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“May You Live Only by Your Salary!”: The Unplanned Economy in Eastern Europe

Steven Sampson

In official parlance, the Soviet Union and other East European states are “centrally planned economies.” Yet alongside the ubiquitous indicators, directives, and controls there exists, in each of these countries, a second, “unplanned” economy. The unplanned economy has often been described by the East European press as a corrosive factor or criminal activity which robs the formal economy of essential goods, services, and labor time. In this official view, the collective farmers who devote all their time to their private plots, the black market speculators, the pilferage, skimming, bribery, the underground factories, and other illegal activities, are all seen as manifestations of “petty bourgeois attitudes,” parasitic, if not directly antipathetic, to the building of socialism. According to orthodox Marxist doctrine, such “backward mentalities” are destined to disappear as central planning is “perfected.” To various degrees, the second economies may be tolerated in Eastern Europe, but nowhere are they given official approval.

In contrast to the orthodox Marxist view of second economies as “parasitic,” there exists a popular Western view of them as “islands of capitalism.” In this view, second economy activities reflect the spirit of entrepreneurship thriving despite a stifling bureaucracy and hostile ideology. The second economy thus serves as the “lubrication” which keeps the system running (Smith, 1976: 86). In practice, however, although East European law-enforcement agencies periodically crack down on second economy behavior, the governments know how essential the second economy is, and therefore it is not simply tolerated but is actually “planned by the regime” (Lipson, 1980).

These contradictory aspects of Eastern Europe’s second economy are the subjects of this article. Contradictions operate on three levels of social life: societal, governmental, and individual. At the level of *society*, second economy activities continually straddle the line between the legally permissible, the semilegal but tolerated, and the acts prosecuted as criminal behavior. At the level of *government policy*, second economy contradictions operate in the

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continual change of official attitudes: today's "backward mentality" may easily either become outright criminality or be praised as socialist entrepreneurship. The state may decide to punish some activities which are not especially criminal, while letting other economic crimes go unpunished because they contribute to social stability. Finally, contradictions operate at the *individual* level. The individual must adapt to contradictory social norms and shifting government policies. Raising their children to be moral, law-abiding citizens, they must themselves continually act with a double morality and in the shadowy sphere of illegality.

This article examines the social and political consequences of the second economy in Eastern Europe. It begins by establishing the characteristics of the second economy in socialist societies as distinct from those of advanced capitalism and of the Third World's "informal sector." The relation between the societal, governmental, and individual levels is then described by examining second economies of three East European states: Romania, the Soviet Union, and Hungary. The choice of these three countries is not fortuitous. Romania's second economy is largely agricultural and illegal; the regime has attempted to crack down on it via governmental restrictions, but the crackdowns have been largely ineffective. In the Soviet Union, the second economy has an ethnic and regional component; average second economy incomes in the southern, non-Russian republics are several times higher than in European Russia (Grossman, 1987). Here second economy behavior is truly a part of the cultural values of these ethnic groups. Finally, in Hungary there is a large, legal private sector tolerated by the regime. State policies of integrating the second economy into the formal economy have resulted in a long-term undermining of the formal economy. By examining the second economy in terms of its societal, governmental, and individual dimensions, we will be able to explain why a given socialist society chooses to encourage, integrate, tolerate, or criminalize its second economy.

The final section of the article addresses the much-discussed question of whether the second economy is "revolutionary," a question posed by Stuart Henry in this issue. To deal with these questions, and to apply them to societies which experience both periodic revolt and extraordinary stability, we need a wider understanding of how these second economies fit into the broader political economies of Eastern Europe.

Nature of the Unplanned Economy

In Eastern Europe, the official economy comprises activities which are:

1. Planned by state authorities;
2. Regulated by state agencies;
3. Statistically reported and monitored; and

4. Executed by socially or state-owned enterprises.

Therefore, they are by definition legal.

The two most frequently employed definitions of the socialist second economy, those of Grossman and Marrese, are the very opposite of these characteristics. For Grossman (1985: 2), the second economy must "meet at least one of two overlapping tests: being on *private* account (which can be legal in the USSR within a very narrow range of specified activities) and being *illegal* in some significant respect, be the activity on private or socialist account." Marrese's definition of the second economy similarly includes "all of the non-regulated (legal and illegal) aspects of economic activities in state and cooperative organizations, plus all unreported activities, plus all forms of private (legal, semilegal, and illegal) economic activity" (1981: 56).

