The Second Economy of the Soviet Union and Eastern Europe

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ABSTRACT: The second economies of the Soviet Union and other East European countries derive from structural inadequacies in the socialist planning system and from the cultural and historical evolution of each East European society. This article combines the structural and cultural approaches to the second economy and focuses on four of its most prevalent forms: peasant household production, the shadow economy within socialist enterprises, the underground factories of Soviet Georgia, and the hidden economy within the retail and service sectors. In all cases, social linkages and cultural values provide frameworks for economic activities. The second economy helps to alleviate consumer shortages and bureaucratic bottlenecks in all these societies. It also acts as a social mollifier, channeling dangerous political frustrations into consumerism, swindling, or petty corruption. Yet the overall effect of the second economy is a corrosive one: as a surrogate reform, a second economy tolerated by the authorities only reproduces the fundamental flaws of the formal economy. Moreover, it exacerbates the gap between society and the state, between "us" and "them."

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WERE an international commission of experts asked to design a society where the second economy would thrive best, they would probably design the Soviet Union.[1] Press reports and scholarly analyses have shown that the second economy is an integral part of everyday life in all the socialist societies. Ironically, the second economy in these countries is often the equivalent of the market or primary economy in capitalist countries.

Some of these activities are simply what we would term capitalist entrepreneurship: the peasant who cultivates her private plot and sells the produce on the free market, speculative trading, middleman fees, renting property, money lending, and operating a private firm.

Other forms of the second economy found in Eastern Europe are common to all advanced economies, socialist or capitalist. These include producing or selling illegal goods such as narcotics or providing illegal services such as prostitution; pilfering from the workplace; skimming cash receipts; conducting unregistered or untaxed trade; and paying off police or inspectors to ignore such activities.

Finally, there are second economy activities that are neither typically capitalist nor universally illegal: the informal or illegal activities that enterprises use to fulfill their plan; underground factories; paying bribes or tips in order to buy something in a store or to induce planners and controllers to revise plans; buying and reselling goods obtained from shops for foreigners; and selling scarce or rationed goods taken from the state.

Popular accounts have tended to term the second economy of Eastern Europe—hereafter "Eastern Europe" is meant to encompass the USSR and other countries of the Eastern bloc—"islands of capitalism" in which the spirit of free initiative thrives in spite of stifling bureaucracy.[2] The official East European press looks on the second economy as a "corrosive" factor, robbing the formal economy of essential goods, services, and labor time. Illegal or informal economic activity is an example of a "backward mentality" destined to disappear as the socialist system is "perfected."[3]

This only begs the question of why—after 70 years of socialism in the Soviet Union, 40 in the other East European countries—these backward mentalities

1. This sentence is paraphrased, by permission, from Gregory Grossman and Vladimir G. Treml, "Measuring Hidden Personal Incomes in the USSR," in *The Unofficial Economy,* ed. Sergio Alessandrini and Bruno Dallago (Aldershot: Gower Press, 1987).

2. For example, Yuri Brokhin, *Hustling on Gorky Street* (London: W. H. Allen, 1976); Hedrick Smith, *The Russians* (New York: Quadrangle, 1983); Robert Kaiser, *Russia: The People and the Power* (New York: Pocket Books, 1976); Konstantin Simis, *USSR: The Corrupt Society—The Secret World of Soviet Capitalism* (New York: Simon & Schuster, 1982); David Shipler, *Russia: Broken Idols, Solemn Dreams* (New York: Times Books, 1983); David Willis, *Klass: How Russians Really Live* (New York: St. Martin's Press, 1985); Lev Timofeev, *Soviet Peasants—or the Peasants' Art of Starving* (New York: Telos Books, 1985).

3. Speaking of corruption in the Soviet Republic of Georgia, Eduard Shevardnadze, who was then first secretary of the Georgian Communist Party—and is now the USSR's foreign minister—made the very un-Marxist statement that "there are people in whom the spirit of private ownership seems to be inborn." *Zarya Vostoka,* 3 Nov. 1973, quoted in David Law, "Corruption in Georgia," *Critique* (Glasgow), no. 3, p. 103, (Autumn 1974). The current Soviet campaign against persons with "unearned incomes" stresses the particular need for "improving ideological and political work and . . . molding in each person an attitude of irreconcilability toward the private-ownership mentality." "Alien to Our Morality," TASS report, 10 Aug. 1986.

not only exist, but seem to be thriving as never before. This has led some analysts, including some East Europeans, to see the second economy in terms of its "lubricating" function.[4] Some go so far as to assert that "were it not for the second economy, the entire system would collapse."[5]

In fact, the second economies of Eastern Europe are at once liberating, corrosive, and lubricating. The starting point for an analysis of Eastern Europe's second economy is to see it in the context of the total economic system. The second economy is an integral part of the official, planned economy, sometimes complementing it, sometimes hindering it directly, sometimes competing with it.

This article examines Eastern Europe's second economies as both a structural aspect of socialism and as cultural and historical products of specific East European societies. Because the second economy has been studied largely by economists, much of its noneconomic character has been overlooked. Recent studies by anthropologists show the second economy to be an expression of deeply rooted social and cultural features of each society. These features are best revealed not by aggregate data but by micro-level everyday interactions that form the core of most anthropological field studies. Hence the combination of the political-economic and sociocultural factors can help explain both the tenacity of the second economy in Eastern Europe and the variations from one socialist society to another.

SECOND ECONOMY RESEARCH ON EASTERN EUROPE

Within Soviet studies, the analysis of the second economy commenced a decade ago with the seminal articles by Simes, Katsenelinboigen, and especially Grossman.[6] A recent bibliography on the Soviet/East European second economy now lists over 150 items.[7] A major collection has been edited by Grossman, and the Hungarian economists have been especially productive.[8] Anthro-

4. Cf. Charles Schwartz, "Corruption and Political Development in the U.S.S.R.," *Comparative Politics,* 11:425-43 (July 1979); Gregory Grossman, "The Second Economy of the USSR," *Problems of Communism,* 26(5):40 (Sept.-Oct. 1977). Among East Europeans, the Hungarians have particularly emphasized a lubrication approach. Cf. Istvan Gabor, "The Second (Secondary) Economy," *Acta Oeconomica,* 22:291-311 (1979).

5. Smith calls it "an essential lubricant for the rigidities of the planned economy." Smith, *Russians,* p. 86. Meanwhile, a U.S. Select Committee on Soviet Internal Developments concluded that it "lubricates the joints of a creaking system." Quoted from Stuart Henry, "The Informal Economy: How Revolutionary Is It?" *Crime and Social Justice,* 2:8 (1987). See also Istvan Kemeny, "The Unregistered Economy in Hungary," *Soviet Studies,* 34:364 (July 1982).

