

was a political commitment; implementation would follow in due course.

In fact, however, Soviet conversion has encountered formidable difficulties. Some of the problems stem from the sheer size of the Soviet defence sector and the growing disarray of the wider economy. Primarily, however, the poor progress of Soviet conversion is the result of the systemic depredations of central planning. Until and unless the entire economic process is opened to market forces, Soviet conversion efforts will continue to languish under the deadweight of the faltering but still tenacious command system.

### THE CASE FOR CONVERSION

While Gorbachev's disarmament initiatives have made conversion possible, Soviet economic decline has made it imperative. During the last fifteen years, the Soviet Union's military prowess was increasingly incompatible with its economic vitality. While the West was engaged in rapid technological advancement, Soviet industry was struggling with a decaying infrastructure and diminishing reserves of labour and raw materials.

Initially, Soviet reformers believed that the critical transition to technology and resource-intensive development could be effected without prejudice to the country's defence base. Much to their chagrin, the early, tepid policies of *perestroika* only exacerbated the decline. By 1989, the government budget deficit had reached 80.7 billion roubles or 11% of GNP, making it the highest budget deficit among leading industrial powers. Similarly, the modest external debt of 1985 rose by 400 billion roubles in just four years.

During the 1980s, civilian productivity declined and consumer shortages took on crisis proportions. According to some estimates, military spending claimed as much as 20% of GNP while forty-three million Soviets lived below the poverty line — a situation no longer economically nor politically tenable in the age of *glasnost* and mass politics.<sup>3</sup> Put simply, *perestroika* could only succeed with a comprehensive reduction of the massive defence burden and the release of defence resources for civilian needs.

### HIGH EXPECTATIONS AND MIXED RESULTS

As with the often exaggerated expectations of the "peace dividend" in the West, great things were expected of the Soviet conversion initiative. Indeed, it has often been held up as a panacea for all that ails

the Soviet economy. Infrastructure modernization, environmental clean-up, and educational improvements have all been cited in the Soviet press as anticipated benefits. In fact, however, Soviet conversion policy has been more limited in its application. The overriding priority has been to meet the urgent needs of the flagging consumer sector. According to official statements, the goal is to increase the volume of consumer goods and related industrial equipment produced by the defence industry to 270 billion roubles, or 60% of all defence industry output by 1995. To achieve this, the defence budget would be slashed 19% by 1991 from the 1989 official figure of 77.3 billion roubles, while more than 400 defence enterprises, 100 civilian plants engaged in defence production, and 200 research and design bureaus would be partially or entirely converted.

To some extent, official enthusiasm for these plans has been justified. The defence sector, though suffering some of the corrosive effects of Soviet economic decline, has consistently demonstrated higher levels of performance than its civilian counterpart. The defence sector's 5000 enterprises house some of the most advanced technology and industrial plant in the country, while its workforce of six to seven million includes the most highly qualified scientists and engineers.

Defence industry not only has the potential to contribute significantly to the civilian economy, it has long experience in producing consumer goods — large segments of it, in fact, are already diversified. Since 1965, an estimated 40% of defence industry output has been consumer durables. In 1988, this output covered a range of 2000 goods, including 62% of all washing machines, 95% of all refrigerators, and 100% of all televisions produced in the country. Defence enterprises also have participated extensively in the production of civilian transport, computer and electronic components and medical equipment. Under the impact of present defence cuts, it was hoped that conversion would effectively increase the volume, quality, and mix of these goods as well as enhance the means of their distribution.

Despite the major efforts of the last two years, conversion has yielded only marginal returns. Nevertheless, the official assessment has been positive. According to official data, the 1989 defence budget of 77.3 billion roubles was cut by 8.2% in 1990, including a 6-7% cut in allocations for defence production. Goskomstat, the state statistics agency, reports that in the first half of 1990, the defence industry increased production of non-food consumer items by 25%, even as other industrial production in the economy declined. Overall, heavy industrial output — which includes defence pro-