

In response to these increasingly obvious costs, provisions were belatedly made to provide state funding. In 1990, an emergency subsidy of 330 million roubles was given to the defence industry in an attempt to offset lost revenues and prevent widespread bankruptcy. In the same year, the state budget allocated 4 billion roubles to conversion proper. According to the current programme for conversion, a total of 60 billion roubles will be allocated over the 1991-1995 period.

These allocations have not been sufficient to cover the costs of conversion and desperate defence managers have been forced to search for alternative sources of investment and supply. However, the system provides few alternatives; outside the confines of central planning, well-developed wholesale commodities or financial markets simply do not yet exist. Suppliers continue to be bound by the inflexible system of state orders and cannot legally engage in direct trade until these obligations have been met. Where they exist at all, investment resources have been similarly constrained. Despite new laws that permit enterprises to dispose of a greater percentage of their earnings, the ministries continue to dictate investment priorities.

In order to circumvent these barriers, some defence managers have resorted to the black market, where materials are more readily available but at inflated and often hard currency prices. To compensate for these additional expenses, many have diverted revenues from production bonuses, thereby provoking worker dissatisfaction and undermining their competitiveness. Not surprisingly, the high costs of production, which are made worse by the higher overhead of defence facilities, have made the prices of many of their consumer goods uncompetitive. According to one study, a simple electric pump produced by a defence plant costs 3,412 roubles while a comparable civilian made pump costs only 180 roubles. Overall, the financial costs of converting defence enterprises have become so great that defence managers now warn that without further funding from the state, conversion cannot be sustained.

Manpower Problems

Ideally, conversion results in the reorientation of production with minimal labour dislocation. Indeed, preventing massive job losses in the wake of defence cuts, and thereby removing a potentially powerful source of political resistance to disarmament, is one of conversion's most important objectives. However, in the Soviet case, the lack of adequate funding has had serious consequences for defence workers. Many cash-starved enterprises have had to curtail allocations to their social and housing funds. In some cases,

wages have also been cut. At other plants, wages have been maintained only with massive state subsidies.

Accustomed to a relatively high standard of living, nearly half a million defence workers have responded to this decline by seeking employment in the more lucrative cooperative sector of the economy. In terms of shifting labour to the civilian economy, this trend is indeed consistent with the wider goals of conversion. However, as many defence officials complain, they are losing some of their most talented and experienced specialists. While it may benefit the cooperatives, and eventually the wider economy, this "brain drain" has impaired the performance of the defence industry as well as its ability to creatively and efficiently adapt to civilian activity.

There is also concern that both continued cuts in procurement and subsidies, and more stringent regulations for enterprise cost-effectiveness will lead to widespread insolvency and large scale unemployment. To be sure, such painful adjustments may be unavoidable. In current Soviet conditions, however, the potential for this trend to become politically destabilizing is far greater than elsewhere because — apart from the relatively small and uncertain cooperative sector — the surrounding economic environment cannot easily absorb large numbers of released defence workers. By 1990, the switch to enterprise self-financing had resulted in an unprecedented 3.5 million lay-offs. According to state officials, the number of unemployed could double in 1991 and may rise as high as seventeen million by the end of the decade. At the same time, while there were two million unemployed workers at the start of 1991, there were three million jobs available in the main production branches of industry. This paradox is explained by the lack of correspondence between the location of the jobs and the available labour. While there is a labour market of sorts, there is little labour mobility. At fault is the near feudal system of internal passports which, though not entirely inflexible, works to discourage natural population movement and labour redistribution.

This lack of flexibility is compounded by the fact that conversion was initiated with little concern for worker protection. Indeed, until recently, the Soviet system generally did not have any social welfare arrangement that provided workers with unemployment benefits since officially, there was no unemployment. Although the new legislation promises the unemployed an alternative means of subsistence, it contains no specific measures to meet the needs of retraining defence workers. As such, it only goes part of the way in alleviating the concerns which predispose defence workers against conversion.