6. Dimitri K. Simes, "The Soviet Parallel Market," *Survey,* 21(3):42-52 (Summer 1975); Aron Katsenelinboigen, "Coloured Markets in the Soviet Union," *Soviet Studies,* 29:62-85 (Jan. 1977); Grossman, "Second Economy of the USSR"; idem, "Notes on the Illegal Private Economy and Corruption," in *The Soviet Economy in a Time of Change,* by U.S., Congress, Joint Economic Committee (Washington, DC: Government Printing Office, 1979), pp. 834-55.

7. Gregory Grossman, "The Second Economy in the USSR and Eastern Europe: A Bibliography" (Berkeley-Duke Occasional Papers on the Second Economy in the USSR, no. 1, University of California, Berkeley, and Duke University, updated, March, 1987).

8. Gregory Grossman, ed., *Studies in the Second Economy of Communist Countries* (Berkeley: University of California Press, 1988); Janos Kenedi, *Do It Yourself: Hungary's Hidden Economy* (London: Pluto Press, 1982); Istvan Gabor, "The Second Economy in Socialism: General Lessons of the Hungarian Experience," *Papers on*

pological studies have appeared on Poland, Soviet Georgia, and Central Asia, and Grossman and Treml's survey of 1900 Soviet émigrés promises to give valuable information on the second economy in the USSR.[9]

Nevertheless, our knowledge remains limited by the geographic areas studied and by political restrictions placed on the research, both of which skew or bias the research. Many studies of the Soviet second economy focus on the non-Russian republics, while our information on the East European states aside from Hungary and Poland is confined to descriptive studies or press reports of corruption.[10] Research is also hampered by a lack of empirical data, due to deliberate concealment by the authorities, simple ignorance, or conceptual confusion.[11] Consequently, as in other areas of Soviet studies, second economy

Labor Economics (Budapest: Karl Marx University of Economics, 1984); Peter Galasi, "Peculiarities and Limits of the Second Economy in Socialism (the Hungarian Case)," in *Economics of the Shadow Economy,* ed. Wulf Gaertner and Alois Wenig (New York: Springer-Verlag, 1985), pp. 353-61; Peter Galasi and Gyorgy Sziraczki, eds., *Labour Market and Second Economy in Hungary* (New York: Campus, 1985).

9. Janine Wedel, *The Private Poland: An Anthropologist's Look at Everyday Life* (New York: Facts on File, 1986); Gerald Mars and Yochanan Altman, *Private Enterprise in the USSR: The Case of Soviet Georgia* (Aldershot: Gower Press, 1987); idem, "The Cultural Bases of Soviet Georgia's Second Economy," *Soviet Studies,* 35(4):546-60 (Oct. 1983); idem, "The Cultural Bases of Soviet Central Asia's Second Economy (Uzbekistan and Tajikistan)," *Central Asian Survey* (in press); Grossman and Treml, "Measuring Hidden Personal Incomes in the USSR"; introduction to Grossman, "Second Economy: A Bibliography."

10. Examples from Simis's *USSR: The Corrupt Society* and Smith's *Russians* overwhelmingly concern Georgians, Armenians, and Azerbaijanis. Law's "Corruption in Georgia" also infers that the same is true for the Russian republics. Other studies of East European—that is, non-USSR—second economies used in this survey include the following: Horst Brezinski, "The Second Economies in Eastern Europe," in *East European Economic Trends and East-West Trade: U.S., West and East European Perspectives,* ed. P. Marer and P. Van Veen (forthcoming); Steven Sampson, "The Informal Sector in Eastern Europe," *Telos,* no. 66, pp. 44-66 (Winter 1985-86); Horst Brezinski and Christoph Roos, "The Development of the Second Economy in Hungary," *Korean Journal for East-West European Studies,* 1:95-127 (Fall 1985); Andrzej Korbonski, "The 'Second Economy' in Poland," *Journal of International Affairs,* 35(1):1-15 (Spring-Summer 1981); Anders Åslund, *Private Enterprise in Eastern Europe: The Non-Agricultural Private Sector in Poland and the GDR* (New York: St. Martin's Press, 1985); idem, "Private Enterprise in Poland, the GDR and Hungary," in *Bidrag til Öststatsforskning,* 11(1):26-34 (Jan. 1983); Horst Brezinski, "The Second Economy in the GDR—Pragmatism Is Gaining Ground," *Arbeitspapiere des Fachbereichs Wirtschaftswissenschaft,* Neue Folge Nr. 7, Universität-Gesamthochschule Paderborn, BRD (Feb. 1987); Ilse Grosser, "Personliche Wirtschaften in Bulgarien—Jungere Entwicklungen," *Südosteuropa,* 33(9):491-507 (1984); Per Ronnås, "The Role of the 'Second Economy' as a Source of Supplementary Income to Rural Communities in Romania: A Case Study," *Bidrag til Öststatsforskning,* 11(1):34-43 (Jan. 1983), Steven Sampson, "Rich Families and Poor Collectives: An Anthropological Approach to Romania's Second Economy," ibid., pp. 44-77; Horst Brezinski and Paul Petrescu, "The Second Economy in Romania—A Dynamic Sector," *Arbeitspapiere des Fachbereichs Wirtschaftswissenschaft,* Neue Folge Nr. 6, Universität—Gesamthochschule Paderborn, BRD (Dec. 1986). Finally, the best sources of press reports from the Soviet Union are the *Current Digest of the Soviet Press* and *Radio Liberty Research* (Munich) and for the other East European countries *Radio Free Europe Research* (Munich).

