

## Russia's reforms and the military-industrial complex

The oscillating Russian political center, moving first away from authoritarianism and ostensibly toward a Western-style system in the post cold war era, has retrenched. It now appears that Russia is suspended in a downward leaning spiral at a location in between where they have come from and where they seek to go. President Boris Yeltsin is attempting to balance an inherently precarious and unbalanced situation. Had reform been genuine, comprehensive and fair the Kremlin chief may have eschewed in a Russian state that resembles what Western optimists had been hoping for.

A major part of Yeltsin's problem is that there was little consensus in his country. The policies of reform have divided all sectors of the army, the government and the people, the consequence of which paralyzed the society while leaving unresolved the national agenda and created confusion as to who its main actors should be. The simple fact is that it may be impossible to amass a majority on any important reform issue in Russia today. It is not possible to forge national policy in the context of such contradictory and strongly held interests, exacerbated by the manner in which he has conducted his reform efforts. Unlike the simpler Gorbachev era before whose initial problem was that there were not enough reformers, Yeltsin's problem is that many traditionally entrenched interests who possess great resources are making the transition to the new reform era more effectively than those would-be capitalists who lack previous political clout, connections, skills and money. Much like Peter the Great who introduced elements of European culture and ideas, the current Russian reforms are an attempt to bring Russia into the modern world from which it sees itself as having been excluded by the West. Historically in the West, the Reformation, Renaissance and industrial revolution took place gradually in a sequential, orderly way. Russia today must perform a simultaneous and miraculous catch-up virtually overnight, and this invites disorder.

The success of Yeltsin's reform program is not helped by its expedient top down social engineering approach rather than one which is a response to growing entrepreneurial classes welling up from below. Yeltsin's fight is without a strong independent alliance from a legitimate, energetic and progressive capitalist-producer class. Rather he faces, in part, a growing consumption-oriented, crime-ridden class of opportunists bent on personal benefits who have appeared during a transition period because there is something of a political vacuum at the center.

But the reform mis-steps, political debacles, together with the momentum of Russia's entrenched interests and structures is proving too overwhelming for reform the way it was carried out after the breakup of the former Soviet Union.

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In the aftermath of the October's siege of Parliament in 1993, many Western observers at least initially believed that Yeltsin's hand had been strengthened and thus the momentum toward reform in Russia was also strengthened. Such a renewal has proven to be more illusory than what was at first thought. The electoral process was primarily just a retroactive move designed to mollify and divert attention away from Yeltsin's main accomplishment: the reconcentration of power in his own hands in order to attempt to: 1) hold government together without further Kremlin coups, 2) halt the tendency toward civil war, 3) slow inflation in the medium but not short term and stabilize the economy, 4) hang onto some stability to give the economic reform changes a chance to further shake out and define themselves so they might take hold, 5) allow more time for potential allies to recognize the need to follow his leadership in order to form some type of new framework upon which to build the government. Yeltsin's strategy, in other words, seems to be to create a Russian-style "democracy" that will be characterized by a strong president-led system, ratified by popular vote. While in office the president would rule the disparate segments of the political system with an iron hand, and presidential legitimacy would ultimately be assured through electoral appointment. Because of this new system, presidential succession is intended to take place in a more orderly and popularly determined way, rather than through use or threat of force.

However, it was one thing to get rid of one set of stubborn or "hardline" parliamentary opponents who shared a number of points in common with Yeltsin, and quite another to face the prospect of an unending renewal of worsening adversaries in subsequent parliaments. What good does it do to get rid of relatively moderate oppositionists like Khasbulatov and Rutskoi only to face other, more extreme and challenging elements? This is not a simple case of Russian roulette because all the empty chambers can be filled.

The December 1993 parliamentary elections were intended to further legitimize and anoint an enhanced Yeltsin rulership. But the election results further complicated the Russian president's political assets and revealed the deeper path he must follow. Yeltsin tried to replace the old Parliament with a more favorable, if weaker, one. Acting to break political gridlock in the name of democracy, Yeltsin's strategy throughout the 1993 presidential campaign may have been to "not lose" while clearing the decks to see if a new hand would have dealt him a more favorable result. It did not. The unexpected results ironically lifted a new ultra-nationalist into the inner circle of presidential contenders for the next election. The injection of Vladimir Volfovich Zhirinovskiy onto the national stage aggravated Russian politics and movement toward economic reform. Zhirinovskiy's sudden national promotion also engendered undesirable apprehensions from nations in the West and the near-abroad. While the 1993 parliament elections were basically designed just as a retroactive mechanism to blunt criticism and reaction of Yeltsin's use of force against the Parliament on October 3-4 of that year, the consequences provided no light at the end of the Kremlin's narrowing tunnel.

Vladimir Zhirinovskiy's unforeseen electoral capture of a quarter of the electorate did reflect the voter's extreme disenchantment with the increasingly hard living conditions ordinary people face, which Zhirinovskiy managed to blame on outsiders. In the immediate aftermath of the election many Russians believed that

Zhirinovskiy represented a "protest vote" against the misery and political bickering at the nation's center. Others who did not vote "regretted" not having done so, leaning toward Choice of Russia. They failed to anticipate Zhirinovskiy's first place plurality showing.<sup>1</sup>

As a strong nationalist, Zhirinovskiy's support base is potentially expansive because his ideas are welcomed among Russia's rural population as well as the lesser educated classes in the cities. He believes in no outside aid and no defense conversion. He wishes to resume selling arms to the world and especially Iraq because they are "such a good customer", repaying no international debts and eliminating foreigners and "Snickers bar commercials" from Russian T. V. broadcasts. A Russian political writer lamented, Russia's "instincts provide soil for fascism... (including) parasitism, a tendency to rely on others, the need for a strong paternalistic hand guiding the state, the cult of violence, and chauvinism".<sup>2</sup> A strongly nationalistic hardliner is an imaginable Russian leader.

