

The Conversion Factor
by Seymour Melman

This time of crisis in Soviet public life can also be a time of opportunity. No re-evaluation of Soviet political institutions can avoid a critical assessment of the Soviet military economy, whose size and effects have been underestimated.

The military economy of the U.S.S.R., like military economies everywhere, has operated in a centralized, inefficient, cost-maximizing style. The rules of military ministries have encouraged escalations of cost and price, to be offset by ever-growing subsidies. This style of production management is exactly the reverse of what is required for improvement of productivity of both labor and capital.

Last available data from the United Nations show that, in 1987, for every \$100 of new civilian capital assets created in the United States, \$54 was separately spent for the military. Since modern military budgets are equivalent to a capital fund, this military: civilian ratio of 54:100 shows the relative military use of vital capital resources. Compare the U.S. ratio with that of Germany — 19:100, and Japan — 4:100. German and Japanese capital have been concentrated on civilian investments. Hence the result: Germany and Japan are the economic victors of the Cold War.

From my visits to Soviet military and civilian factories, and in the absence of published data for the U.S.S.R., I estimate that the Soviet ratio has been in excess of 75:100. Economic conversion aims at correcting the catastrophic economic consequences from such a concentration of human and material resources on economically non-productive activity.

Economic conversion is the political, economic and technical process for assuring an orderly transformation of economic resources now being used for military-oriented purposes to alternative civilian uses. The size and quality of the Soviet military economy make it a logical target for finding major new productive resources to serve Soviet economic needs.

In the fourth chapter of *Economic Conversion and Disarmament I* define methods for competent economic conversion planning, based upon the special characteristics of military economy. Military managers and engineers know how to design, produce and sell only to government buyers that are ready to support cost extravagance and price escalation. Conversion to civilian work therefore requires not only redesign of machinery but also retraining of administrators, engineers and production workers for the cost-minimizing practices that make for competence in a civilian economy. These include:

1. *Mandatory alternative use committees.* Every military-serving factory, laboratory and base with more than, say, 100 employees, should be required to establish an alternative use

committee. This committee has responsibility for preparing complete plans for civilian work in the event that the military orders are cut back or ended. This committee is best composed — equally -- of representatives from management and the working people, all occupations. This sharing of responsibility and authority is designed to assure not only a maximum flow of ideas, but also democratically-shared responsibility and authority in factories, bases and laboratories. The alternative use committee must be guaranteed access to all needed data and facilities. The availability of alternative use plans assures the working people and surrounding community that serious attention has been given to their economic prospects beyond the service of the military.

2. *Advance conversion planning.* Planning for economic conversion can not be left to the time when a military contract has been cancelled. There is no quick, simple formula for selecting of new products for a military factory or base. Careful attention must be given not only to market requirements but also to the suitability of people and equipment for prospective new work. Also required are: reshaping machinery and production layouts; selecting materials and arranging for sources of supply; pre-testing materials, equipment and whole processes prior to new production operations. A period of two years is a reasonable time allotment for the planning process in a large facility. When such time is not available mistakes will have to be risked, with costs that might otherwise be avoided.

3. *Decentralized control of alternative use planning.* Conversion planning demands attention to the requirements of specific products and the capabilities and limitations of particular work forces, plant and equipment, surrounding infrastructure and resources. Accordingly, the operation of alternative use committees is most effectively carried out at the point of operation of the facilities concerned. This does not detract from the importance of calling upon specialized skills from other places to facilitate the work. But this does emphasize that a remote, centralized organization is inherently unsuited for effective economic conversion planning.

Since so much attention has been given to "market" economy, as in the United States, I should underscore that these core requirements for competent economic conversion have been strongly opposed in the United States by the military-industrial complex. Every economic conversion law proposed in the Congress has been opposed by the White House and Pentagon. The U.S. military-industrial complex has advocated these alternatives to conversion: continuing military economy with a little less than \$300 billion each year; encouraging firms to diversify profitable financial investments even as military-serving workers are dismissed; requiring dismissed military employees to "adjust" individually in the labor market while top managers are assured large incomes.

When working people have a share in the alternative use committees to plan conversion of military facilities, then worker ownership with workplace democracy is not a political speculation or an experimental idea. These are methods of proven efficiency in networks of industrial and other enterprises in Spain, Israel and many worker-owned firms in the U.S. The alternative to state management (with a KGB) is not simply corporate management (without a KGB). Worker ownership with workplace democracy can be a viable option.

Avoiding economic conversion and continuing Cold War military economy is an option that the Soviet Union cannot afford. Consider, for example, the vital issue of producing foodstuffs and delivering them properly to the market.

The barely-mechanized potato crops of the Soviet Union are important in the food supply. Indeed, the populations of whole towns have often been called out to harvest the potato crop. At the same time large scale spoilage and theft of harvested potatoes has been a feature of the Soviet food chain.

The cooperation of machinery manufacturers in Western Europe and the United States could now be enlisted to obtain blueprint plans for first class potato harvesting machines. Alternative Use Committees of military factories with large, diversified machine shops should be asked to consider production of such machines. Firms with special competence for this work can be invited to undertake assembly and marketing of such equipment. The same firms would be the natural source for spare parts, training courses on the operation and maintenance of the new machines, and research for their further development.

All this could be accompanied by assigning ownership to the workers, and therefore responsibility and authority, for the potato growing farmland and the necessary machinery. This would give the working people a direct stake in the efficiency and prosperity of their enterprise.

New wholesale trade enterprises are needed to buy the crop from farmers, store it, transport and sell it to retail shops in cities. Worker ownership and control are vital here to get both reliable performance and protection against individual theft and "Mafia" gangsters. For this function as well, storage and transport technology can be swiftly obtained from experienced organizations in Western Europe and the U.S.A. Conversion planning in Soviet military enterprises and organizations could lead to new facilities and arrangements for storage, transportation and marketing — for a reliable linkage between producers and consumers of vital foodstuffs.

Discussion of Soviet economy has focused on a change in markets, from centralized to decentralized arrangements. But markets do not address the task of *production*. A change from centralized to more efficient decentralized control over production — combined with worker ownership and control — goes to the heart of the authoritarian power of central authorities. Conversion from a military to civilian economy opens the way for making major choices on the organization of work with far-reaching effect on the supply of civilian goods.