11. These issues are elucidated in Peter Wiles, "What We Still Don't Know about the Soviet Economy," in *The CMEA Five Year Plans (1981-1985) in a New Perspective: Planned and Non-Planned Economies* (Brussels: North Atlantic Treaty Organization, Economics and Information Directorates, 1982).

analyses often rely on anecdote, media reports, and speculative estimation.[12]

In the East European context, the study of second economy activities would include those that are unplanned, unregulated, unreported, privatized, and/or illegal. This would cover a wide range of activities, and scholars differ over precisely what should be included.[13] Considering the second economy as extra-plan behavior, which may or may not have beneficial consequences for the official economy, Marresse's syncretic definition is useful: "The second economy includes all of the nonregulated (legal and illegal) aspects of economic activities in state and cooperative organizations, *plus* all unreported activities, *plus* all forms of private (legal, semi-legal, and illegal) economic activity."[14]

Measuring the extent of the second economy has proven difficult due to lack of data and conceptual confusion. It appears less widespread in heavy industry, banking, finance, and the military and more pervasive in sectors such as construction, food, repairs, light industry, transport, wholesale and retail trade, and personal services from doctors' services to waiters' services.[15] Because second economy activity may vary widely from one sector to another, and because definitions of the second economy may differ for different researchers, statements that estimate the second economy as being from 10 to 50 percent of a country's gross national product have little comparative value.[16]

Private agriculture, for example, is a key component of the second economy

12. Prospects for empirical research, personal fieldwork, or scientific collaboration with East European researchers remain dim, if not nonexistent. Hungary, where second economy research is officially sanctioned, remains the exception.

13. Cf. Grossman, "Second Economy of the USSR"; Dennis O'Hearn, "The Consumer Second Economy: Size and Effects," *Soviet Studies,* 32(2):218-34 (Apr. 1980); Peter Wiles, "The Second Economy, Its Definitional Problems," in *Unofficial Economy,* ed. Alessandrini and Dallago; Peter Galasi, "Peculiarities and Limits."

14. Michael Marrese, "The Evolution of Wage Regulation in Hungary," in *Hungary—A Decade of Reform,* ed. P. Hare, H. K. Radice, and N. Swain (London: Allen & Unwin, 1981), p. 51. This definition is discussed in particular by Brezinski in his "Second Economies in Eastern Europe."

15. Peter Wiles, using "commonsense and literary evidence," states that larger objects are harder to steal, divert, or sell; hence trains and planes are not part of the black economy. Similarly, "where audit is easy (banks) or important (weapons) there will be less corruption." At the other end of the scale, building and car repairs are such that "there seem to be few uncorrupt transactions." See Peter Wiles, "What We Still Don't Know," *CMEA Five Year Plans,* by North Atlantic Treaty Organization.

16. The figure of 10-50 percent is a summary of statements by knowledgeable Soviet émigrés. The variation most likely reflects differing perceptions of the second economy as being strictly black or illegal transactions, or including black plus legal private production, kolkhoz marketing, and trading. See Zev Katz, "Insights from Emigres and Sociological Studies on the Soviet Union," in *Soviet Economic Prospects for the Seventies* (Washington, DC: Government Printing Office, 1973), p. 90. Hungarian estimates of up to 50 percent of gross national product derive from a second economy that includes criminal theft, black theft of raw materials and labor time, all "black value added," "benign plan violation" within socialist factories in order to achieve the plan—the shadow economy—legal private and cooperative production, plus bribes and tips. Wiles makes a good case for excluding benign plan violation from the second economy, thereby bringing it down to 7-25 percent worldwide. See Peter Wiles, "Second Economy, Its Definitional Problems," p. 10. A final note of caution regarding estimates of the second economy comes from Istvan Gabor, who states that "the widely quoted estimate of 16-19 percent of the entire GNP being created in the second economy draws its credence solely from the prestige of the person who made the estimate." Gabor, "Second Economy in Socialism," p. 29.

in all the socialist countries. The output of collective farmers' personal plots provides from 30 to 42 percent of total agricultural output in the USSR, Hungary, Bulgaria, and Romania.[17] In Poland, where 77 percent of all agricultural land is in private hands, the legal private sector occupied almost 32 percent of the labor force in 1983.[18]

In commerce, the second economy is pervasive. O'Hearn's analysis of Soviet press reports indicates that 80-85 percent of all gasoline ends up on the black market, 25 percent of the internal fish catch is poached from state lands, and 25 percent of all distilled alcohol is produced and sold outside the state sector.[19] Soviet emigre interviews suggest that 18 percent of all consumption expenditures were given to private individuals and that 30 percent of all home food was purchased outside the public sector or via connections.[20] The Soviet Union has permitted the lowest level of legal private commercial activity in Eastern Europe. The largest amount is in Hungary, where between 1970 and 1983 the number of private shops and restaurants doubled, to 19,293, to constitute 26 percent of all shops.[21]

The second economy service sector is similarly extensive, inasmuch as personal relations between seller and client—established via bribes, tips, or friendship—determine whether the service will be of acceptable quality. Despite the fact that second economy labor can be from two to five times more expensive than that procured by the official economy, a Moscow survey showed that 70 percent of house repairs were carried out privately, most of this by illegal or unregistered repairmen.[22] In Georgia from 97 to 99 percent of repairs to home and household items were done privately.[23] Soviet investigations routinely show that on days when state service enterprises are audited, receipts are one and one-half to two times higher than on "normal" days.[24]

Private construction brigades, agricultural harvest and forest-clearing brigades are common throughout the USSR and Eastern Europe. They often receive two to five times the official wage, even though they are hired by state enterprises.[25] In Poland, private firms con-

17. Brezinski and Petrescu, "Second Economy in Romania," p. 3; Horst Brezinski, "The Second Economy in the Soviet Union and Its Implications for Economic Policy," in *Economics of the Shadow Economy,* ed. Gaertner and Wenig, p. 363; Allen Kroncher, "CMEA Productive and Service Sector in the 1980's: Plan and Non-Plan," in *The CMEA Five Year Plans,* by North Atlantic Treaty Organization, p. 204.

18. Andrzej Bloch, "The Private Sector in Poland," *Telos,* no. 66, pp. 129, 131 (Winter 1985-86).

19. O'Hearn, "Consumer Second Economy," pp. 232, 227; Vladimir Treml, "Alcohol in the USSR: A Fiscal Dilemma," *Soviet Studies,* 27(2):161-77 (1972); idem, "Alcohol in the Soviet Underground Economy" (Berkeley-Duke Occasional Papers on the Second Economy in the USSR, University of California, Berkeley, and Duke University, 1986; reprinted in *Studies in the Second Economy of Communist Countries,* ed. Grossman).

20. Gur Ofer and Aaron Vinokur, *Private Sources of Income of the Soviet Urban Household* (Santa Monica, CA: Rand, 1980), pp. 70, 58.

21. Brezinski and Roos, "Second Economy in Hungary," pp. 104-5.

22. O'Hearn, "Consumer Second Economy," p. 225.

23. Ibid.

24. S. P. Artemov, "Sluzhba byta v desiatoi piatiletke," *Den'gi i Kredit* [Money and credit], no. 12, p. 23 (1976), cited in Dennis O'Hearn, "The Second Economy in Consumer Goods and Services," *Critique* (Glasgow), no. 15, p. 103 (1982).