### "Shock Therapy as Reform"

The ever-present and immediate threat to stability, however, is that Yeltsin faced an uphill struggle to bring into being a new, more open, equitable and effective economic system in a short amount of time. The historical and structural problem in Russia has been that state socialism subsidized the population, taking up 30% of the budget for agricultural subsidies alone. In 1993 trade has been conducted involving limited hard currencies, accounting for only approximately 28% of exports and 34% of imports. To exacerbate the situation, half of the hard currencies in the reform years had to be used to pay for additional beef simply to get more protein consumption into the Russian diet to maintain minimum nutritional intake. Little hard currencies were left for massive infusions of productive modern Western technology. Economic reform cannot take-off under such backward consumption pressures. The decline in living standards accelerated in 1992. Two years prior to that people spent 38% of their income on food. That figure rose to 70% by 1993. The consumption of meat fell to 77% of the old 1975 level, milk consumption fell to 72% and fish in-take fell to 75% of the 1975 mark.<sup>3</sup> Adult well-being is affected in the reform period but alarm spread among the population who realize that the growth of children is not possible with bread alone.

Reform as Yeltsin attempted to introduce it created more problems by driving up inflation, not stopping it. High inflation destroys governments when unaccompanied by commensurate gains in productivity. Year-on-year inflation was targeted by the government to fall 27%–30% by 1995. But inflation was 180% in 1994, 840% the previous year and 2,000% in 1992. Life savings of ordinary Russians were wiped out.<sup>4</sup> "Shock therapy", as initially advised by American economists together with the IMF and other Western advocates, has drastically allowed

<sup>1</sup> Serge Schmemmann, "District Returns in Russia Elections Lift Yeltsin Bloc", *New York Times*, December 16, 1993, p. A8.

<sup>2</sup> Lyudmila Telen, "What Does Zhirinovskiy's Strong Showing Mean? – II" *The Current Digest of the Post-Soviet Press*, Vol. XLV, #51, 1993, p. 10.

<sup>3</sup> Nadezhda Nadezhkina, "Rich-Poor Income Gap Widens Dramatically", *The Current Digest of the Post-Soviet Press*, Vol. XLVI, # 3, 1994, p. 13.

<sup>4</sup> John Thornhill, "Russia Says Economy Will Overcome Instability", *London Financial Times*, October 25, 1994, p. 2.

consumer prices to rise quickly and overwhelm virtually all salaried workers. In a September 1993 survey of 19 key food basket staples, the cost totaled \$20, approximately the whole of the average salary of an urban worker for that year.<sup>5</sup> The rich-poor income gap has widened. The richest one-fifth of the population earn 43% of the cash income while the poorest fifth receive only 7%. Russian sources report that only 10% of the population, among them half of the already wealthy families, has profited from the economic reforms. Thirty to 40% of the Russians could not even earn the December 1993 salary level of 50,000 rubles per month to achieve the minimum standard of living.<sup>6</sup>

Compared with 1993, Russia's industrial output plunged an additional 25%, which is pushing toward a "social explosion" in the opinion of Russian planners if unemployment levels rise above 10–15 million workers. The policy of the Central Bank to print more money to issue "cheap credit" also contributed to Moscow's economic problems. The Central Bank's intention was to temporarily prop up existing inefficient industries to maintain some production and employment, but that policy added to inflation pressures that further squeezed the ordinary citizen. In October 1994 the ruble experienced the largest one-day drop in its history, falling 21.5%. While only in 1993 the ruble-to-dollar ratio was 1,000 to \$1, the ruble was lowered to 3,926 to the U. S. dollar.<sup>7</sup>

One European scholar estimated that Russia's GDP fell 19% between 1991–2, and then fell again an additional 12% between 1992–93. A fifth of the nation's enterprises were rated as basically bankrupt. Seventy percent of the industrial sector had been privatized, but only as a defensive measure as workers gained a 51% share of the voting stock. Estimates of \$1 bil. per month in capital flight out of the country were regarded as "plausible".<sup>8</sup>

In the face of such economic collapse, a domestic nonpayment crisis emerged. Various parts of the Russian economy simply stopped paying other parts for goods and services received. In the Russian system, there have been no penalties for nonpayments. Nationally, by August 1994 large enterprises accumulated debts 15 times their current capital holdings. The practice became so widespread that receiving parties found that in this bizarre business environment they could become "enriched" by such one-way accruals. Reform becomes unlikely because so many enterprises have a vested interest in seeing that the current system remain in place. Overdue debts reached 34.8 trillion rubles in the first 5 months of 1994 alone, totalling 10% of the nation's gross domestic product (with the state itself ranked among the largest nonpayers). In a survey of employees at 109 key Russian enterprises the workers did not receive wages for 3–4 months. Yeltsin has lashed out against certain corporate executives who did receive state payments but who used them to fund their own monthly salaries of "5, 8 and even 11 million rubles" each.<sup>9</sup> Russia is cannibalizing itself in this hybrid, not yet emerged economic environment of quasi-privatized elements connected with semi-state regulated rules.

<sup>5</sup> Svetlana Ulanova, "September Inflation was about 20%" (*Izvestia*), *The Current Digest of the Post-Soviet Press*, Nov. 3, 1993, p. 30.

<sup>6</sup> Nadezdina, *op. cit.*

<sup>7</sup> John Lloyd, "Russia in Deep Crisis as Output Plunges by 25%", *London Financial Times*, May 9, 1994, p. 1; also, John Thornbill, "Rouble Falls 21.5% as Currency Exchanges Close", *London Financial Times*, Oct. 12, 1994, p. 1; and Christia Freeland, "Russia Set to Impose Tough Curbs on Spending", *London Financial Times*, Oct. 21, 1994, p. 1.

<sup>8</sup> Philip Hanson, "The Future of Russian Economic Reform", *Survival*, Autumn, 1994, pp. 30, 34 and 36–7.

