

The main thrust of the market strategy is to release a portion of defence enterprises from the bureaucratic stranglehold of the central ministries. Whether accomplished through joint-stock companies, co-operatives or joint ventures, this privatization would encourage enterprises to undertake conversion by responding directly to the needs and opportunities of the market. At least during the initial phase, only part of the defence sector would be affected—perhaps 20-30% of its enterprises. The remainder would continue to operate on a state-run and unconverted basis; however, their production would be rationalized through the replacement of rigid state orders with a system of competitive defence contracting. The role of the state would be limited to the provision of social protection for workers and macro-economic regulation. Finally, so as to ensure a lasting redistribution of defence resources to civilian needs, the entire process would be institutionalized under civilian, primarily parliamentary, control.

The liberal solution also calls for the replacement of strictly consumer goods conversion with a strategy that exploits the Soviet Union's comparative advantage in high-technology areas such as aviation, fibre optics and space exploration. The sale of these technologies abroad, it is hoped, could become an important source for much needed hard currency. These earnings could be applied either to infrastructure modernization or to the provision of consumer goods. Such a strategy would require the elimination of those long-standing secrecy regulations which prevent the transfer of non-vital defence technologies to civilian use. Additionally, it would require the assistance of Western finance, technology and know-how. As many liberal economists are aware, however, such cooperation is unlikely to occur without parallel efforts to bolster investor confidence: for example, a more reliable guarantee of profit repatriation for foreign investors.

Predictably, the liberal plan has been criticized by conservative elements within the military-industrial establishment. In the view of top military officials, the strategy of transferring defence enterprises to civilian control would undermine the country's future defence potential. The military is also cool to the idea of Western assistance. As Marshal Akhromeyev has warned, such assistance risks becoming a dependency that "would allow foreign capital to dictate to us what the Soviet Union's foreign policy should be, and at what level the country's defence capabilities should be maintained."<sup>8</sup> While such arguments are often voiced by defence industry officials, their principal objection to the liberal programme is that it would provoke widespread plant closures and unemployment in an already suffering industry. As expressed in an open letter to *Pravda* in September 1990,

defence industry spokesmen maintain that, in present crisis conditions, the remedy for conversion lies instead in a renewed emphasis on plan discipline, privileged allocation, and traditional inter-ministerial ties.<sup>9</sup>

The *Pravda* letter signalled the start of a conservative retrenchment which continues to dominate Soviet conversion policy and indeed, the fate of economic reform as a whole. Further signs have been likewise discouraging. In December 1990, the long-awaited law on conversion was passed with surprisingly little fanfare. Although its detailed provisions have yet to be made public, the law is clearly based on the conservative approach: conversion remains a top-down process based on the current state-order system within the confines of the central ministries. While it places greater emphasis on the development of dual-use technology, the legislation still defines conversion primarily in terms of consumer goods production. Indeed, its sole innovation appears to be a promise of guaranteed social protection for defence industry employees.

Another telling indication of the current prospects for conversion is the 1991 defence budget. According to preliminary estimates announced in the fall of 1990, the 1991 defence budget was to be 65 billion roubles, down 5 billion roubles from 1990. However, the final budget was fixed at 96.5 billion roubles, which is a nominal increase of some 26 billion roubles. Defence officials have sought to fend off criticism of this increase by blaming it on inflation. They insist that in absolute terms, defence spending has been reduced as intended previously. As defence critics have pointed out, however, no other budget items have been adjusted accordingly. Moreover, in real terms, the total share of defence in the national budget has in fact increased from 25% to 35%.

This conservative trend has been reinforced by a Soviet military made uneasy by the display of American high-technology weaponry during the Persian Gulf War. In response to that event, there has been a marked increase in the Soviet military's insistence on parity in arms reductions. It would also appear that instead of turning guns into butter, the Soviet government is now seeking to trade guns for butter. In a recent trade deal with China, the Soviet Union is reported to have authorized the sale of an unspecified number of SU-27 fighter planes in return for a \$750 million commodity credit for the purchase of foodstuffs and consumer goods.<sup>10</sup> There is no indication that this sale of military goods is intended to bring in technology or financing to assist conversion, which is the rationale behind Czechoslovakia's pending sale of tanks to Iran and Syria.<sup>11</sup> As such, there is a danger that Soviet arms exports, like their