25. Kroncher cites a ratio of nearly 11:1 in his "CMEA Productive and Service Sector," p. 200. Other descriptions of these brigades are described in Simis, *USSR: The Corrupt Society,* pp. 258-61,

structed 52 percent of urban housing and 66 percent of housing in rural areas.[26]

Income and employment figures for the second economy give additional indication of its extent. Poland's 470,000 private enterprises accounted for 24 percent of total employment and generated 20 percent of money income in 1980, the latter rising to 32 percent in 1983.[27] In Hungary about three-quarters of the population receives additional income from the second economy.[28] Incomes from the second economy often greatly exceed official wages in Georgia.[29] A Soviet emigre survey indicated that 11 percent of all households' total income derived from private sources.[30] However, among the 10 percent of Soviet families who reported income from tips, bribes, and speculation, extra income averaged 79 rubles per month, or about 2 weeks of the average wage.[31]

The extent of second economy activity seems to be greater in the southern Soviet republics, especially in Georgia and Central Asia. Second economy activities are also more extensive in outlying regions, ethnic enclaves, and the more ruralized republics. There are several reasons for this: inadequate supplies of consumer goods and services combined with persistently high demand that force people to use private or illegal channels; more autonomous rural households able to carry out private production; higher birth rates making for larger and stronger networks of kin, friends, and connections; family-centered moral codes that view the state and its officials as enemies; poor chances of upward mobility into the Soviet establishment for non-Russian minorities; and the Soviet state's inability to enforce laws or carry out control in outlying zones or among traditionally hostile ethnic groups.[32] Czechoslovakia and the German Democratic Republic, both industrialized and urbanized, probably have more reduced second economies than other areas of Eastern Europe.[33]

An integral part of second economy activity is corruption. Although difficult

and in Grossman, "Second Economy of the USSR," p. 36. Sizable incomes for such traveling brigades of agricultural and forest workers are reported in Romania by Ronnås and Sampson, in Hungary by Kenedi, and in the German Democratic Republic by Brezinski, where such "after-work brigades can easily charge 3 to 4 times the official wages plus 'fringe benefits.' " See, respectively, Ronnås, "Role of the 'Second Economy,' " p. 38; Steven Sampson, *National Integration through Socialist Planning: An Anthropological Study of a Romanian New Town* (Boulder, CO: East European Monographs, 1984), pp. 153-56; Kenedi, *Do It Yourself,* passim; Brezinski, "Second Economy in the GDR," p. 9; *Die Welt,* 20 June 1980.

26. Wedel, *Private Poland,* p. 40.

27. Korbonski, " 'Second Economy' in Poland," p. 2; Bloch, "Private Sector in Poland," p. 157.

28. Gabor, "Second Economy in Socialism," p. 32; Kroncher, "CMEA Productive and Service Sector," p. 205, citing *Wall Street Journal,* 22 Mar. 1982.

29. Law, "Corruption in Georgia"; Wiles, "What We Still Don't Know"; Mars and Altman, *Private Enterprise in the USSR.*

30. Ofer and Vinokur, *Private Sources of Income,* p. 51.

31. Ibid., p. 33. This would also include income derived from pilferage or sale of pilfered items, but not private wages, such as from moonlighting. Grossman's "Notes on the Illegal Private Economy" provides an excellent summary of such income sources.

32. See Mars and Altman, *Private Enterprise in the USSR.* Non-Russian ethnic groups also rank high on Peter Wiles's "continuum of dishonesty." Wiles, "What We Still Don't Know," app. II.

33. Brezinski, "Second Economies in Eastern Europe," p. 9; idem, "Second Economy in the GDR." Czech data are sparse, though see Leonard Silk, "The Mystery of Czech Affluence," *New York Times,* 20 June 1986.

to quantify, the extent of corruption—bribes to planners, hush money to police, nepotism and influence peddling—is indicated by the continuing stream of reports in the official press. The importance of this is also revealed in periodic campaigns against illegal, nonlabor, or speculation incomes in Poland, the USSR, and Romania and in the spectacular corruption scandals recently revealed in Moldavia, Uzbekistan, and Kazakhstan, where millions of illicit rubles were made over several years.[34] Bribes and payoffs are a normal part of daily life in the USSR, beginning with the payoff for a good room in the obstetric ward, ending with the payoff for a quality burial plot.[35]

THE SECOND ECONOMY IN OPERATION

A closer look at the operation of the most widespread aspects of a typical second economy will enable us to see how the second economy is integrally related to the wider structure of socialist society.

Peasant household production

Domestic production of food has always been a source of household consumption and personal income for East Europeans. One form of this private farming, in which farmers own their own lands and livestock and grow food for personal consumption, on contract to the state, or sale on the market. Another form of household production is the combining, by collective farm families, of domestic resources with the small plots of land allocated to them by the collective.

Private farming is the principal form of peasant production in Poland, while such farms occupy less than 5 percent of peasant households in the rest of Eastern Europe. Often these peasants resort to the illegal second economy to procure fertilizer, tractors, and transport to market. Moreover, since the free markets may have regulated price ceilings, peasants may also engage in various subterfuges to obtain desired prices for their produce.

The typical collective farmer uses the collective as a resource to be exploited, working not for the collective but on the collective for the household enterprise. Collective farm wages are low, but fodder payments and the production of the personal plot are channeled into household production. Other resources of the collective may be borrowed, purchased, or stolen.[36]

34. See fn. 10; Philip Hanson, " 'Nonlabor Incomes' in the USSR," *Radio Liberty Research,* 172/86, 24 Apr. 1986. As several observers have noted, campaigns against economic crime seem to concentrate disproportionately on the non-Russian republics and on non-Russian nationalities, thus appealing to Russian nationalist sentiments as well. During the early 1960s, for example, most of the black marketeers who were executed had Jewish surnames.

35. Detailed especially in Simis, *"USSR: The Corrupt Society,"* pp. 205-47. See also Wojciech Markiewicz, "A Small Hand-Book for the Bribe-Giver: Tokens of Gratitude," in *Survey*, 29(3):195-98 (Autumn 1986), translated from *Polityka* (Warsaw), 30 Aug. 1986. Romania, Bulgaria, and Poland, where the bribes are often in dollars or dollar coupons, are similar in this respect, as they suffer from extreme shortages in virtually all spheres of social, economic, and cultural life, from procuring social services and consumer goods to obtaining cultural products such as books.