In both cases the socialist second economy is defined in opposition to the idealized formal economy having the five characteristics cited above. Yet since both definitions try to encompass so many disparate phenomena — peasants selling their own produce, speculation on the street, bribes to wholesalers for supplies, etc. — they overlook the second economy's essential characteristic: that it lies "outside the planning structure" (O'Hearn, 1980: 218). Second economy activity is extra-plan activity, "not explicitly taken into account in the planning process or not officially sanctioned as part of the national economy" (*Ibid.*). The question of legality or illegality is derivative here, inasmuch as much of what is outside the plan may become outside the law. Moreover, many illegal activities are carried out within socialist enterprises in order to insure their proper functioning, what Peter Wiles has termed "benign plan violation" (1982).

What, then, is the difference between the official and the second economy under East European socialism? For the Hungarian economist Galasi (1985), the difference is one of "direction and regulation." The official economy is "directly" run by the state; the second economy is only "regulated." It is planned, but planned in another way. This regulation may take the form of legal constraints, of restrictions on purchasing materials or hiring labor, of selective enforcement of laws which are on the books but rarely used, or ideological regulation as to when speculators and other "unearned income" are criticized in the newspapers.

Legal enterprises — factories, stores, collective farms — must *invariably* resort to the second economy to fulfill their own plans. This may mean *either* legal second economy activities, such as the purchasing of supplies or labor via middlemen, *or* wholly illegal activities, such as making payoffs and engaging in corruption (all aside from additional illegal activities which have nothing to do with plan fulfillment). All descriptions of socialist enterprises, whether from newspaper accounts, party campaigns, interviews, emigré descriptions, or Western research, point to the ubiquity of such strategies (for ex-

ample, see Aaslund, 1985). Inasmuch as state enterprises interact with the second economy, their activities are thus “regulated” by constraints rather than “directed” by state planning. The exact nature of this regulation will vary from one society to another depending on political, social, cultural, and historical factors.

Using this distinction between “direction” and “regulation,” where the latter characterizes relations of the second economy, we can see that far from being an “island of capitalism,” the second economy remains an intrinsic part of the socialist economy. East European economies may thus be conceived as “dual economies” operating in two sectors: the “directed,” run by the bureaucracy and influenced by the market, and the “regulated” sector, run by the market but constrained by the bureaucracy and legal system (Galasi, 1985). How the two sectors interact will depend on the nature of the bureaucracy, the legality accorded the market forces, and the efficiency of the planned sector of the economy. For example, the more efficient planning of East Germany and Czechoslovakia has meant less second economy activity than found in both the more privatized Hungarian and Polish, and the less efficient economies of the USSR, Bulgaria, and Romania (Brezinski, 1987a, 1987b; Sampson, 1987). The East German and Czech economies, despite their high degree of industrialization, are hardly problem free. On August 8, 1987, Radio Prague reported that nearly one-fourth of all criminal offenses in Czechoslovakia were economic crimes, and that building sites had become virtual “self-service shops” for stealing construction materials. In general, the specific kind of interaction between the directed and regulated sectors of the economy will determine how much second economy behavior is legalized, tolerated, or criminalized.

This article will employ the broadest definition of second economy encompassing the following activities: legal private production, consisting largely of the household agricultural plot; unregulated or illegal market exchanges based on speculation, bribes, and selling of goods and services above their official prices; various illegal transfers of wealth based on pilferage from the socialist sector; moonlighting and unregistered work; illegal private production as in underground factories; various strategies used within socialist factories to alter or achieve the plan, procuring supplies by bypassing central authorities, bribing suppliers, and other aspects known as the “shadow economy” (Grossman, 1982).