<sup>9</sup> Otto Latsis, "Nonpayments Crisis Continue to Plague Economy", *The Current Digest of the Post-Soviet Press*, Vol. XLVI, # 29, 1994, pp. 8–9.

As Kenneth N. Waltz has stated, what is rational for state objectives at the micro level is often irrational at the macro level. The Russian situation may be a difficult one to get out from. As one Western writer observed from Moscow, any prolonged economic crisis would likely bring an ultra-nationalist like Zhirinovskiy into the presidency. He then would "undoubtedly turn against the West and neighboring states to distract public opinion away from painful economic problems".<sup>10</sup> Under such a development, neither domestic reform nor an entry of Russia into the international family of nations would be forthcoming.

Russia's ability to attract hard currency investment and new technologies is dependent in some measure on foreign investment. As it stood in 1993, there were only 11,000 foreign enterprises in Russia nation-wide, with holdings that total a mere \$300 million in capital. Almost three quarters of this sum was linked to services of American or other foreign companies making cautious efforts in tourist hotel building and services, not to main-line manufacturing production activities. The three hundred million dollars represents just 1% of Russia's total production of goods and services. Moreover, a shift has taken place in foreign investment away from government and macro-economic investment toward small private enterprises and microeconomic investments. Foreign investment of this nature has been insufficient to kick-start Yeltsin's economic reform program. Foreign investment continued to be weak in the first quarter of 1994, with "only \$180 million being invested in the entire Russian economy". Corporate debt rose 3-fold in a 6 month period.<sup>11</sup> Neither technology nor badly needed hard currencies were being accrued.

Even 70% of Russian-Chinese trade had been taking place through barter. Two-way trade grew substantially between those two countries in the years 1991-93, accelerated by their mutual needs. The "complementary nature of the two economies" - the natural resources of Russia with China's agricultural and labor resources - have made them natural trading partners. But such trade does not meet Russia's key requirement. Moscow has since pressed China for hard currency in exchange for its resources.<sup>12</sup> As a result of the cumulative lack of the influx of hard currencies together with continued inflation, a brain-drain among some of the elites within Russia away from scientific, educational and health organizations has taken place. Such Russian professionals have "shuttled" into private businesses buying goods outside Russia and reselling them. This development cripples the country's prior investment in this type of vital infrastructure so badly needed for building the foundations for a sustainable economic growth. The former professionals are able to make increase their earnings in this way. They were forced into such activities because with reform their previous income had dropped to 20-40% of their previous salaries.<sup>13</sup>

As a result, Yeltsin put an end to reform and "market romanticism". In its place "a rather large amount of state regulation in the economy (has been) restored", which includes a retreat from the freeing up of prices. New plans called for realizing 6 principles: 1) guaranteed minimum living standard, employment threshold, fixed expenditures on education, medical and social welfare; 2) abandoning "shock therapy" and the Gaidar-led monetarist reforms, to be replaced by

<sup>10</sup> Leyla Boulton, "Moscow Less in Love with West", *London Financial Times*, Feb. 3, 1994, p. 1.

<sup>11</sup> Lloyd, *op. cit.*, May 9, 1994.

<sup>12</sup> Tony Walker, "Beijing Success May Impress Chernomyrdin", *London Financial Times*, May 26, 1994, p. 5.

<sup>13</sup> Nadezhdina, *op. cit.*

more state regulation; 3) financial stabilization via wage and price regulations; 4) the promotion of a single Russian market, rather than tolerating local market variations; 5) return to self reliance away from foreign aid dependence and the debt incursion they imply; 6) a new mixed economy with emphasis on privatization of management rather than of property so that directors retain authority. Price fixing was to occur in stages, first for raw materials and the railroads, then the payment of back wages. Russian industries were to be protected against foreign competition through custom tariffs on imports, and get inflation down 3-5% per month. In a grand fashion, Yeltsin announced that his 10 year national goal was to "become one of the leaders of the world economy".<sup>14</sup>

### *Enter: Russia's Mafia*

Under reform, as former state enterprises opened up for privatization, key government officials were intimidated into granting shares by organized crime. Discouraging competitive bidding by the presence of "thugs" at public auctions, it was estimated that 70% of the properties up for sale in St. Petersburg fell into mafia hands at heavily discounted prices. Such properties then serve as the base for further expansion of related business activities in which the mafia widen their participation in or control of legitimate businesses.

In addition, national borders were ambiguous in the wake of the break-off of the former Soviet Republics. "Uncontrolled migration" across vague borders encouraged the illegal movement of money and goods across Russia and its bordering states, which in turn could serve as transit platforms to the West. The official murder rate climbed to 24,000 by 1993, which represented a two and one half times increase over 1988, though the Russian press notes that the real total is much higher. Many individuals who fall victim to organized crime are never found and are recorded as missing persons. Reported crime of a general and more widespread nature doubled between 1990 and 1994 as traditional methods of law enforcement had broken down, accelerated by the aggressive pursuit of profits in the reform era by organized crime.<sup>15</sup> They have a hand in a range of reform-associated businesses, ranging from high tech computer business start-up's to the sidewalk kiosks and their delivery services. Sporadic nightly shootings, especially after 11:00 pm, could be heard throughout many neighborhoods in Moscow. Often foreign visitors and businessmen are targets because they represent 'walking payrolls' in their personal cash and possessions. The Moscow police have tried to stem the tide of such assaults but there are too many such visitors and too few police. In the previous Soviet days the KGB would routinely shadow foreign visitors, which the Russian population understood. Such state monitoring inadvertently formed a protective wall around such visitors, as would-be assailants would not risk approaching foreigners because the Russian secret police was nearby.

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<sup>14</sup> Dmitry Volkov, "Reform 'Adjustments' Promise More State Control", *The Current Digest of the Post-Soviet Press*, Vol. XLVI, # 5, March 2, 1994, pp. 1-3.