36. Sampson, "Rich Families and Poor Collectives." See Joel Halpern and David Kideckel, "Anthropology of Eastern Europe," *Annual Review of Anthropology,* 12:277-310 (1983), for further references on the relation between the collective farmer and the household. On the peasant-worker

A third form of family food production is the complex household enterprise produced when peasant-worker households add wage income from nonagricultural employment plus the resources of their workplace to agricultural wages, fodder inputs, and household labor. This combination of homegrown food, wages, payments in kind and income from sale of household produce can give these suburban households a standard of living that is often higher than those in nearby towns. Extra income from this household economy is often used in extravagant status displays, such as in the building of giant three-story houses.

Urban dwellers throughout Eastern Europe frequently complain about price-gouging peasants who demand speculative prices for their goods or who in Poland refuse to accept anything but Western currency. Yet the peasants must cover additional costs such as illegal transport, living in the city, security for bad harvests, and so forth. The collective farm's personal plot system can be viewed as a form of exploitation in which the collective frees itself from the obligation of paying the peasants a decent wage.[37] The point is that private plot production is an integral part of the collective farm wages and not something carried out beyond normal work. That is, private plot production is necessary for peasant subsistence. The peasants are forced to use the second economy to earn this wage. The peasants and peasant-workers cultivate this plot on their second shift. There is ample evidence to show that first economy production suffers as a result—both on the collective and in the factory.

The shadow economy of the socialist factory

Managers of Soviet factories are constrained by central planning decisions, central allocations of supplies, and limitations on wages and labor discipline. Plan fulfillment is every manager's prime concern, if only because this is the only way his or her career can advance. Hence, various extra-plan strategies are used to cut through bureaucratic bottlenecks or to procure supplies, transport, repair, extra labor, and spare parts. This shadow economy involves misreporting to the authorities and bribing or making connections with other managers in what are known as family circles.[38] Most factories retain a fixer (in Russian, *tolkach*), who functions as middleman, broker, and network entrepreneur. In order to procure these scarce resources, managers resort to what Grossman calls "the Four B's: barter, black market, bribe and *blat*" (Russian for "connections" or "influence").[39] The most important application of the Four *B*'s is with planners. Influencing them to decrease the plan norms or increase allocations of supplies is crucial for any manager who contemplates plan fulfillment.

The Four *B*'s are not a new develop-

strategy, see in particular John Cole, "Family, Farm and Factory: Rural Workers in Contemporary Romania," in *Romania in the 1980's,* ed. Daniel N. Nelson (Boulder, CO: Westview Press, 1981), pp. 71-116.

37. See, in particular, Timofeev, *Soviet Peasants,* and the review symposium on this book in *Telos,* no. 68, pp. 109-27 (Summer 1986).

38. "Family circles" is a term used by Joseph Berliner in *Factory and Manager in the USSR* (Cambridge, MA: Harvard University Press, 1957), pp. 259-63. My use of "shadow economy" comes from Gregory Grossman, "The 'Shadow Economy' in the Socialist Sectors of the USSR," in *CMEA Five Year Plans,* by North Atlantic Treaty Organization, pp. 99-115.

39. Grossman, " 'Shadow Economy' in the Socialist Sectors," p. 108.

ment. Berliner's informants from the 1930s and 1940s describe similar strategies.[40] However, there is evidence that as the East European economies grow more complex, production bottlenecks are increasing.[41] This means that shadow economy behavior must be tolerated even more, even though "benign plan fulfillment" can easily be transformed into embezzlement and illicit production.[42]

The underground factories

Underground factories in the Soviet Union tend to specialize in small, simply manufactured, easily transportable and marketable consumer items such as "ladies underwear, meat *pirozhiki,* brooches made of a couple of plastic cherries or fashionably tailored artificial leather jackets."[43] Numbering in the "tens of thousands,"[44] they comprise mostly workshops producing high-demand consumer goods in moderate quantities. Underground factories normally coexist inside a state factory, using it as a cover to conceal the illicit use of supplies, funds, labor, transport, and distribution networks. While the state enterprise operates normally and achieves its plan, the surplus capacity is unofficially used to manufacture additional goods. These may be identical or may differ slightly from the goods described in the official profile of the factory.

Profits from the underground factory can only be partially invested. These second economy entrepreneurs may spend their profits as conspicuous consumption on big houses, vacations, cars, and feasts and to help offspring or godchildren pay their bribes to get good job placements or enter medical school.

Many underground entrepreneurs are Jews, who have been denied avenues of social mobility in the universities, army, policy, or party apparatus.[45] Many factories are located in the USSR's ethnic republics, where ethnicity serves as a mobilizing network and as a shield against controls. Considerable factory production costs go for bribing planners, inspectors, police, and even party officials.[46] Bribe expenses usually average 15-20 percent of illicit earnings.[47]

Take, for instance, Mars and Altman's study of an illicit biscuit factory in Soviet Georgia. The factory was inherited by two Jewish owners from their fathers; a third owner, a Gentile, was added later. The Gentile's social network was important for keeping the factory safe. A hidden production of four times the quantity of biscuits allowed in their plan was being produced.[48] Excess capacity was created by bribing planners and functionaries in those ministries that allocated the ingredients for biscuits. Additional ingredients were purchased from outside suppliers who themselves

40. Berliner, *Factory and Manager in the USSR;* idem, "The Informal Organization of the Soviet Firm," *Quarterly Journal of Economics,* 66(3):342-63 (Aug. 1952).

41. Grossman, " 'Shadow Economy' in the Socialist Sectors," p. 115.

42. Peter Wiles discusses the difference between "benign" and "malign plan fulfillment." The terms are his. Wiles, "What We Still Don't Know."

43. Simis, *USSR: The Corrupt Society,* p. 157.

44. Ibid., p. 147.

45. Ibid., p. 153.

46. Simis writes that the "black" millionaire Laziashvili had an annual income of R10-12 million and paid out R1 million yearly to Georgian party officials, including the minister of internal affairs. Ibid., p. 166. See also "The 'Black' Millions," *Radio Liberty Research,* 179/177, 27 July 1977.

47. Simis, *USSR: The Corrupt Society,* p. 166.

48. Mars and Altman, *Private Enterprise in the USSR,* chap. 6.

may have been pilfering from their own factories. Packaging and labeling were carried out via links with a paper and printing plant. Workers were paid extra, but the full details were concealed from them. Distribution was always a key problem, since police watch all the main roads and can stop trucks to examine their bills of lading. Successful distribution thus entailed bribes to virtually the entire police department of the region. The extra production was sold to retailers at a 15 percent discount off the normal wholesale price. Retail outlets sold the biscuits at official state prices and pocketed the income.