The total economy of the socialist states can be depicted schematically as follows (adapted from Henry’s article in this issue):

Table 1:
Sectors of the Socialist Economy

"Directed," Official Economy

I. The Regular Economy

- A. Socialist Sector
 - 1. State enterprises
 - 2. Cooperative enterprises
 - 3. State-run redistribution
-

"Regulated," Second Economy

- B. Private Sector
 - 1. Individual production
 - 2. Individual marketing, services

II. The Criminal Economy

- A. Criminalized illegal private enterprises (e.g., underground factories)
- B. Tolerated illegal private enterprise (e.g., the shadow economy within the socialist sector)

III. The Informal Economy

- A. Moonlighting (unauthorized/illegal wage labor)
 - B. Fiddling, pilferage (illegal wages)
 - C. Speculation (unauthorized or illegal market exchange)
 - D. The Social Economy
 - 1. Barter and swapping
 - 2. Household and domestic economy (private plot agricultural consumption)
 - 3. Communal economy (producers are not consumers)
-

Comparison with Capitalist Second Economies

Stuart Henry's categorization of the second economy under capitalism helps shed light on the crucial features of the second economy under socialism. Henry's categories are based on overlapping subeconomies defined by their relative degree of:

- 1. Legality;
- 2. Regulation; and

- 3. Social function (i.e., benign, corrosive, etc.).

A schematic summary based on Henry of the sectors of a capitalist economy would appear as follows:

Table 2:
Sectors of the Capitalist Economy

<i>Official Economy</i>
I. The Regular Economy
A. Legal Free Enterprise
B. Legal State redistribution

II. The Criminal Economy (illegal free enterprise)
III. The Informal Economy (unofficial, hidden, small scale)
A. Moonlighting (irregular economy)
B. Fiddling, pilferage (the hidden economy, part-time crime)
C. Social Economy (unregistered, noncash means of exchange)
1. Barter and swapping, mutual-aid networks
2. Household economy (self-production)
3. Communal economy (producers are not consumers)

Comparing the two tables, one sees many common features. Just as “real capitalism” is more than simple capital/wage-labor relations, “real socialism” involves more than just state enterprises and a planning bureaucracy. Certain aspects of the informal economy seem intrinsically part of the formal economies of capitalist and socialist systems. Other aspects predate the present social organization, being “survivals” of a precapitalist or presocialist order, and a means of adapting to the hardships inherent in industrialization, urbanization, unemployment, low wages, and rapid change, found in both capitalist and socialist societies.

Nevertheless, as best pointed out by Grossman (1985), who is one of the pioneers of second economy research, there remain fundamental differences in the second economies of the two systems. The second economy of a Soviet-type system is basically a market economy which interacts with a larger command economy (*Ibid.*: 3). The second economy in a Western capitalist system is also a private enterprise market economy, but it coexists with another largely private market economy. In systemic terms, the first and second

economies of the West resemble each other; in the East they differ. This means that the environment of a socialist state's second economy is quite unlike that of a Western second economy. A socialist bureaucracy has more leverage in affecting its second economy because it can legalize, marketize, criminalize, or bureaucratize various transactions. For instance, it can turn illegal speculation into private trade, or put limits on capital accumulation by preventing small firms from hiring too many workers or earning too much profit.

A second crucial difference between the two types of second economies is that the unplanned economy under socialism depends largely on theft from the state sector for inputs of materials, labor time, and machinery (Grossman, 1985: 4). Stolen inputs seem to play a much smaller role in the Western underground economies (although see Mars, 1982). Hence, the second economy in Eastern Europe operates on different principles from the regular economy, while the second economy in the West is more or less a looser or subsidiary market.

The social implications of these differences are many. The socialist state's ability to manipulate the categories of the second economy tends to keep people off balance. On the one hand, many law-abiding citizens are forced to resort to illegal methods. On the other hand, people are unsure as to whether their behavior will be tolerated, criminalized, approved, or praised. The vague borders between these categories lead to shifting state policies. Ultimately, these policies are based on shifting definitions of what constitutes an economic crime under socialism. Under capitalism, some second economy behavior may be tolerated because it is too difficult or too expensive to prosecute. Under socialism, illegal economic behavior is tolerated because it may lubricate an inefficient economy and also because it helps prevent economic problems from evolving into political protests. That is, the second economy helps resolve problems of consumer shortage or low wages over which the party has direct control, and for which the party assumes direct responsibility. In socialist states all economic problems are thus political problems because the party takes responsibility for the economy. As mundane an issue as an increase in the price of meat has led to demonstrations, the fall of the party leader, and to the calling out of tanks.

