The Social Cost of Russian Military Reform: Redefining Priorities for US Assistance

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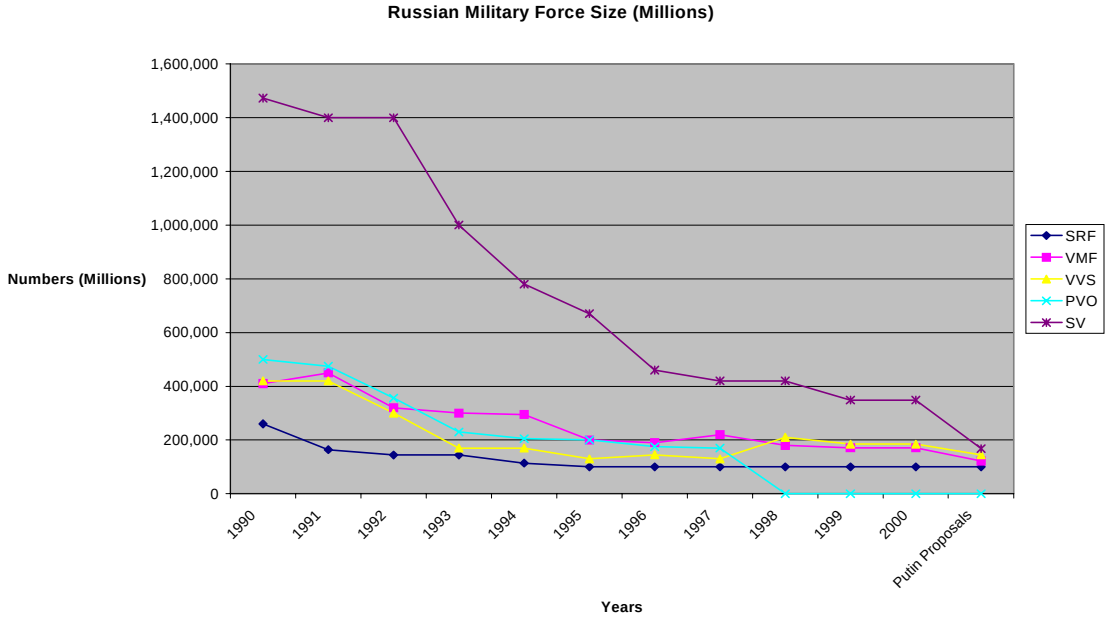
There are three conventional arguments about the evolution of the Russian armed forces over the past decade. The first one is that despite numerous programs, concepts and high-level statements, practically no Russian military reform has been achieved beyond managing day-to-day crises and military decline through restructuring. The second argument is that military restructuring not only failed to reinforce economic, political and social reforms in Russia, but only complicated or even undermined their progress. Finally, the third argument is that any foreign assistance in dealing with the economic and social consequences of failed military reform--beyond financial assistance with implementation of arms control agreements and decommissioning of weapons of mass destruction (WMD) stockpiles--could have only a marginal, if not counterproductive impact. However, there are exceptions to all three arguments, which should be taken into account when the next US administration undertakes a comprehensive policy review in the field of cooperative threat reduction assistance and military-to-military cooperation programs with Russia.

Military Reform Success Stories

Russian military reform did indeed produce a few success stories. The most profound one was the de-mobilization of over one million of its military personnel into civilian society without major social instability, political upheavals, or significant economic costs.



Few countries in transition can claim a similar track record, particularly given the degree of Russia's economic decline. Skeptics may argue that such success was possible only because the Russian society in its entirety was "demobilizing;" moving from their traditional jobs into new market-driven activities. Others might also note that Soviet armed forces had no tradition of civil disobedience and political ambition. However, in the context of a combination of rapid reductions, the general devaluation of the military's role in Russian society, widespread corruption, and criminalization, this relatively smooth demobilization is a major achievement of Yeltsin's administration in the field of military reform. For President Putin, any further reductions in armed forces numbers (as well as any numerical reductions in other force structures), will have a much higher political price. Unlike his predecessor, active and retired military personnel (together with their families and employees of the military-industrial complex) form the major part of Putin's electorate and remain a strong force behind his controversial efforts to crack down on Chechen rebels, reintroduce vertical federal authority in the regions, and put pressure on notorious Russian oligarchs. Despite this, Putin recently announced his commitment to pursue further reductions of the armed and security forces by 600,000 (including interior troops and civilian personnel) over the next five years. Such reductions are prerequisite for any effective military restructuring (*stroitelstvo*). Thus, such policies should be actively supported by foreign countries that officially recognize that the Russian government's ability to get a grip on further military decline is among their highest national interests.

