

Soviet conversion policy has likewise failed to provide mechanisms that could ease the resistance of conservative defence industry managers. Like defence managers everywhere, Soviet managers have become accustomed to a monopsony system of production in which financing is guaranteed in advance, there is a single customer with known preferences, and the chief criterion for production is performance at any cost. Defence managers thus suffer from what Seymour Melman has termed "a trained incapacity for civilian production." They have neither the marketing skills nor the cost awareness which could help them adapt to the new criteria of civilian production: affordability, utility and uncertain consumer demand.

In the Soviet case, the management barriers to conversion are more resilient than elsewhere. The products of a system which traditionally has rewarded conformity at the expense of innovation, Soviet defence managers are highly averse to change, particularly where change involves risk. In what may be a telling illustration of how this ingrained conservatism works against the very rationale of conversion, one defence manager at a gathering on conversion enthusiastically declared that "the tasks set by the Party will be fulfilled at any cost."<sup>6</sup>

Undoubtedly, the prevalent conservatism of defence managers is due in part to their desire to protect their privileged and secure positions — indeed their very *raison d'être*. However, it is also true that their antipathy to conversion has been unwittingly reinforced by the demands of central planning.

Traditionally the first responsibility of defence managers has been to fulfil state orders for military-related products. Wherever civilian manufacturing has coexisted with defence production, it has taken second place. Indeed, civilian manufacturing has long been viewed by defence managers as less prestigious and less profitable; a necessary and hopefully temporary task assigned from above and, therefore, impossible to refuse. Despite all of the official exhortations on the benefits of conversion, this view has not changed. Defence managers continue to place defence production first and they do so because it is fulfilment of the defence plan that determines their salaries.

Overall there has been little effort to correct this situation by creating positive, primarily financial incentives to switch to civilian manufacturing. True, defence plants have been permitted to retain the profits of any above-plan civilian production, but few have been able to meet those targets due to the supply and financial problems. As far as the revenues

from planned civilian production are concerned, defence plants are compelled to pay an exorbitant 70% tax to the state. Even more burdensome, because centrally defined plans are legally binding, defence plants cannot reject orders for civilian goods that are inappropriate to their facilities or simply unprofitable.

Perhaps the only incentive to conversion is the perception that civilian production could become profitable in the longer term. Some of the more enlightened defence managers and specialists have sought to defy the odds imposed by central planning with self-initiated innovations such as local information exchanges, leasing agreements, and joint ventures. But such spontaneity from below continues to be resisted by central ministries where old methods predominate, and by the majority of defence managers, for whom conversion is not a test of their entrepreneurial zeal but rather a complicated and losing proposition. In view of the losses in guaranteed contracts and revenues, the disruptions in productivity, and the steady outflow of specialists, it is no wonder that managers now openly condemn conversion and demand that the state restore the *status quo ante*.

## CONVERTING CONVERSION

All sides of the Soviet political spectrum now concede that if conversion is to succeed, current policies must be drastically revised. There is, however, considerably less consensus as to what revisions are needed. Essentially two schools of thought prevail: the 'liberal', which seeks remedy in bringing market forces to bear upon the defence industry; and the 'conservative' which would make conversion contingent upon revitalized central planning.

The liberal approach has been advocated by the Soviet National Commission for the Promotion of Conversion, as well as by such reform-minded economists as Stanislav Shatalin and Nikolai Petrakov. According to their analysis, the conversion of the Soviet economy requires a massive structural shift and an end to the rigid separation between its defence and civilian sectors. As a first step, the entire economy must become more firmly market-driven so as to create a receptive and responsive environment for conversion. Secondly, the defence sector must be brought into this process. As one defence critic has stressed: "It is not possible, within the single complex of the Soviet national economy, for one part to shift to the market while another remains within the centralized command system. It is this monopoly control of the military-industrial complex which constitutes the principal brake on the future market economy."<sup>7</sup>