Insofar as the second economy helps maintain political stability in Eastern Europe, it is more than just an economic safety valve for inadequate planning. It is a visible form of political protest against a party which bases its legitimacy on economic welfare. In its illegal forms, the second economy is more than "economic crime." It is a political manifestation of the relation between citizens and the state, something President Gorbachev himself is trying to rectify with his campaign for "new thinking" in the USSR. This marks the real political difference between the second economies of the two societies. Like

the official economy, the second economy under socialism is also a political economy, a politicized economy.

Before examining the second economies of Eastern Europe in more detail, it will be useful to examine the "informal economy" of the Third World, which seems to have acquired the worst characteristics of both capitalist and socialist second economies.

Third World and Socialist Informal Economies Compared

Like the developed capitalist countries, the Third World economies are largely capitalist; hence, their second economies also run largely on the same loosely structured market basis. The "informalization" of capitalist production relations in underdeveloped sections of Europe or the Third World is simply a way in which capital overcomes protective labor legislation, union-scale wages, compulsory contributions to pension funds, and other costs normally associated with wage labor in modern welfare states (see Lever's article on Spanish women embroiderers in this issue). What appear to be petty commodity producers are often disguised wage laborers. In a wider context, small entrepreneurs are simply putting-out for larger, multinational firms.

Like the socialist states, Third World societies contain remnants of pre-capitalist production from their common agrarian pasts. The informal economy thus acts as a safety net for individuals unable to fulfill their needs in the formal economy. Both socialist and Third World societies are full of wheelers and dealers, of people normally holding two or even three jobs, of interminable bureaucracy and endemic corruption, of payoffs, bribes, shortages, and searches for "connections" (MacGaffey, 1983; Sampson, 1983).

To be sure, bribes, corruption, and payoffs are the daily stuff of life in capitalist societies as well. Yet they are not nearly as extensive, nor as integral to the system, nor as hidden from control as in state socialist or Third World state capitalist systems. Higher wages, lack of shortages, and alternatives to the bureaucracy via a legalized market make corruption and bribery less necessary (one need not bribe a shoe clerk to get a decent pair of shoes, nor pay off a bureaucrat clerk to obtain the right to live in the capital city). The three systems come to resemble each other at the top and bottom: among the poor who need the second economy as a safety net, and among the rich and privileged who use connections to exploit resources from the state bureaucracy (e.g., the Agnew case or defense contract payoffs).

The key difference between socialist and Third World societies is that the Third World lacks the kind of strong state which can act both as employer and as supplier of key resources channeled back into the second economy. This means that:

1. The masses in the Third World rely more on the second economy for sustenance than do those in the Second World; and

2. Third World elites seem to be able to pillage state resources with more impunity than can the socialist elites, whose privileges are allocated administratively by the so-called *nomenklatura* system.

MacGaffey's (1983) description of class struggle via the second economy in Zaire can be compared with the developed system of privilege, sometimes known as the "Third Economy," in the Soviet Union which has been described by Voslensky (1984), Simis (1982), Matthews (1978), and Willis (1985).

Insofar as socialist and Third World societies resemble each other in their second economies, it is because Third World societies have evolved larger and more comprehensive state sectors of both a bureaucratic and an economic nature. One might thus look for extensive second economies in Third World *socialist* states like Cuba, China, or Vietnam precisely because they combine both precapitalist agrarian remnants — which render some household economic autonomy — with a large, ineffective state, which can function as a resource for the second economy (Jamann and Menkoff, 1988).

To recapitulate, second economies in socialist states resemble those of the industrialized countries and the Third World, but differ in terms of the socialist states' greater state direction of the official economy and the consequent degree of "regulation" operating in the second economy. Like the Third World, socialist societies are full of wheelers and dealers (Brokhin, 1976), but while such informal activities in the Third World reflect the sheer struggle to survive, in the socialist states it is a means of improving one's living standard.