At every stage, personal support networks were necessary to ensure production and distribution and to cope with periodic crises. Anyone in a higher position in the second economy must have large networks of kin, friends, clients, or patrons. In the biscuit factory, the three owners had complementary networks: one had kin within the factory, one had friends and kin in other factories, and the third had a social network that included particularly important police officials. Combining these network linkages and their entrepreneurial talents, the factory owners achieved a comfortable profit.

Private and illegal trade and services

The second economy operates extensively both in socialist retail outlets and among legal private traders and service people. Quality goods are frequently held back by managers and warehouse attendants and allocated to friends or black marketeers. Only the remainder reach the shop, where the salesclerk may hide more desirable goods under the counter. Via bribes or tips—or by virtue of friendship—the salesclerk sells the privilege to buy the item, which may cost more than the item itself.

Legal private traders are often discriminated against by the state in the allocation of merchandise, as well as subject to high taxes and controls. Hence they are often forced to resort to illegal strategies such as selling contraband, defrauding customers, or skimming receipts. Hungarian shopkeepers defraud their customers out of 8 billion forints each year. In Szczecin, Poland, 20 percent of all private entrepreneurs were convicted and fined for tax evasion in one year.[49] Bribes to obtain supplies and protection money to controllers are part of normal business operations. A Polish study showed artisans admitting to have paid 12 percent of their turnover in bribes and having received 18 percent of their supplies from illegal sources.[50]

For East European consumers, the key to procuring anything in the second economy is to establish some kind of private relationship with the seller. Kenedi describes three possible bases for such a relationship: the cash payment, bribe, or tip given when buyer and seller do not know each other and do not expect to have a long-term relationship; the mutual favors exchanged between friends and acquaintances in which services are exchanged reciprocally; and the wide-ranging social obligations founded on kinship and friendship in

49. Åslund, "Private Enterprise in Poland, the GDR and Hungary," p. 28.

50. J. Urban, "Prywatna Inicjatywa" [Private initiative], *Zycie Gospodarcze,* 22 Dec. 1968, cited in Åslund, "Private Enterprise in Poland, the GDR and Hungary." The difference between the Polish and East German private traders' problems is summarized by Åslund when he says that the Polish trader must pay a bribe to the supplier, whereas his East German counterpart need only give a tip—*łapowki* versus *Trinkgeld.* Ibid., p. 29.

which the exchange is permanently unbalanced.[51]

It is common for cash payments to develop into favors or favors to evolve into a more stable friendship. Friendship relations are more dependable and less risky, since no cash is passed around. In the East European situation, where so many goods and services are in short supply, there is a crucial need to establish wide-ranging social exchange networks. Hence, the second economy brings together widely disparate social categories: professors become friends with shoe salespeople, engineers court butchers, and so forth.[52] East European traditions of commensality and drinking help forge and solidify these relations, especially where certain foods and beverages are themselves difficult to obtain. In Romania, for example, offering a guest a cup of coffee is not just a sign of hospitality but an indication that one has the networks to procure coffee and may also be willing to share them.[53]

In the East European second economy, who one knows is more important than the money one has. Those who stand in line for coffee, theater tickets, or bureaucratic permits may have the requisite cash but are without the necessary social connections. Those with strategically placed kin, friends, colleagues, clients, and patrons can bypass the lines.

Such private arrangements attest to the inventiveness of many East Europeans, but these also demand time, energy, and exasperation and create obligations that cannot always be fulfilled. There are winners and losers. The losers are those who lack the money, the connections, and/or the ability to turn their official job into an unofficial source of income.

Finally, space does not permit a discussion of the hard currency shops to which most East Europeans—Poles excepted—are denied access. In some countries, payment in Western currency or goods from these shops competes with payment in local currency. In Romania, Western cigarettes, particularly Kent, function as a currency of the country's second economy. Available only in the hard currency shops, they are procured via special relations with foreign tourists or students, with diplomats, or via family visiting from abroad. Like money, Kents are anonymous, divisible, and relatively long lasting. They can even be counterfeited by stuffing empty packs with Romanian cigarettes!

STRUCTURAL AND CULTURAL VARIATIONS

East European second economies vary from country to country. These variations are based on specific interactions between structural, cultural, and historical factors.

Taking structural factors first, it appears that second economies will tend to be more extensive in those countries where (1) there is a large private sector, as in Poland and Hungary; (2) where the

51. On the establishment and maintenance of such personal relations, see especially Kenedi, *Do It Yourself;* Wedel, *Private Poland;* Mars and Altman, *Private Enterprise in the USSR;* idem, "Cultural Bases of Soviet Georgia's"; Sampson, "Rich Families and Poor Collectives"; idem, "Informal Sector in Eastern Europe."

52. On the role of friendship in Eastern Europe, see Sampson, "Informal Sector in Eastern Europe"; Vladimir Shlapentokh, *Love, Marriage and Friendship in the Soviet Union* (New York: Praeger, 1985).

53. On food and drink symbolism in Eastern Europe, see Charlotte Chase, "Symbolism of Food Shortage in Current Polish Politics," *Anthropological Quarterly,* 56(2):76-82 (Apr. 1983); *East European Quarterly,* 18(4), *Special Issue on Alcohol in Eastern Europe* (1985).

rural populations are relatively large, as in Poland, the Balkans, and the USSR; (3) where the official economy is less effective due to the predominance of "reds" over experts, resulting in irrational planning policies, as in Albania, Romania, the USSR, and Bulgaria; (4) where the regime has not resolved basic problems of distributing food and consumer goods, as in Romania, Poland, and the USSR; (5) where foreign influences, tourism, and Western currency are more extensive, as in Poland, Hungary, the Baltic states, and the German Democratic Republic; and (6) where the control organs are less effective due either to laxity at the center, as in Poland and Hungary, or to resistance of a hostile periphery or ethnic minority. This resistance occurs in the non-Russian republics, the less urbanized Balkans, and minority areas throughout Eastern Europe, such as Kosovo and Transylvania, and among Gypsies, Jews, Armenians, Volga Germans, and so forth.[54]

These structural factors give each socialist state a different type of second economy, even though their relative sizes—as a proportion of gross national product—might be similar.

The structural variables cited operate in the cultural-historical context of each society. Cultural factors are manifest as specific cultural behaviors, value orientations, or institutions especially conducive to second economy production, exchange, or consumption or compatible with the kinds of informal social networks on which the second economy is based.

