

duction — is said to have declined by 3.2% in 1990, while consumer production increased 4.4%. Conversion also has been credited with a 30% reduction in the volume of strictly military manufacturing in the defence sector, thus freeing up additional capacity for civilian production. Finally, officials also claim that, thanks to the savings generated by conversion, the 1989 budget deficit was reduced by 22.6 billion roubles to 58.1 billion roubles in 1990.

These figures do not tell the whole conversion story. Consumer goods output, though up by 26.2 billion roubles in 1990, still failed to meet even half of its assigned target. Of the 120 new consumer items to be produced by defence facilities, only twenty-three actually went into production. Indeed, from the point of view of the Soviet consumer, the situation had changed very little from 1989, when 243 of the 273 basic items listed on the state consumer index were regularly unobtainable.

Perhaps even more telling, only some 500 defence firms have been harnessed to the conversion effort. Only fifty of the 500 have actually been slated for full conversion, and of these, only five or six have been converted. For those firms remaining outside the conversion process, military production lines have remained intact and the capacity freed by defence cuts sits idle. Furthermore, according to one independent survey, two-thirds of all plants refurbished in the last two years — most of which are defence plants — have been operating at less than half capacity.

Much of the relative increase in the defence industry's production of consumer goods can be credited to two factors other than conversion. The first is the expanded volume of civilian production lines which were already in place in defence enterprises. The second is the creation of "new" capacity for consumer goods production through the bureaucratic transfer of enterprises *from* the civilian to defence sector. In the first instance, while some redirection of defence resources has occurred, no restructuring has been required. In the second, the Defence Ministry has simply taken over floundering civilian concerns, a practice which began in 1988 with the absorption of some 345 enterprises from the dissolved Ministry of Machine-Building for Light and Food Industry — a practice which has since continued.

### CONVERSION WITHOUT REFORM

Conversion requires not just a reduction in military expenditure but also — and more importantly — a direct transfer of defence capacity to civilian use. Clearly, this has not been happening in the Soviet

case. As many Soviet critics are quick to point out, conversion has been largely a "fairy-tale, a myth," and that which is officially called "conversion" has been essentially a more comprehensive diversification of an already well-diversified defence industry. Instead of promoting the systematic and permanent demilitarization of the economy, conversion has, to borrow the expression of one Soviet commentator, been pursued as "the magic wand which our wretched economy can wave to rectify its condition." It is a strategy which seeks to compensate for the defects of the long-neglected consumer sector without addressing the roots of the country's economic problems.

It is worth emphasizing that, although defence conversion has been frequently presented as a natural component of *perestroika* and the move towards a market economy, from the outset the policy has been predicated upon the continued existence of the centrally planned system. Traditionally, the military-industrial complex has stood at the apex of that system and has been virtually the only sector capable of global technological competitiveness. Conversion was initiated in the belief that defence industry performance capabilities could be easily transferred or adapted to the production of civilian goods. All that was needed was a mere substitution of production under the auspices of the still centralized military-industrial complex.

This is an ill-conceived strategy because it fundamentally confuses bureaucratic effectiveness with economic efficiency.<sup>4</sup> The defence sector's higher performance was assumed to be something inherent rather than, as was actually the case, the result of its powerful administrative network and its politically sanctioned privilege of priority resource allocation. Such muddled thinking has proven costly. Not only has conversion failed to translate guns into butter, it has exposed the long insulated defence sector to many of the ills of the mainstream command system.

### BARRIERS TO CONVERSION AND THE SOVIET SYSTEM

#### *Planning*

In addition to its conceptual flaws, Soviet conversion has suffered from poor implementation. For a system so dependent upon economic planning, it is paradoxical that Soviet conversion was initiated without a detailed and coherent strategy. As conversion advocates argue, for the process to be smooth and orderly, it is essential to determine precisely and in advance just what skills and resources defence manufacturers have and how they can be most