<sup>15</sup> Yevgeny Solomenko, "St. Petersburg Gangsters Push for Economic Power", *The Current Digest of the Post-Soviet Press*, Vol. XLV, # 51, 1993, pp. 14-15; also Vasily Kononenko, "Sweeping Assault on Organized Crime Is Planned", Vol. XLVI, # 21, June 22, 1994, pp. 1-4; and Maks Khazin, "Rising Tide of Murders: What Can Be Done?", Vol. XLV, # 49, 1993, p. 13.

But Yeltsin's greatest impediment to reform may not be ultra-nationalistic persons, parties or the considerable vagaries of economic theory and practice in contemporary Russia, but rather the continuing backward pull of certain old communist practices and structures. The overwhelming urge for strong political and military independence resurfaced with the October siege. Historically, as Alvin Rubinstein has written, Russia has had "little interest in interdependence . . . beyond what it sees as necessary for strengthening its own society". The old Soviet system believed that the welfare of the state is best realized through a "strong military establishment". Harsh and limited geographical and geopolitical conditions have nudged Russia toward expansion. "There are no isolationists in the Kremlin". Moscow has always been in search of "strategically secure frontiers". They have accepted Clausewitz's notion that "war is a permanent factor in international relations". Much in Russia's history stems not simply from a striving toward security but from imperial ambitions of expansion based on geographic determinism and an "urge to the sea".<sup>16</sup>

Mary Kaldor writes that the Soviet military system has been designed to perpetuate conservatism through state planning. At the defense factory level managers routinely passed up misinformation about output in order to maintain their own autonomy and downplay failure. The result was "immense wastage and recurrent bottlenecks". This phenomenon has not been reversed because the defense lobby has emerged as the most important in Russia. National leaders have been primary sponsors of the defense industry. Even Brezhnev came up through the defense-industrial sector. The defense industry, as contrasted with the West, has been regarded as the "foundation of the entire economy". Soviet defense budgets have been stable, follow-on systems have been institutionalized, and these factors have encouraged inefficiency through unneeded expansion. Since 1927 defense has been a privileged sector receiving the best machinery, parts and scarce materials. Defense workers receive higher incomes and better housing and medical care than the civilian population. Estimates of Russia's defense share of GNP have ranged from 8–14%, and military production has been said to represent 25% of total industrial production.<sup>17</sup>

The Soviets have needed to rely on a vast arms industry in part as a vital adjunct to their foreign policy. An expansive defense industry which emphasizes quantity was necessary in order to transfer massive amounts of arms to the 3rd world as a matter of seeking allies. Its arms transfer policy, in other words, was tied to its cold war competition with the West. The Soviets well realized that their system did not present a generally attractive economic or political model to its potential allies, compared with a burgeoning West. In order to try to bring 3rd world states under Soviet influence, arms had to be transferred as an incentive to align with Kremlin policies. Soviet-made arms were often given free or at a 40% discount. All arms to North Vietnam were given free of cost. Countries such as Egypt have been billed but delivered arms have not been paid for, and Russia has not insisted on payments. In other instances, the Kremlin offered generous 8–12 years of credit payable with soft, local currencies. Arms sales were so prominent as

<sup>16</sup> Alvin Z. Rubinstein, *Soviet Foreign Policy Since WWII* (Glenview Illinois: Scott, Foresman & Co.), 1989, pp. 6, 10–11 and 22.

<sup>17</sup> Mary Kaldor, *Baroque Arsenal* (New York: Hill and Wang), 1981, pp. 114–117, and 120.

a proportion of its overall trading relations that it represented "about half of total Soviet exports to the less developed countries".<sup>18</sup>

In addition, following the "missile gap" crisis the Soviets are said to have spent \$100 billion more than the U.S. on strategic nuclear weapons, which would account for their peak supply of 30,000 warheads before the agreement with the U.S. to reduce the total number of warheads took effect. In addition, Russia's traditional client states like Cuba, Poland and Vietnam have cost Russia \$11 billion per year, and the war with Afghanistan costs the nation an additional 70 \$ billion.<sup>19</sup> The burden of its inside-outside policies tax the nation's ability to move positively on other fronts.

### *The Failure of Military Conversion*

Yeltsin was forced to divert reform monies back into the world's largest, costliest and most impaired military-industrial complex. In many of Russia's major cities up to 80% of the industrial capability is dedicated to the defense industry. What did not help Yeltsin is his country's particular defense structure. In the U.S., military conversion is more like a one way escalator. Climbing down means shutting down. American conversion means breaking up strategic labs and research teams which took decades to build up to the levels attained in the late 1980s. Once broken up and scattered America's military defense capabilities are more permanently reduced and converted into either civilian activities or diminished military segments.<sup>20</sup> But America's strong economy and tradition of repeatedly sizing-down and building up its military capacity may give it a uniquely intangible and resilient quality. In Russia, conversion is less an American-style, one way escalator than it is a fused Military-civilian Industrial Complex. Russia's military factories have long featured some assembly lines and plant segments that have produced dedicated civilian goods such as refrigerators, commercial vehicles, machinery and the like. Such consumer goods may have been intended to quell local criticism of the military predominance of plants, or to even disguise their primary nature. "Conversion" for Russia, in other words, can mean convertibility. That is, a re-ordering rather than a reversion of resources of the military/civilian mix of products that such factories produce to favor one type while maintaining the other. Dual expertise is not necessarily permanently lost because the skills and experience necessary for both functions continue to co-exist side by side, though in different proportions. This is the critical difference. The flexibility allows this structure an opportunity for quiet re-prioritization toward increased military production when deemed necessary.

The civilian industry has been, in other words, a permanently secondary structure and serves as an adjunct to the defense function inside such plants. Not able to develop independently, competitively or technologically, the Russian civilian industries are structured for a nonconsumer market. The 'civilian industries' have been hostage to the defense industrial matrix and held captive within its inefficient framework since its very inception. Full economic development is not possible without first delinking the civilian from the military production operations.