Some cultural behaviors conducive to the second economy are those that stress conspicuous display as indicators of personal prestige: skills in the ability to fast-talk bureaucrats or police; in squeezing favors or obligations out of people who are in high positions; in establishing patron-client or friendship networks with wide-ranging groups of people; and in publicly expressing one's linkages to others via gift giving, social togetherness, commensality, or alcohol use.

Cultural values compatible with an extensive second economy at least in the Soviet Union and the Eastern bloc countries are those that prioritize primary kin affiliations over allegiance to formal institutions like workplace, party, trade union, or state. Where nepotism is a moral duty and "faith in the state" is low, there will be little moral disapproval in appropriating state resources for private ends. As Kenedi says, "We must not allow the state to wither away. It's the only one we have. And if there were no such thing as the state, it would have to be invented."[55] In addition, societies that place a high value on personal honor and risk-taking behavior to prove one's honor will also be compatible with second economy behavior. Georgia and Soviet Central Asia are very much kin based, "honor and shame" societies.[56] Poland and Romania are notable for their lack of any "faith in the state."[57]

Finally, there are cultural institutions

54. A preliminary attempt to deal with the ethnic nature of the second economy in Yugoslavia has been carried out by Vjeran Katunaric, "The Socioethnic Nature of the Hidden Economy" (Manuscript, Department of Sociology, University of Zagreb, 1984).

55. Kenedi, *Do It Yourself,* p. 57.

56. Mars and Altman, *Private Enterprise in the USSR;* idem, "Cultural Bases of Soviet Georgia's"; idem, "Cultural Bases of Soviet Central Asia's."

57. Sampson, "Rich Families and Poor Collectives"; idem, "Informal Sector in Eastern Europe"; Korbonski, " 'Second Economy' in Poland"; Wedel, *Private Poland.*

such as having large families, clan systems, godparenthood, ritual friendship, and feasting that help to form social networks of deep obligations based on long-term trust. Large networks, obligations, and trust are keys to success in any second economy. They can help to procure money, whereas money cannot always procure obligations and trust. Large family traditions are obvious facilitators. An Uzbek or Kazakh—from Soviet Central Asia—with six siblings has available to him the networks of a dozen cousins and six other in-laws and their networks.

Since cultural and structural factors interact over time, historical factors also determine the nature of the second economy in each East European society. Poland's second economy seems to have achieved a head start as a result of the Nazi occupation.[58] Many anti-Nazi patterns regarding the importance of informal connections and suspicion of higher authority were continued under the Soviet occupation. In Romania, the nepotism and bribery that developed during the Ottoman occupation have continued today as patterns of deference to authority, misrepresentation, bribes, gifts to local elites, and the overt nepotism of General Secretary Ceausescu, whose wife, children, brothers, and in-laws occupy high party and state posts.

The existence of historical precedents does not mean that East Germany, Hungary, or Czechoslovakia could not develop Georgian or Balkan cultural patterns. Political oppression and economic mismanagement could easily stimulate them. Hence a Soviet émigré sociologist has bemoaned the gradual Georgianization of Soviet society.[59]

We should not be surprised to see cultural factors achieving their own momentum such that they aggravate preexisting structural inadequacies. This has clearly been the case in the USSR, Poland, and the Balkans.

ORIGINS, CAUSES, AND EFFECTS

While some second economy activities are intrinsic to socialist economies and can be found in the earliest accounts of Stalinist industrialization, most analysts maintain that they have blossomed in the last 10-15 years.[60] There are several reasons for this: the proletarianization of farmers and housewives and their integration into large-scale collective farms or factories; the spread of large workplaces to outlying republics and rural areas; urbanization, foreign influences, and rising consumer aspirations that have not been met by the state

58. Korbonski writes, "The fifteen-year period spanning the wartime German occupation, the postwar Communist takeover, and the Stalinist era was accompanied by the presence of a dynamic parallel market." This has meant that "Poland, most likely ahead of the other East European countries, became a good example of the coexistence of two socioeconomic systems: the *pays legal* and the *pays reel.*" Korbonski, " 'Second Economy' in Poland," pp. 8-9. This same continuity argument is stressed as well in Wedel, *Private Poland.*

59. Shlapentokh, *Love, Marriage and Friendship,* p. 213.

60. Cf. Grossman, "Second Economy of the USSR," pp. 31, 36-37; idem, "Notes on the Illegal Private Economy," p. 46; idem, " 'Shadow Economy' in the Socialist Sectors," p. 113; Brezinski, "Second Economies in Eastern Europe," p. 8; idem, "Second Economy in the Soviet Union," p. 367; Kroncher, "CMEA Productive and Service Sector," p. 195; George Schöpflin, "Corruption, Informalism and Irregularity in Eastern Europe: A Political Analysis," *Südosteuropa,* 34(4):210 (1985); Dieter Cassel and E. Ulrich Cichy, "Explaining the Growing Shadow Economy in East and West: A Comparative Systems Approach," *Comparative Economic Studies,* 28(1):34 (Spring 1968).

sector; the decline of terror as a control mechanism; the population's increasing disrespect for state institutions as the institutions show themselves permanently unable to meet basic needs for housing, goods, and services; and the increasing degree of sophistication in second economy strategies, replacing simple bribes with intricate networks of friendship and exchange.[61]

Why do East Europeans use so much of their time and energy and put themselves at such great risk to pursue second economy activity? Clearly, the manifest reason is that people want to make more money and managers want to fulfill the plan. Yet these human motives have political, economic, and sociocultural foundations.

East European economies are politicized economies. A wide range of economic decisions are made by political organs. The political priorities that lie in the plan, the priority of heavy over light industry, production over consumption, industry over services, all generate political responses. Strikes, protests, and riots are one type of response. The second economy is another.

The immediate economic cause of the second economy is the shortage of desired goods and services. The underlying cause of *these* shortages is the shortage of labor. Workers hold back their labor in the first economy in order to use it for consumption—standing in line; leisure—or for moonlighting.[62]

These structural causes feed into the East Europeans' feelings of estrangement from their workplaces, institutions, and the bureaucracy. Workplaces remain institutions to be exploited—"them"—rather than collective property to be safeguarded. The pervasive attitude that "everybody is doing it" and that the elites are getting their own special fringe benefits—what might be called the third economy—creates a moral atmosphere that makes it natural to resort to second economy strategies.