Second Economy in Eastern Europe

Among the socialist states there exist variations in the operation of their second economies at the societal, government policy, and individual levels. Factors which generate an extensive second economy include the following:

1. A large, legally tolerated private sector;
2. Low effectiveness of the official economy;
3. Relatively large influence of foreign inputs via tourists, emigrant connections, foreign currency remittances, and "dollar shops";
4. Low effectiveness of state controls; and
5. A large agricultural sector with food produced by peasant households rather than by state enterprises. (Although private plots may be significant food sources for villagers, most city dwellers in Eastern Europe — except in Yugoslavia and Poland — obtain their bread, meat, and dairy products from state and collective farms [Schinke and Hunacet, 1983].)

Comparing the East European states, these five factors operate most comprehensively in Poland, which (with Yugoslavia) has a large private peasantry (factor 5), and where contacts with the emigré community via tourism and re-

mittances are greatest (factor 3). After Poland, Hungary, the Balkan states, and the southern republics of the USSR all have sizable second economies reflecting the presence of factors (1) (Hungary) and (2), (3), and (4).

The above factors are of a political-economic nature. An additional set of cultural-historical factors unrelated to socialism *per se* have also played a role in fostering an extensive second economy. Most of these can be found in Third World states as well, which only reflects Eastern Europe's similar historical development as underdeveloped, ethnically diverse, agrarian societies. These cultural-historical factors include:

1. Cultural behaviors emphasizing conspicuous consumption and display as markers of personal prestige: skills in fast-talking bureaucrats, squeezing favors and obligations, forging patron-client ties; traditions of extensive gift-giving, social togetherness, and feasting or alcohol use;
2. Cultural values placing high priority on primary kin affiliations as opposed to allegiance to formal institutions; nepotism as a moral duty, etc., (see especially Mars and Altman, 1983; 1987a; 1987b);
3. Cultural institutions centered around kinship, barter, friendship, ethnicity, feasts, and risk taking; and
4. Historical suspicion toward state authorities.

Again, we find these cultural-historical factors most prevalent in Poland, the Balkans (Romania, Bulgaria, Yugoslavia, Albania) and in the southern republics of the USSR. They are least present in East Germany and Czechoslovakia, the two countries which were largely industrialized and urbanized before the socialist takeover.

Personal networks and conspicuous consumption are also part of elite life styles in capitalist societies. They help grease the wheels of the official capitalist economy, as William Domhoff's work has demonstrated. In socialist systems, where networks are to be subservient to the party-state bureaucracy and where conspicuous consumption cannot be realized via the formal system, such cultural factors ramify into the second economy. Realizing cultural norms of honor and prestige is possible only via participation in the second economy.

In the remainder of this article I will describe the operation of the second economy in Romania, the Soviet Union, and Hungary. The formal operating principles in each of these societies are based on centralized state planning, but their second economies have quite different functions vis-à-vis their total economies and hence their social and political situations.

East European Second Economies in Operation

Romania: Second Economy as Necessity

Romania's official economy is the most crisis-ridden within Eastern Europe. Since the early 1980s, when its policy of heavy industrialization based on import of Western technology and foreign energy sources began to collapse, Romanian living standards have fallen drastically (Brezinski and Petersen, 1987). To repay its foreign debt and purchase Soviet fuel, Romania exported much of its food, which has led to rationing of even basic necessities. Once the breadbasket and gasoline station of Eastern Europe, Romania now rations bread, meat, butter, cooking oil, and other basic goods. In order to save fuel, entire apartment blocks now go without heat, light, and electricity for several hours each day. Prestige items such as coffee, chocolate, or foreign cigarettes are now unavailable through normal channels. Basic items such as chicken, soap, toilet paper, or milk — easily available in all other East European countries for decades — are now the object of daily "searches" for most Romanians. Long lines are common, while other shops may be closed for days on end. The situation is so bad that older people are paid to stand in line.

Despite these problems, Romania's Party Secretary and President, Nicolae Ceausescu, has steadfastly maintained faith in large-scale centralized planning. He has condemned any sort of private-enterprise reforms as a return to capitalism, and any Gorbachev-type moves toward decentralization in economic decision making as anarchy. Romania's legal private sector thus remains limited to one-man service outlets like shoemakers or watch repair.