<sup>18</sup> Andrew J. Pierre, *The Global Politics of Arms Sales* (Princeton, N.J.: Princeton University Press), 1982, pp. 73 & 78-9.

<sup>19</sup> Rubinstein, *op. cit.*, p. 278.

<sup>20</sup> Office of Technology Assessment (OTA), *Global Arms Trade*, U.S. Congress Publications, Washington, D.C., 1991.



As an illustration, from an early date Yeltsin himself proclaimed that "conversion" was to co-exist side by side with on-going military production, implying that the latter was more important. Yeltsin stated that conversion "must not run counter to the interests of the country's defense capability". In 1993 Yeltsin even promised to double the budget allocation for R&D monies to enhance a "new generation of weapons".<sup>21</sup> To mollify such tendencies, the U.S. has offered conversion assistance. The Clinton administration supplied \$20 million in a 1994 pilot program to 4 selected Russian defense plants to encourage joint cooperative ventures with American companies to civilianize their military emphasis into telecommunication satellites and air traffic control products. But the size of the Russian defense industry is staggering. Direct military-industrial employment alone totals 5 million people spread throughout 70 major cities, down from 6.5 million a few years ago. The defense industry indirectly supports additional tens of millions of workers in a population of 150 million. One arms plant manager stated that "no more than a handful of Russian military enterprises can be transformed into makers of quality civilian products at a competitive price".<sup>22</sup> The potential for Russian conversion appears to have a low ceiling.

Moreover, conversion was not helped by the tradition of extreme secrecy in military productions which slows down any spin-offs to the civilian sector. Russian defense doctrine has additionally emphasized simplicity and commonality in their production lines. Defense plants resist complexity and design changes because such dynamics interfere with output, which is in part a politically-driven objective. Simplicity and a tendency for technology-continuence has thus stymied technological dynamism within defense operations. In fact, in the past the central political authorities have had to employ "shock treatment" to force defense companies to adopt newer technologies that are more conducive to the production of modern arms.<sup>23</sup>

The paradox is that the entrenched military-industrial complex has proven to be "resistent to market forces" while remaining "the largest and most productive core of the former Soviet economy" Neither the defense nor civilian side of the national economy can energize the other.<sup>24</sup> Defense conversion has not worked because the military-industrial complex itself has obstructed it. Instead of converting military production over to civilian products the defense industry created a system of "tandem" production in which new civilian products were manufactured at the same time with military ones. This process was adopted by defense industrialists in order to preserve core military productive capacity. The result over time was that limited resources were devoured without tangible long term gains in civilian productivity.

Relying on a 50 year old defense mentality of presurging military equipment in advance of expected crisis of WWII dimensions, the industry has institutionalized the need for mobilization readiness. This in turn has added to the drain on the nation's resources. Reserve capacities and military stocks were maintained and enhanced without generating sufficient economies of scale via full production loads. Worst of all the manufacturing improvement rate process was artificially slowed as a result of "mobilization bondage", in which priority is granted to

<sup>21</sup> Daniel Sneider, "Yeltsin Downplays Impact of Conversion", *Defense News*, Nov. 22-28, 1993.

<sup>22</sup> Richard Stevenson, "Russia's Arms Makers Try Change", *New York Times*, May 2, 1994, pp. D1 & D17.

<sup>23</sup> Kaldor, *op. cit.*, pp. 121-24 and 127-8.

<sup>24</sup> Michael McFall, "The Dynamics of Revolutionary change in Russia and the Former Soviet Union", in Michael Klare and Daniel Thomas (eds.), *World Security* (New York: St. Martin's Press), 1994, pp. 74-75.

anticipated presurge weapons production in advance of any actual political or military crisis.<sup>25</sup>

A fiscal crisis emerged as a result of these practices. Lacking hard currency and facing a self-contained supply, domestic prices for raw materials inside Russia rose above world prices, further arresting conversion and military production. Between 1992-94 the military-industrial complex had been getting by thorough selling existing stockpiles of the previous decades. By 1994 those stockpiles were depleted and the means by which to resurrect them exhausted. The Russian defense industrialists continued to insist that they were capable of lifting the nation out of its national economic problems. Military industrialists stated that the defense companies possess a greater capacity for engendering economic growth than either the agricultural or energy industries, which they feel had unfairly received special government privileges and credits in the initial reform years. If proposed cuts of 57% in R & D and 82% cuts for arms purchases holds up, defense industrialists said that 15 million defense workers will lose full time employment.<sup>26</sup> The social fallout would be difficult to weather for even a strong Russian president.

In 1994 the overall defense budget was funded at only 20% of its annual allocation, according to *Jane's Defence Weekly*. This was a move by Yeltsin to balance many budgets with limited monies. But the Russian president was trying to salvage an increasingly hollow economic base which may not meet critical levels to launch national growth. If judged by Western standards, by 1994 already 70% of Russia's defense companies would have been declared insolvent. Defense production fell 33% in 1993. However, a paradoxical feature of the Russian defense structure is that many companies continued to achieve domestic levels of profitability because of low wages and low overheads.<sup>27</sup>

### *The Yeltsin Military Connection*

President Yeltsin was reportedly forced to trade favors with Defense Minister Grachav and his loyal paratroopers in the October 1993 Parliamentary fire fight in exchange for concessions on Russia's military drawdown. Yeltsin's ability to further advance reform of any significance probably met a fatal blow at that point. At the very least much of the die had been cast in the remainder of Yeltsin's regime. The 1991 coup clearly reminded Yeltsin that the loyalty of strategic military Moscow commanders and their troops, including the crack 35,000 special forces, is vital to the survival of any modern Russian president. Some army units took a wait-and-see attitude. One observer noted that since that time Yeltsin's behavior has been concerned less about reform than to efforts designed to bolster his own political support base.<sup>28</sup> Yeltsin has attempted to placate military criticism of his reforms since that date by constantly raising the military salaries of his top officers. But only 17% of the military supported Yeltsin as their first choice in the December elections, with a third of the army's votes going to Zhirinovskiy. This

<sup>25</sup> Col. Ivanov, "Military Spending: Too Much or Too Little?", *The Current Digest of the Post-Soviet Press*, Vol. XLVI, # 21, 1994, pp. 13 and 24.

