COMMENTARY

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STATE POWER AND ECONOMIC STATECRAFT – THE EKHO SCANDAL:
COLD WAR INTRIGUE AND ECONOMIC SABOTAGE IN THE SOVIET UNION, 1990-91

Introduction:

In 1990 official representatives of the Russian Soviet Federative Socialist Republic (RSFSR) met with foreign investors for the purpose of exchanging cash credits for goods and services in the amount of 140 billion rubles. This transaction, contracted at the black market rather than state-established exchange rate, triggered a national political scandal.

The full story of the 1990-91 Ekho deal has been obscured, hidden beneath layers of propaganda and public accusation. Most contemporaries believed the exchange was a hoax, that it was simply too fantastic to be credible. Some argued it was a grand design by one faction of the Soviet or Russian government to expose corruption in another. A few, primarily the contracting parties, claimed it was a bold attempt to jump-start the anemic Russian economy. This essay attempts to present the details of the incident as earnestly as possible and in so doing sides with a minority opinion that the deal was a rare attempt to overthrow an established state apparatus through economic sabotage. Precisely who was trying to overthrow whom, however, and what their ultimate goals may have been, has yet to be resolved. I will nonetheless insist that the case is best understood as one of true economic or monetary sabotage. I am equally convinced it worked.

Literature Review and Theoretical Framework:

The necessity for economic warfare is implicit in the material foundations of modern conventional war. Adam Smith, Alexander Hamilton and Friedrich List have argued persuasively that state power is best measured by the economic capacity to wage and sustain war.¹ D. T. Jack and Claus Knorr

point out that the targeting of economic capacity is one of the critical functions of military planning. Strategic bombing, for example, is properly the function of destroying an enemy’s capacity to make war and resupply combat forces, as opposed to tactical or operational bombing, dedicated to destroying military forces on the battlefield. Economic warfare is, in this definition, subordinate to the concept of total war and valid only in time of declared war.

More modern descriptions of economic warfare, those of Yuan-Li Wu and David Baldwin, focus broadly on the subject of international trade or more narrowly on the negative or positive effects of economic sanctions. Such a perception suggests that economic warfare can be separated from conventional warfare and is pursuable in times of relative peace. It is, in this context, an alternative to (and occasionally a preemptor of) conventional war.

Under this latter definition, economic warfare is considered more benign than conventional warfare, but it is not without its detractors. While Baldwin argues relentlessly that economic statecraft, including economic warfare, has been effective, he recognizes his is the minority position. Robert Freedman, generally critical of the "counterproductive" nature of economic sanctions, describes the Soviet Union’s efforts to manipulate non-Warsaw Pact Communist states after World War II. He defines economic warfare as "exert[ing] economic pressure against a target state, both in the areas of foreign trade and in economic assistance." Gunnar Adler-Karlson provides a similar analysis for the economic pressure applied by the United States against noncooperative states (such as Korea and Cuba), while Rode and Jacobsen have studied the economic conflict between the two superpowers themselves. The general conclusion of these authors is that negative and positive economic sanctions either haven’t been effective, or have been only marginally effective and not worth the cost. In some cases, economic warfare


5. Ibid., p. 19.
