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SOVIET DEFENCE INDUSTRY REFORM: THE PROBLEMS OF CONVERSION IN AN UNCONVERTED ECONOMY

by Karen Ballentine

INTRODUCTION

In December 1988, Mikhail Gorbachev made the issue of defence industry conversion part of the official *perestroika* agenda. In a speech before the General Assembly of the United Nations, he pledged to embark on a "transition from an economy of armament to an economy of disarmament." This commitment, and Soviet disarmament initiatives, suggested that deliberate defence conversion was no longer just a desirable goal, but was on the verge of widespread application by a major military power.

The definition of "defence conversion", or simply "conversion", is a matter of some debate in both East and West. In the broadest sense, conversion is a process of economic demilitarization that includes troop demobilization and reduced defence expenditure and weapons production. This definition describes in general terms the shift in priorities and resources from the military to the civilian economy, but usually falls short of explaining how this shift is to be effected. Instead, in practice, 'conversion' is more commonly employed by both Soviet and Western specialists in the narrower sense of a literal transformation of defence industrial capacities. Leading Soviet defence economist Vladimir Faltsman defines conversion as "the reorientation of defence plants to civilian production and the utilization of resources freed from the military for peaceful goals."¹ As described by the 1982 *UN Study on the Relationship between*

Disarmament and Development, conversion, in this narrower sense, seeks "to permit the smoothest possible transition to the production of socially useful goods and services."²

From this perspective, conversion is just one of several approaches to managing the economic consequences of a political decision to reduce arms. It is qualitatively different from diversification strategies developed by military industries to maintain viability in the face of significant defence cuts. Whereas diversification permits continued defence production alongside new civilian manufacturing, conversion more sweepingly demands the substitution of defence with civilian production. For Soviet reformers, conversion — with its emphasis on finding immediate practical civilian uses for the technical and scientific potential accumulated by the defence sector — appeared the preferable approach, particularly in the face of growing consumer shortages and infrastructure collapse.

Traditionally, Soviet officials maintained that the Soviet economic system would be better suited to such a conversion programme than any market system. Given its extensive planning apparatus and long tradition of interventionist economic policy, they argued that the Soviet Union could avoid many of the social and economic disruptions which would make demilitarization difficult in market economies. Centrally-planned conversion would be better coordinated and its benefits more quickly achieved. All that was needed

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