<sup>26</sup> Daniel Snieder, "Funding Shortfalls Begin to Undermine Russian Military", *Defense News*, Feb. 21-27, 1994, p. 1; and Pavel Felgengauer, "Military-Industrial Complex Howls at Budget Pinch", *The Current Digest of the Post-Soviet Press*, Vol. XLVI, # 11, 1994.

<sup>27</sup> *Jane's Defence Weekly*, "Russian Industry Feels the Cold", May 7, 1994.

<sup>28</sup> Hanson, *op. cit.*, p. 30.

form of monetary co-optation through salary raises invites opportunity to ante-up and is at best a short term strategy. Each year since the August coup at budget time the moment to ante-up may be occasioned. Military salaries were raised 5 times in 1992 alone. But what is more ominous is that there are reportedly secret "underground committees" within the military who are shaping their own agenda. Eighty percent of the Russian military is said to be controlled by these committees, who are made up of young officers who wish to take back the Ukraine and Belarus through the use of force.<sup>29</sup> Yeltsin had to find a way to hold off any activism of such military groups while avoiding antagonizing senior officers, yet creating an economic base to support the military as it has come to exist.

To address the economic pressures, Yeltsin was forced to downsize the military. With downsizing of his forces less pressure is exerted on a dwindling national budget. Army recruitment, which remained "mandatory" had been scaled back in overall numbers due to budgetary restraints and because so many recruits did not show up for service. Widespread disaffection among the population toward the military was accelerated after the 25,000 casualties of the Afghanistan war. With the onset of hyper-inflation and impoverishment of the society-at-large, by 1993 off duty soldiers on the street and in the subways appeared to lack the traditional spirit and gusto of previous armies. Three hundred thousand former military families were reported to be without housing, and military salaries were 2-3 months behind schedule, though minimal levels of basic living needs were provided to active recruits. Various military units did not pay for electricity, fuel, component parts and other materials. Yet defense spending still approached 40% of the federal budget in 1994.<sup>30</sup>

Despite the need to shrink the military budget, high levels of spending continued. Even though the size of the armed forces is decreasing when measured in official terms, the fiscal outlays remained constant because of large-scale redeployment of troops to the borders of the former Soviet republics. In addition, Russian military academy officer cadets continue to draw 200,000 rubles a month, which is 4 times what young college professors in the social sciences were paid. Active military generals and officers retain apartments, daches, cars and upon retirement, receive several million rubles. The independent management systems in Moscow over the armed forces have also continued to grow and grant monies to the military sector as a matter of routine, unchecked organizational momentum. Only President Yeltsin has direct control over such management organizations and he has not been able to limit them. The armed forces account for 2.3 million soldiers but the chief of the General Staff reported a proliferation of more than 4 million men "under arms", with the creation of internal and rapid response troops.<sup>31</sup> A smaller, though equally costly force will not alleviate Russia's economic problems.

Further, the military's support of Yeltsin in the October uprising "has led to Yeltsin's quick and tacit agreement to demands for a range of new defense equipment that will keep Russia abreast of Western military developments - especially in combat aviation«. Russia's deputy finance minister complained that Yeltsin telephones the Finance Ministry and demands monies be sent to »this director or that general", interrupting the ministry's attempt to level overall government

<sup>29</sup> John Erickson, "Fallen from Grace: The New Russian Military", *World Policy Journal*, 1993, pp. 20-21.

<sup>30</sup> Ivanof, *op. cit.*, p. 13.

<sup>31</sup> *Ibid.*

spending. Moreover, the finance ministry was unhappy at Yeltsin for appointing an investigative committee made up almost wholly of military generals to discover the causes of the October 1994 ruble collapse. In such an atmosphere, it is little wonder that new mobile forces are being enhanced to deal with both "defensive and offensive operations" against Russia's former republics as they represent the "main threat to peace", equipping the army with "world-standard hardware".<sup>32</sup>

Defense budget spending was raised two-thirds at the last moment in 1994, a traditional practice, to 55,000 bil. rubles, in response to threats of a military revolt. General Pavel Grachev declared that he was even prepared to sell weapons on the world market to earn off-budget funding for the army and military-industrial complex. Russia's top military production expert and former defense minister, Vitaly Shlykov stated that even the 55,000 bil. ruble figure is a "game" and that "true expenditures would inevitably be much higher because budget outlays not specifically identified as military would, in fact, be devoted to the (military) serices".<sup>33</sup>

The heavily white Russian officer corps of more vital military units like the Strategic Rocket Forces remain in tact. The nation's Special Forces, regarded as the equal of the best British Special Forces, also continued to enjoy high levels of financing and morale. In fact, in 1994 the Russian Special Forces were being expanded and equipped with more modern weapons. Their night vision equipment, for example, had not been regarded as up to the standard of leading-edge American Special Forces night-vision acuity, in addition to being more cumbersome. But the Russian Special Forces were thought to be mixing in military technology from the West in the new liberalizing era.

The policy of continuing to send Russian troops to the sites of the former Soviet republics promises to also continue to drain the economy in the foreseeable future. Yeltsin's dispatch of large numbers of Russian troops may be a tactic to give the army something to do rather than permit them to disintegrate at home or foment plots against himself in Moscow. Sending troops in this kind of political environment into a distant perpetual motion may be a calculation designed to stave off a military coup directed at center policies. In addition, the security apprehensions of the military high command are placeted with Yeltsin's accession to such use of the troops. Two goals are accomplished with one policy. Troops are kept away from further mutiny that often accompanies idleness or demoralization and the generals upon whom Yeltsin's support depends are made happy with the fulfillment of their military pursuits of securing Russia's borders and interests in the "near abroad".