Are Military and Socioeconomic Reforms Compatible?

While the Russian government was successful in undertaking demobilization, it failed to use it for promoting economic growth and social stability. Experience shows that, when properly assisted, ex-servicemen can become a vehicle for economic development, particularly in the field of small and medium-size business. Retired servicemen today represent a very substantial social group in Russia. This group mainly consists of highly qualified, hard-working personnel--the overwhelming majority of whom (no less than 90%) have higher education and can draw on considerable organizational skills and technical expertise. On average, 60%-70% of ex-servicemen find employment in the first year after retirement. Among them, 15%-18% hold executive positions in many branches of the economy, while 20%-32% work as managers. Moreover, the proportion of entrepreneurs among retired servicemen, which is 22%-26%, is much higher compared to other social strata.

Without financial support and proper skills, servicemen who are pursuing legitimate business and public sector activity often fail to find stable long-term employment. The proportion of unemployed reserve officers has remained at a very high level. In 1995-98 the unemployment rate among retired servicemen was 13%-18% in the Moscow region and 17%-20% in the Smolensk region. According to the Russian Ministry of Labor, by January 1999, 36,000 former servicemen were unemployed. The number of unemployed persons with no record of employment three months after dismissal was growing from year to year. The greatest problems with finding employment are experienced by those in

the 35-44 year-old age group--dominated by captains and majors--in other words, the group of reserve officers still in the middle of their working age.

The unemployment problem, combined with the inability of the state to pay adequate pensions and provide housing for retired servicemen, leads them to engage in activities that threaten economic reform and social stability. Many are forced to accept employment in the highly criminalized security sector or the shadow economy. According to one study that was conducted in five regions across Russia, 23-29% of servicemen are approached by various criminal groups with offers of employment even before they retire from the armed forces. This share is particularly high among servicemen from the special forces and veterans of the conflicts in Chechnya. In this category more then half of retiring personnel join criminal groups, and many are involved in contract killings and racketeering.

The Russian government and the Ministry of Defense have long recognized this problem but due to economic limitations have failed to find effective solutions. Overall in the period 1998-2000, the government planned to retrain in civilian specialties and provide work for more than 59,000 people. However, as of today no state budget funding for these programs has been allocated and the program has been financed exclusively by non-government sources.

Can Foreign Assistance Make a Difference?

One of the main sources of funding and support for these programs came from foreign countries that recognized it was important to prevent further proliferation of crime, arms smuggling, mercenary activities and intimidation of foreign businessmen working in Russia. Although these programs had mixed success due to corruption and embezzlement of funds, widespread resistance from military commanders to send servicemen before retirement to foreign-funded courses, and limited foreign investment to sustain employment of their graduates, these programs did make a major difference. The German government, targeting the servicemen leaving East Germany and Central Europe, carried out the first assistance program of this kind. More then DM17 million was spent by 1996 (when the program was finished) to establish and fully equip eleven centers across Russia. Although it was affected by corruption, the program created a basis for other foreign governments to take over these centers and build their own programs.

The UK Ministry of Defense (MOD) program, which followed from the German initiative, is one of the most recognized success stories. Since 1996 the UK MOD has been spending over $2 million annually to support 6 retraining centers for retiring officers in the Moscow region, St. Petersburg, Krondstadt, Nizhny Novgorod, Rostov-on-Don and Vladivostok. During that time more then 10,000 officers and members of their families have gone through the program and over 70% of them found steady employment upon graduation. The secret of the British success is its commitment to retaining full financial and operational control over the program with a full-time British officer running the program on the ground in Russia. All funding has been delivered directly to retraining centers, thereby minimizing opportunities for corruption. Another important feature of

the UK program is its flexibility, which includes constantly reshaping their training curriculum in accordance with local employment market research. Finally, the UK program has managed to establish constructive relations with the commanders of the North Caucasus Military District and the Pacific Fleet, who then issued orders authorizing officers to attend the UK courses before retirement, thus assuring their smooth transition to civilian life.

