

**UPDATE**

## THE NEW SOVIET REALITY: HOW WASHINGTON SHOULD RESPOND

(Updating *Executive Memorandum* No. 307, "How America Should Respond to Moscow's August Putsch: Nine Guidelines," August 20, 1991.)

The dramatic changes in Moscow and throughout Russia and the other Soviet Republics require appropriately dramatic changes in America's policies towards the Soviet Union. No longer can the Bush Administration remain reluctant and begrudging in its support of Boris Yeltsin and other democratic reformers. No longer can the United States balk at recognizing that power and legitimacy have shifted to the Republics from the central government of the U.S.S.R.

Washington now must begin leading the international response to last week's dramatic events. Washington must tilt away from the Center—as the central Soviet government is known—and tilt toward the Republics. Washington must abandon its determination to preserve a unified U.S.S.R. and begin endorsing independence for the Republics. No longer must America warn the Republics, as George Bush did just a few weeks ago in Kiev, about "suicidal nationalism" and lecture the reformers that "freedom is not the same as democracy." Washington must abandon its implicit though strong support for central economic control in the U.S.S.R. and take explicit action to help the Republics create market economies.

A comprehensive American program for addressing the new reality in the Soviet Union, of course, will take some time to craft. As events unfold there, new responses will be required from Washington. As a start, however, the United States should:

- 1) **Recognize** the independence of those Republics declaring independence.
- 2) **Resist** the calls from Bonn and other Western capitals for massive, emergency aid for the U.S.S.R. It is not a lack of such aid that triggered last week's near-tragic events. It was Mikhail Gorbachev's lack of commitment to genuine political and economic reform. If anything, the aid that the West had sent impeded the economic reforms and gave Gorbachev the feeling of false confidence that surely allowed him to go slow on reforms.
- 3) **Offer** the Center no aid, credits or any other help. These will delay reforms. All American help must go to the Republics.
- 4) **Recognize** that the most valuable American help is open, bold exhortations to the Republics that they now must push fast for economic and political reform.

- 5) **Recognize** that reforms will be helped least, and even may be hindered, by the direct transfer of money or credits to the governments of the Republics. If America sends funds they should go to private and cooperative banks, investment pools and other entities to be tapped by entrepreneurs.
- 6) **Limit** other direct American financial aid to that specifically designed to ease the pains of transition to a market economy. To ensure that the aid interferes as little as possible with market functioning, the aid could fund vouchers for Soviet consumers as a cushion against rising prices and other market-driven adjustments. No aid should subsidize production of any goods or services.
- 7) **Limit** humanitarian aid, as winter approaches, to food and similar emergency provisions. While such charity is appropriate and worthy of America, Washington must understand that 40 years of humanitarian aid to Third World countries has undermined their economic development.
- 8) **Refuse** to guarantee private bank loans to the Soviet Union or to the Republics. Guarantees massively distort market signals and almost ensure that the money is used neither wisely nor efficiently. American banks eagerly will lend money to enterprises in the Republics, or even to the Republics themselves, without guarantees when the banks believe that reforms are changing the Republics' economies sufficiently to enable the loans to be repaid. In fact, the best sign that the Republics are on the right economic course will be an awakening interest by American banks in lending to the Republics.
- 9) **Increase** dramatically the commercial staffs at the U.S. Embassy and other diplomatic missions in the U.S.S.R. New U.S. consulates and other offices immediately should be opened throughout the Republics. These commercial officers can identify investment opportunities for American firms and help American investors navigate in what will be, for some time, the murky commercial waters of the Republics.
- 10) **Increase** dramatically funds for the National Endowment for Democracy to establish academies throughout the Republics to teach the fundamentals of commerce—accounting, personnel management, banking and finance, advertising, marketing, cash-flow analysis and so forth.
- 11) **Block** attempts by the International Monetary Fund, World Bank and other United Nations and international agencies to transfer funds directly to the Soviet government.

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