### *The Dangers on the Periphery*

The resource pull of the provinces on Moscow's periphery adds to a geopolitical separatist tendency of the nation. Some scholars have argued that Russia has never been a true federated state because political allegiance has always come from the top down, not the other way around. The center-periphery schism is

<sup>32</sup> *Jane's Defence Weekly*, "Russia Plans Post-Cold War Era Air Forces", Nov. 20, 1993; also, Daniel Sneider, "New Russian Doctrine Raises Western Suspicion", *Defense News*, Nov. 8-14, 1993, p. 34; and, John Lloyd, "Storms Break Russia's Long Political Calm", *London Financial Times*, Oct. 21, 1994, p. 2.

<sup>33</sup> John Lloyd, "Battle Joined Over Russian Defence Spending", *London Financial Times*, June 9, 1994, p. 1.

a built-in feature of the Russian state. For centuries Moscow has feared the rebellious and unruly rural populations. This is the reason why the czars instituted such repression over the population.<sup>34</sup> In the current atmosphere political regional chiefs of the oil, gold, diamond and other income producing regions prefer to draw in foreign investment independently and to realize the profits of hard currency locally. The central Asian republics are where uranium, oil and other resources are mainly located in Russia. Such rich resources are under acute pressure. By 1994 the oil reserves in the rich Tyumen area declined to 86% of 1993 levels because of exhaustion and flooding. Foreign oil investment, which may have alleviated the problem, had pulled back due to high export tax structures imposed on them. Local Russian oil interests, moreover, were unreceptive to foreign oil companies entering their fields and assuming such a large control over what they regard as their exclusive resource.<sup>35</sup> In an unintended manner, the second and ultimate disintegration of the Russian state is threatened by the economic crisis that Yeltsin's policies have introduced.

Russian sources report that "almost everywhere, the governor has become the undisputed leader of the region... (becoming) virtually the sole governing body..." These regional "White Houses" have become important because they are resolving economic disputes within their regions regarding such vital issues as energy allocation, distribution of land and public works. Thus, "regional life has become much more independent than it was" in 1993. Moscow continues to exercise "greater authority", but that authority is becoming "marginalized".<sup>36</sup> Moreover, regional leaders are reported to be deliberately fanning ethnic nationalism in order to further consolidate their own power locally, and to pressure Moscow for greater economic autonomy for their region. A great sense of socio-economic imbalance has been exacerbated by the effects of the reforms. In 1992, for example, Sverdorsk paid 95 bil. rubles in federal taxes but received only 30 bil. rubles value back from the state.<sup>37</sup> For several years, there has been the emergence of a widespread belief among regional elites that local development was deliberately sacrificed by Moscow in order to husband scarce resources for its own center interests. The new situation was seized upon as an opportunity for the regions to correct the situation recoup lost ground and to compensate for years of neglect.<sup>38</sup>

## Conclusion

The centrifugal forces of the provinces have made Yeltsin's dependence on the military even more acute. Yeltsin's zero option strategy has been to go forward with some changes or reforms, but the resurrection of the very forces that have caused the need for reforms simply to stay in office are depriving him of the means to accomplish his ends. The irony of the situation is that Yeltsin recognizes that a strong president is required to have any chance at all of realizing national goals. Yeltsin is moving forward but carrying the luggage of Russia's past with him in

<sup>34</sup> Rodric Braithwaite, "Russian Realities and Western Policy", *Survival*, Autumn, 1994, p. 22.

<sup>35</sup> John Lloyd, "Russia Loses Confidence of Oil Majors", *London Financial Times*, July 8, 1994.

<sup>36</sup> Leonid Smirnyagin, "How Local Governments Are Gaining More Power". *The Current Digest of the Post-Soviet Press*, Vol. XLVI, # 31, August 31, 1994, p. 11.

<sup>37</sup> Jessica Eve Stern, "Moscow Meltdown: Can Russia Survive?", *International Security*, Vol. 18, # 4, Spring 1994, pp. 46 & 50.

<sup>38</sup> Martha Brill Olcott, "Russia's Place in the CIS", *Current History*, October 1993, p. 316.

a limited and perhaps ill-fated effort of carrying the reform baton a step further without stepping outside a collapsing arena. Yeltsin's efforts are a mix of his own self interests in an alliance with the very forces that have kept his country from stepping forward. In a sense, Russia's reform will go only as far as the military allow it to go forward.

The military is not likely the source from which constructive new changes will stem. As the breakup of the Soviet Union was taking place, the Russian military stood by without intervening, which was regarded in the West as a positive sign, and perhaps even evidence of a certain evolutionary impulse within the army. But in its aftermath some retrenching has taken place. Within the Russian military it was observed with horror the concomitant deterioration of their own structure that accompanied the break up of the former Soviet republics. In those months a learning process took place. The army will not again stand by a second time and allow the Russian provinces themselves to become independent because that would directly invite the devastation of what remains of the military since those events. Widespread disintegration of the lone remaining national structure of the Russian state would be placed at prompt risk. A kind of continent-wide set of counter-vailing scenarios with territorial states possessing nuclear weapons through the depth of the country becomes imaginable.

The risk of center-controlled nuclear war with other countries, while never large during the cold war because of mutually assured destruction, has declined even further. But the accidental launching, use or mis-use of nuclear weapons involving the regions during a crisis is believed by some to have increased. What could follow a series of actions and reactions is unpredictable, which is what gives the present center-periphery dispute its distinctive level of uneasiness. Accidental launches of ballistic, cruise and surface-to-air missiles have been reported, though none of these events resulted in nuclear detonations nor involved launch vehicles that crossed borders. But reports of such events are causing concerns.