The UK experience was used by the government of Japan in developing their program for the Russian Far East (where unemployment among retired servicemen is particularly high). The Japanese program--which is currently running in Vladivostok and Khabarovsk, and is soon to be expanded to Sakhalin and other regions--offers courses for retraining officers to service Japanese cars and other products. The rate of employment among its graduates is very high, given the local demand and prestige that it has developed. Many graduates are employed in Russo-Japanese joint ventures and assist Japanese investors to develop local infrastructure for distributing and servicing their goods.

Similarly in 1999 the government of Norway started its program in Murmansk for naval officers with strong support from the commander of the Northern Fleet. It is conducted in cooperation with a Norwegian university, and the demand for such a program among officers is very high, given the strong economic ties between the two countries. The program has already made a very positive impact on the bilateral relationship, both on the level of the two Ministries of Defense and at the regional level.

The EU has allocated 24 million ECU to support officer retraining in 23 centers across Russia that claim to retrain 17,000 officers. In 1998 a new project worth 4 million ECU was initiated. This project specifically targets servicemen in remote military towns and helps them both with professional retraining and with development of municipal self-government structures, as well as with business development.

One of the more successful programs targeting small business development among ex-servicemen is undertaken by the Russian "Partner" Foundation, which receives financial support from the Soros Foundation. By February 1999 this program had retrained 5,700 servicemen and employed around 4,000. Two "business incubators" have been set up and nine more regions have offered to create them. Fourteen credit unions among ex-servicemen have been established to help fund business start-ups. The program has also helped to create 23 small enterprises. The program connected 28 resettlement centers to the Internet and set up 15 libraries in military towns and garrisons, as well as preparing 36 resettlement specialists for other regions. The Foundation works closely with regional governors, who provide space in old closed military towns free of charge for setting up the business incubators.

These programs have impact far beyond their primary activity. They also provide an example to encourage former graduates to set up independent social adaptation centers for retiring military personnel, funded from profits made at the business incubators and small business ventures, or by offering courses for small payments. By 2000, over 60 such centers have been established in 46 different regions across Russia. The

International Institute for Strategic Studies has been very active in promoting such activities. Every year, conferences in different regions across Russia are held where representatives of Russian and foreign-funded centers, as well as officials from federal and regional governments, and from regional military commands, are brought together.

Conclusion

Despite the many successes of foreign assistance programs, there is still a lot of work to be done in the provision of social adaptation arrangements for the next wave of military reductions, assisting the long-term unemployed, and encouraging ex-servicemen who still operate in the illegal or grey sector to switch to legitimate stable employment. In the new environment, retraining programs are no longer sufficient. They have to be part of a comprehensive program targeting specific economically deprived areas, and seeking to create employment (particularly in small and medium-size businesses). They should also assist local governments in acquiring professional employees for public service and help to integrate ex-servicemen into civil society by supporting non-governmental grassroots initiatives to set up local social adaptation programs, and help develop self-government structures in converted military towns.

Until recently the US government did not participate in such programs due to congressional limitations that were imposed on providing assistance for military retraining and housing, following corruption allegations about German government assistance. However, it is important to recognize that much has changed since that time and many foreign governments which are involved in such programs have developed effective systems to minimize corruption. Moreover, many US agencies such as the US Agency for International Development, the Department of Commerce, and the Department of Energy have already developed expertise in supporting retraining and business development among civilian entrepreneurs and nuclear scientists. There is no reason why such programs and experience cannot be extended to social adaptation and small business development among ex-military personnel (including those from the Strategic Rocket Forces and Chemical Defense troops). Such programs will be very important in supporting the recent trend to provide US economic assistance directly to the regions, and will train qualified personnel for future foreign investment projects (particularly in the production sector). Moreover, such a program will help to reinforce military-to-military relations between Russia and the US (as other states' programs have demonstrated). Finally, such experience can provide a useful model for dealing with other regional demobilization programs that might be required in the future. This category could eventually include Yugoslavia, North Korea, and even China. Already, the Chinese government has approached the UK MOD requesting help to set up a program to provide social adaptation assistance for retiring servicemen, due to its own major armed forces reductions.