaty  
**START** Strategic Arms Reduction Talks  
**SNA** System of National Accounts  
**TNC** tactical nuclear weapon for conventional war fighting  
**TNW** tactical nuclear weapon  
**TVD** teatry voennykh destvii (theaters of military operations)  
**UAV** unmanned aerial vehicle  
**VPK** voennyi promyshlennyi kompleks (military-industrial complex)
Specialists and amateurs alike frequently hold strong views about Soviet and Russian military-economic potential, but their attitudes are seldom consistent. During the Cold War, it was fashionable to speculate that the East and West were converging, that systems were becoming mixed, that both sides shared a common interest in peace and would gradually reduce their military forces. Accordingly, analysts like Franklyn Holzman argued that the Soviets spent less on defense than America and inter alia that the healthy economic growth indicated by Goskomstat and CIA statistics was primarily attributable to the workability of the “reformed” command system. But in the aftermath of the Soviet collapse, it has become just as fashionable to blame the USSR’s demise on its excessive defense burden and the deficiencies of central planning. And, of course, transitologists and now the European Union have officially proclaimed Russia a “market economy,” suggesting “blue skies” ahead, without a military cloud in the sky, since the contemporary defense burden is said to be half and the absolute dollar value less then a tenth the American level. Western economic and security advice to the Kremlin follows this script, stressing further liberalization without the slightest recognition that Russia’s defense-industrial complex is just as large as ever and that Russia’s economic and security drift is against the “globalist” tide. It is easy to understand the diverse partisan interests shaping these “approved” contradictions and even to sympathize in some regards with the disingenuousness, but insofar as policymakers believe what they say, their happy talk obstructs the resolution of serious problems vital to both Russia and the West. It is in our mutual interest to see Russia scrap “structural militarization” in favor of an “optimal” security strategy and to substitute “economic liberty” for the system of authoritarian economic sovereignty and privilege seeking...
installed by Boris Yeltsin and rationalized by Vladimir Putin. This book constructs an analytic foundation for such an initiative by explaining why Russia will ensnare itself in a Soviet-style quagmire unless it structurally demilitarizes and westernizes its political economy. It isn’t enough to offer the counsel of perfection and for Putin to say amen. The bear has to be genetically recoded.

**METHODOLOGY**

This book employs “standard” western economic theory and quantitative methods to analyze Soviet and Russian civilian and military-industrial potential and performance. It relies on the microeconomic utility-optimizing principles of Adam Smith and his modern mathematical successors, especially Vilfredo Pareto, to establish a benchmark for evaluating Soviet and Russian possibilities. Following Abram Bergson’s precepts on welfare economics, this book employs the familiar Pareto standard as a handy and widely understood referent, not as a uniquely valid ideal.

Best Sovietological practices, including adjusted factor costing where applicable, are applied throughout to handle the special problems posed by Soviet institutions, Soviet accounting, and Marxist price fixing. My approach differs from Bergson’s and the CIA’s here in only one regard. Like Bergson, for the years after 1963 I reject the claim that ruble values measure consumers’ or planners’ utilities (marginal rates of product substitution), but I go further, denying that they reflect “production potential,” that is, marginal rates of enterprise product transformation “on average.” This means that, whereas most Sovietologists seem to believe that Soviet ruble factor cost or adjusted ruble factor cost tells us something important about Soviet neoclassical supply-side possibilities, I insist that such statistics are opaque indicators of both demand and supply. The nuance matters because if Bergson is right, western and Soviet growth statistics can be validly compared as oranges and oranges on the supply side. If he is wrong, comparisons of these statistics are inherently ambiguous, providing only an illusion of comparability.

My standard of verification also departs significantly from Bergson’s. Dating as early as 1953, he argued that Soviet data were “reliable and usable,” including subaggregates, except in infrequent cases where there was strong evidence of doctoring. This attitude, adopted before he
recomputed his famous GNP growth series to assess Soviet data reliability, might be likened to a qualified auditor’s report that acknowledges improprieties but judges the overall result satisfactory. As guides to Soviet performance, properly computed output and combined factor productivity growth series were considered ipso facto reliable in precisely the same degree as the underlying data. This turned out to mean in practice that Bergson’s perception of Soviet performance was exactly what he computed. Although he considered other viewpoints, he never gave any ground regarding the possibility that his capital series were overstated by hidden inflation or that his dollar estimates of comparative Soviet size were too high. Nor did the Soviet collapse give him pause. He acted as if his axioms were sufficient to gauge the truth and were unfalsifiable, unlike Enron’s auditors in similar circumstances, who amended their appraisals. Bergson’s method consequently was conviction driven and therefore unscientific judged from the strict requirements of the hard sciences. The CIA acted differently. It possessed a lax attitude toward what constituted compelling evidence of falsification, and it freely adjusted official data to suit its presumptions. This elastic interpretation of Soviet data “reliability” enabled it to craft reality to its liking while claiming that it was rigorously adhering to Bergson’s strictures. This book, by contrast, takes the position that blind faith in the “usability” of Soviet subaggregates and undisciplined data manipulation are both unwarranted in the wake of the Soviet disunion. Bergson and the CIA should have amended their analyses after the events of 1991 but didn’t. This book doesn’t repeat their mistakes.

Relatedly, it was also discovered that the convictions shaping Sovieto-logical attitudes and the CIA’s manipulation of Soviet data were governed by “public culture” – socially approved ideas about what the world ought to be. These “idols,” as Francis Bacon observed centuries ago, turn science into sophistry and garble public discourse. Therefore, pains have been taken to explain not only how flaws in Bergson’s and the CIA’s axiologies caused them to get the Soviet Union and Russia wrong but why these errors occurred. My method in its entirety thus begins with scientifically tested, improved axiologies of markets and plans and then moves ahead to an examination of the principles, values, and convictions determining initial axiomatic choice and policy perceptions to prevent preconceptions from biasing results and conclusions.
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