ICBM sites have been poorly maintained, and with the older warheads some fear that a "second Chernobyl" could occur. Russian nuclear scientists calculate that the likelihood of a single warhead accident is 1 do 100, while quite low, is not impossible. Electrical current output, which affect electronic equipment used to minor nuclear silos and certain aspects of each weapon's fail-safe mechanisms, are not as reliable as before and have made Russian authorities nervous. Flooding in the Ukraine almost caused a nuclear warhead to reach critical inside its silo but a short-circuit system stopped it. Nuclear weapons facilities were not as well protected as they had once been. Decommissioned warheads after the agreement with the U.S. for reduction were dismantled under American Defense Department observation. But the Pentagon officials who witnessed the dismantling were not permitted to observe what took place after the vehicle shell was separated with the warhead inside of locked facilities because Russian military authorities did not wish U.S. experts to observe Russian nuclear warhead architecture. The Russian deputy of minister for nuclear power Viktor Mihailov described nuclear warheads as "sticing out of warehouse windows" in facilities holding 300 warheads that were built to store just 100. *Spetsnaz* Special Forces have been deployed to protect these nuclear sites whose security since has improved from the initial period after the Soviet break-up.<sup>39</sup> But the concern is that through some combination of decentrali-

<sup>39</sup> David Isby and Thomas Johnson, "Post-Soviet Nuclear Forces and the Risk of Accidental or Unauthorized Limited Nuclear Strikes", *Strategic Review*, Fall 1993, pp. 10-11 and 14-15.

zation of the state's nuclear capabilities, nuclear accidents or thefts that result in detonation could trigger over-reaction and miscalculation between various points and actors, perhaps first locally but even beyond. The danger to the international security lies less in any single isolated detonation but any escalation that attracts the attention of higher military authorities.

Yeltsin's attempt to align provincial politics and to array the meagre economic reforms thinly over a divided land is his best and last option. To do so he needs to acquire maximum executive power without damaging the structure he is attempting to construct, at all costs. Holding the periphery by holding the center is Yeltsin's only strategy. The exact political configuration of a reduced national parliament, while important, is secondary to the national interest of a more liberal Russian state. There is likely to always be strong nationalists in Russian society. Without center support and without the conservative military Yeltsin's regime is doomed. With it, his struggle is still not assured. Yeltsin must walk a precarious path accompanied by military cohorts with whom he must cooperate yet utilize without incurring either their wrath or surrendering some reform goals. He must move and patch decisively as he attempts to build a national system immune to collapse that brings sufficient gains for both old and new groups in a desperate effort to avoid a Russian armageddon.

In the West, during the myopic days of the cold war we have grown accustomed to thinking that the stability of the international system occurs primarily between states. But changes within major states have always affected the structure of the international system, whether these changes are military, economic or technological in character, and whether capabilities grow or shrink.<sup>40</sup> What makes the Russian implosion of the early 1990s relevant to international stability is twofold. First, a series of ongoing and prolonged civil wars within Russia, and if accompanied by several inter-state conflicts involving Russia's borders, given the dispersal of nuclear weapons, is worrisome. As Waltz has stated, a period and a process of socialization is necessary before new nuclear states learn the rules of nuclear politics.

Second, the international implications of a continued Russian state instability could release the opportunists to move toward foreign policies that are now hemmed-in by the weight of the Russian center. New and unpredictable foreign policies could be created that would affect changes throughout the international system. Such changes disrupt the tranquility, though not necessarily the adaptability, of the international system. The surprising defense agreements between Russia and China since the 1989 Tienanmen incident that foster mutual needs, for example, are threatening to re-structure the configuration of that part of the world. Though Russia and China may be merely "balancing" U.S. capabilities, including those of its allies, these events affect the calculations of primary states like Japan and others who are closely watching such alliances with concern.

More parts of the international system below the two nuclear superpowers are becoming more capable in terms of their respective military strengths. The downward trend of Russia is affecting the rate, if not the quality of the upward climb of lesser military states like Japan, China, North Korea and others concerned with their relative ranking within their regions. All unplanned and significant changes alert the U.S. since, as system manager, the U.S. feels it must respond to such

<sup>40</sup> See, for example, Kenneth N. Waltz. *The Theory of International Politics*, and also, Richard N. Rosecrance, *Action and Reaction in World Politics*.

challenges in some way or other. How extensively or constructively the U.S. and Russia responds is probably more important than the changes at lower levels, although their economies are affected.<sup>41</sup> A lowered economic capability in superpower states will pressure toward a range of moderate strategies that still seek to achieve without affecting ultimate state objectives. This may create an impression that the international system is less governable by either the U.S. or Russia singly or even, in some cases, jointly. The truth is that perhaps even in the previous bilateral superpower era much was accomplished by the self-deterrence of second states than by the direct push of the primary superpowers themselves. The new era is simply the continuation of great states in the context of increased system capabilities.

The spread of nuclear weapons among greater numbers of states is inevitable and while at first glance, a menacing development, the stability of nuclear deterrence that accrues at the local level should resemble the nervous peace of the larger U.S.-Russian balance since no state is likely to risk all for marginal gains. The nervousness, which will be felt throughout the international system, lies more in the graduation of local disputes that accidentally or irresponsibly engage nuclear weapons whose greater danger stems from how it might invite responses from those who possess overwhelming arsenals. But short of irrational actions at the local levels that trigger larger ones, the international system is likely to witness a struggling Russian state that neither greatly contributes to nor appreciably detracts from the free market world economy or strategic military security. The Kremlin may yet politically reabsorb much of its previous Soviet republics. Russia will continue to jockey for its share of influence in the West. But internationally, Russia's main effect will be how its fortunes re-shape the second layer of major states who are having to react to Moscow's opaque machinations in its search for an appropriate place in a shifting global structure.

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<sup>41</sup> See Andrew K. Hanami, "The Emerging Military-Industrial Relationship in Japan and the U.S. Connection", *Asian Survey*, Vol. XXXIII, # 6, June 1993.