Conversion of Soviet Military Industry: An Interview with Igor Birman

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Igor Birman is a specialist on the Soviet economy and the Soviet military budget. He emigrated in 1974 from the Soviet Union, where he worked for some years as an economist in the military-industrial complex. He has published a book, *Ekonomika Nedostach* (*The Economy of Shortages*: New York, Chalidze Publications, 1983), and numerous articles on the Soviet economy in the West and the Soviet Union, including one in *Izvestia* as recently as November 29. Birman's estimates of the relative sizes of the U.S. and Soviet economies and the Soviet military budget are now accepted by many prominent Soviet economists. The interview with the editor of *Perspective* took place in Washington on November 30.

*Perspective*. Perhaps it's appropriate to ask you first about the potential resources that can be freed in the Soviet Union by reducing Soviet arms production and converting weapons plants to civilian production. How large do you believe Soviet military expenditures to be?

*Birman*. As you know, a lot depends on definitions. Do you calculate in Soviet current prices or in market economy prices? There are many other problems, for instance, capital investments in military plants, scientific research, military pensions, and the privileges enjoyed by the cadres. In a report I recently submitted to the Pentagon, I calculated that Soviet annual military expenditures, narrowly defined, in current prices, amount to R130-150 billion. However, if we also consider that prices of raw materials are artificially low, that the prices of military goods do not include profits (as they do in
the West), and that Soviet enterprises in the military-industrial complex work under especially favorable, "conservatory," conditions, in my view Soviet military expenditures are at least R200 billion.(1) That represents about 25 percent of Soviet GNP.

**Perspective.** A Soviet economist recently stated that 60 percent of all machinery produced by the machine-building industry went to arms plants. Would you agree?

**Birman.** Because of the completely artificial Soviet prices, nobody knows. But it would certainly be fair to say that it is the majority, 55-75 percent of all production. The Soviet government is still not giving full information on military expenditures to the Soviet people. The Soviet Ministry of Defense did not give complete figures to the Presidential Commission that developed the "500-Day Plan" for economic reform. As recently as the end of September, even the Presidential Council was given absurd figures on arms production.

**Perspective.** By the end of the conversion program, the Soviet government plans to reduce arms production to 80 percent of the 1988 level. It is also claimed that from 1988 to 1995 the percentage of production capacity of military industry devoted to civilian goods will rise from 40 percent to 60 percent. Do you find these assertions realistic?

**Birman.** I am rather skeptical about these figures. Soviet sources never explain how these percentages are calculated—in physical units or artificial, wrong prices. By 1995, some weapons may indeed be produced on a reduced scale. However, they are going ahead with the production of new weapons—for example, they recently tested a new type of nuclear weapon in Novaya Zemlya—and there may be an increase in the production of more modern, more powerful weaponry. Though I would accept that quite possibly there may be some reduction in overall weapons production, I am skeptical about any large-scale reduction. In any case, an increase from 40 to 60 percent in capacity devoted to civilian goods is not very dramatic. I'm not impressed at all by these numbers.
Perspective. There is also the problem of the huge investments required for conversion. The Soviet government cites a total cost of R40 billion—R9 billion for re-equipping production lines and R31 billion for creating new production capacity for consumer goods.

Conversion seems to mean not the turnover of part of the military industry to civilian production, but setting up new civilian production facilities within the arms industry while maintaining military production capacity virtually intact.

Birman. It is normal in the West to talk in money terms, but the Soviet economy is in such disarray that the ruble is worthless. It is a question of resources—raw materials, qualified labor, energy, parts, etc. Moreover, the necessary equipment for conversion is not available in the Soviet Union. New industries for the production of consumer goods have to be created, and this is impossible as long as armaments production continues and the present economic system still exists.

Perspective. I read in the Soviet press about resistance to conversion on the part of leading officials in the military-industrial complex. This year, large numbers of contracts for the production of consumer goods have not been fulfilled, and so far a substantial percentage of contracts under negotiation for the next year has not been concluded. What do you consider to be the causes of this resistance to the process?

Birman. The reluctance is due to many causes. A lot of the people in responsible positions in the military-industrial complex are not young. At the end of their careers, they don't want to go through a period of transition and don't care to change their habits. Another factor is that they are not convinced that a market economy is right for their industries. Also they believe that the military-industrial complex is the best sector of the country's economy. Why should they destroy it?

Perspective. It is an ironic fact that the conversion program is being run by the Council of Ministers' Military-Industrial Commission and by Gosplan department—the very
people who have an interest in the maintenance of the military industries. I.G. Belousov, the chairman of the commission, himself comes from the military-industrial complex. Many people see this as a major problem.

**Birman.** Yes, but it is more complex than that. The people in charge of the military-industrial complex may be the most capable and best educated cadres in the Soviet Union. You know there is the story about Fadeyev [long-time chairman of the Soviet Writers' Union] complaining to Stalin about the quality of the writers in the union. Stalin told Fadeyev, "Sorry, I don't have better writers for you." Similarly, Gorbachev doesn't have any better managers. They certainly exist, but Gorbachev doesn't know how to select people.

**Perspective.** One of the goals of the conversion is the production of consumer goods for the export in order to earn hard currency. A problem where is the mania for secrecy and the very great extent to which industrial information is classified. According to the Soviet press, it's sometimes easier for a Soviet enterprise to cooperate with a Western company in a joint venture, than to work jointly with another Soviet enterprise in view of the information barriers.

**Birman.** Yes, that is true, but the problem is much bigger than that. I do not believe within the next few years even the best Soviet military enterprises will be capable of producing high-quality consumer goods marketable in the West. The best hop is to export military equipment to people like Saddam Hussein. Secondly, they can produce consumer goods for the domestic market, or possibly for East European countries too poor to afford to buy from the West.

**Perspective.** So that the best prospect is to export low-tech products?

**Birman.** Yes, but even then it will take years before industry is capable of producing high-quality goods. How do you expect Soviet industry with poor infrastructure, poor cadres, and no experience of producing quality goods to produce marketable exports?
You can't expect such a miracle. I were a Western capitalist I would not be afraid of Soviet competition on the consumer goods market maybe for decades.

**Perspective.** Given the lamentable state of Soviet industry, what policies should the Soviet government pursue in your view?

**Birman.** The military industry of the Soviet Union must be liquidated, period. Otherwise there will be a catastrophe. The Soviet Union will end up in the same state as Abyssinia. As you well know, I have predicting this for a long time. Privatization of the economy and capitalism is the only possible solution. Liberation from state control and privatization should begin with the military industry since it has the best cadres and technology. *Carthago delenda est.*

**Perspective.** Will any Soviet central government be prepared to stop armaments production completely?

**Birman.** We are observing the final months of a central Soviet government. I strongly believe that within a year there will no longer be a central government that will be able to make decisions on matters like conversion. The 15 republics will be forced to establish capitalism and private enterprise.

**Perspective.** What do you see as the prospects for the Russian economy in the coming years?

**Birman.** My best prediction is that an economic decline will continue for years, depending on the political situation, before there is a stabilization of the situation. Then in 7-10 years, possibly a slow improvement may begin. You must understand a very simple thing—for the 73 years of crimes, mistakes, and idiocies a high price will have to be paid.
**Perspective.** What is your view on the advisability of Western aid in the present situation?

**Birman.** I am very much troubled by the willingness of the West to provide aid unless and until the system is transformed and the assistance can bring about improvement. To enable the system to survive a bit longer is an idiocy.

**Notes:**
1. The current official exchange rate is $1=R2 while the tourist rate stands at $1=R6. However, it is Dr. Birman's emphatic opinion that such dollar comparisons are meaningless.

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