The second economy clearly has a lubricating effect insofar as it helps supply goods and services that the formal economy does not. In its shadow form, it provides the "baling wire and chewing gum" that keep the socialist enterprises from breaking down completely.[63]

In adding extra incomes and raising living standards, the second economy also functions as a social mollifier.[64] Resentment at the privileges of the elite is ameliorated by the masses' petty swindling, bribes, and moonlighting. Outlying republics or ethnic groups attain living standards in the second economy that surpass those of Moscow or

61. Janos Kenedi summarizes this trend: "It's not enough to know how to read between the lines—one has to squeeze through them." Kenedi, *Do It Yourself,* p. 97.

62. This statement is supported not only by virtually all Western journalistic accounts but by East European émigrés in the West who are amazed at the intensity of labor in most Western factories. Istvan Gabor has stressed "labor withholding" as the key to understanding the second economy. Moreover, he cites several Hungarian studies where between 75 and 98 percent of the workers stated that they could be working harder. Moreover, low work intensity also leads to "negligent and indolent work, 'notorious' absenteeism, being late, frequent changing of workplaces, arbitrary shortening of worktime," and so forth. With labor withholding as the norm, workers earn extra money either by working overtime or in the second economy. See Gabor, "Second (Secondary) Economy," p. 296.

63. O'Hearn, "Consumer Second Economy," p. 231. As Grossman, Brezinski, Gabor, and Cassel and Cichy have all stated, the second economy is itself a kind of surrogate reform, insofar as what was once illegal is now tolerated.

64. The term "social mollifier" is used by Cassel and Cichy, "Explaining the Growing of the Shadow Economy," p. 34.

Leningrad. Instead of protesting, people find individual solutions. This may explain why some of the officially low-paid groups in these societies, such as peasants and service workers, are so politically passive: their second economy incomes make up for it.[65]

Yet the lubricating and mollifying functions are offset by its corrosive function. By stealing labor time, materials, or funds from the first economy, the second economy makes the formal system even more inefficient than it is already. Labor is wasted, goods are shoddy, and no one really seems to care. Inside the enterprises, extra-plan improvisation covers up for the fundamental deficiencies of central planning.

Moreover, the constant swindling of the state perpetuates a moral gap between individuals and institutions. The "us"-"them" dichotomy or "underground society"[66] rhetoric may sound romantic, but the reality of the second economy is inequality, exploitation, and a lack of solidarity among those not part of the social networks. People are expected to defraud each other, lie to each other, falsify statistics, and misrepresent themselves in public encounters. People are kept off balance by the paradox of pervasive shortage and by the fact that nothing is every totally unavailable. There are always success stories of people who got hold of the seemingly unobtainable item—from an American record album to an exit visa. Hence people blame themselves if they cannot get hold of a desired commodity: they simply are not smart enough.

Due to the political, economic, and moral effects of the second economy, society degenerates into competing bands.

CONCLUSION: CAN THE SECOND ECONOMY BE REFORMED?

Each new second economy scandal brings renewed calls for "strengthening ideological training" and "perfecting the organs of control." To this Mikhail Gorbachev has added a policy of "openness" (*glasnost*) in revealing instances of corruption and second economy activities. Yet a genuine solution to the corrosive aspects of the second economy must attack it at its political, economic, and sociocultural roots. Ideological exhortations, propaganda, threats of more control, and revelations of scandals in this or that enterprise or republic are not directed toward these roots. This is why they invariably do not work.

One step toward reducing the second economy's corrosive effects with respect to societal integration would be to legalize certain forms of second economy entrepreneurship now illegal and to give the private sector priority equal to that of the socialist sector in allocations, support, and expertise. To date, the East European regimes have largely tolerated the private sector, typically leaving it to

65. By contrast, workers in heavy industry, often in large homogeneous towns, are heavily dependent on state supplies via shops or direct deliveries to the factory. When these supplies fail—as occurred in Poland—the second economy channels are only of limited usefulness. Hence the only alternative is political action. See John Montias, "Economic Conditions and Political Instability in Communist Countries: Observations on Strikes, Riots and Other Disturbances," *Studies in Comparative Communism*, 13(3):283-301 (Fall 1980); Ole Norgaard and Steven Sampson, "Poland's Crisis and East European Socialism," *Theory and Society*, 13(4):773-99 (1984).

66. Cf. Kemeny, "Unregistered Economy in Hungary," p. 363; Kemeny speaks of "an underground country." See also Elemer Hankiss, "The Second Society" (Manuscript, Institute of Sociology, Hungarian Academy of Sciences, 1986).

fend for itself, often illegally.

A second solution must attack the problematic nature of the first economy. Since one cause of first economy inefficiency is lack of information due to the population's general lack of interest, some ways of stimulating workers' allegiance to these institutions might be sought. The easiest way would be to institute a form of genuine workers' control, a key demand in the Polish labor movement. Workers' control over both plan formulation and the profits that accrue from it might stimulate attitudes in which pilferage would be discouraged.

Of course, both these solutions touch on the sacrosanct leading role of the party in economic decision making. Just as the second economy is a political reaction, these solutions are also political ones.

As it stands today, East Europeans continue to cultivate their metaphorical private plots, squeezing every last bit of value from them whether it be legally or illegally. Peasants who sell their sacks of vegetables at the market, workers who pilfer parts from the factory, truck drivers who sell state gasoline, bureaucrats who arrange residence permits to Moscow, the Romanian kiosk woman who rents out her sole copy of *Newsweek* by the hour to the locals, all are cultivating their private plots. Anticorruption campaigns and control measures cannot eliminate "personal plot socialism."[67] They are not intended to. Rather, their scope is to reset the boundaries of how much private activity is tolerated, how much in the way of materials can be pilfered, how much state labor time can be used for personal needs.

Real efforts to eliminate the personal plot would only produce more problems for the first economy and a politically volatile populace. Here the Hungarian solution seems to offer a probable course of action for other East European regimes. Encouraged by the state to take second jobs and set up private businesses, each Hungarian citizen now has the right to work 16 hours per day. If someone cannot attain the good things in life, they now have only themselves to blame. Socialism, once a reaction to the capitalists' lengthening of the working day, has now found in it a solution to its own problems.

Legitimating the second economy in this way only covers up its political, economic, and moral roots. Such reforms bode ill for the first economy. The history of socialist Eastern Europe shows that economic difficulties produce political aftershocks. The institutionalization of personal-plot socialism will be no exception.

67. See my review of Timofeev's *Soviet Peasants* in *Telos*, no. 68, pp. 114-17 (Summer 1986), for a fuller exposition of "personal plot socialism."