Most such shops sustain themselves only by relying on tips or bribes for faster services; hence, although legally tolerated, they are also pushed into illegal activities. Romania's agriculture is collectivized, with about 300,000 individual farmers remaining in the highland zones. Collective farmers have the smallest private plots in Eastern Europe (0.12 hectares/person). Nevertheless, both private farmers and collective farm members have been pressed to grow food on their plots according to meticulous state plans. Only after fulfilling their quota and selling produce to the state (at lower state prices) can they sell the remainder on urban markets. Even in urban markets, however, there are price ceilings, which are enforced by "economic police." Farmers have reacted by delivering less to the markets, since with the resulting income there is little for them to buy anyway. Urban dwellers have seen drastic increases in prices where peasants sell to acquaintances at uncontrolled prices. To avoid the economic police, peasants can be seen late at night around the market area of certain cities selling their hens, tomatoes, or garlic at double the controlled price. Urban dwellers complain, to be sure, but they are also happy to be able to "procure" these things at all.

Both formal and informal economy prices have risen considerably in the last five years. Romanian currency, the *leu* (plural: *lei*), has given way to a currency based on American "Kent" cigarettes. Like money, Kents are anonymous, divisible, easily transportable, and do not spoil. They have even been counterfeited by stuffing cheap Romanian cigarettes into a Kent package. Since about 1980 the black market price of Kents has soared from 30 to 90 *lei* a pack (Romanians' average official wage is about 15 *lei* per hour). Even a package of Bulgarian "BT" cigarettes will suffice to tip a waiter, bribe a butcher, or give a gift to a hospital nurse, doctor, or clerk. The cost of an hour of "black" labor time is about 40–60 *lei*, rising to 100 for some services such as tutoring pupils for their college entrance exams. Thus, a host of quasi-legal and illegal services have blossomed due to the collapse of the formal economy and the rise in underground prices.

Labor time, raw materials, and products are pilfered from the socialist sector. Conductors and bus drivers sell tickets for half the price, but give no receipts. Controllers ride public transport to control them, so that they too must be bribed. Most quality goods are kept under the counter, to be sold in exchange for extra money, Kent cigarettes, or services rendered by the buyer. Bribes and tips have become common even for basic services in a shop, a hospital, or an office. There is currency trading, barter, and exchange of favors. Such activities were common in Western countries during World War II, or in Eastern Europe during the 1950s. What is significant in the Romanian case is that far from declining, the need for private strategies is steadily increasing. In contrast to the rest of Eastern Europe, items which once were easily available are now difficult or even impossible to find for the average person; even special shops for party cadres and police have reduced the number of those entitled to goods and services in short supply.

To compensate for the lack of resources available in the formal economy, people employ wide-ranging social networks based on family, friends, and work colleagues. "Losers," those without friends, connections, or influence, must wait in line. "Winners," those with strategically placed kin, patrons, clients, and friends, find what is available and obtain these items in exchange for large amounts of cash or for gifts or future favors. People reveal their social access by virtue of what they consume. Serving a cup of real coffee to a guest is more than a mark of politeness. It is a sign that one has access to the networks that produce coffee, and that one may be willing to share these networks in a country where most coffee shops sell only *ersatz*.

Similar strategies are used in other East European countries (Kenedi, 1981; Wedel, 1986) but in Romania they must be used to procure even basic items. Hungarians, Czeches, and Poles use connections to procure French ski equipment, IBM PCs, or the latest video; Romanians need them to procure salami, soap, and toilet paper.

Since the economic crisis hit Romania in 1981–1982, the second economy has been growing. While average retail trade from 1983–1985 grew by about 2%, real income rose by 5% (Pissula, 1986). As official supplies of food and consumer goods disappeared, people were literally driven into the second economy. Government measures to force private producers to implement individual plans and extend state “direction” into individual production only forced the peasants from legally tolerated to illegal activities. As more people tried to get around state restrictions, new laws were enacted and old ones enforced regarding “respect for socialist legality and morality,” parasitism, unearned incomes, etc. (Ghermani, 1986). From the state’s point of view, all nonplanned activity was viewed antagonistically. What was outside the plan was outside the law. Instead of revising the law, more plans were enacted for private producers right down to the number of rabbits and chickens to be kept on a single household lot.

The Soviet Union: Second Economy as Culture

Press reports, exposés by emigrés, and surveys of emigrés all indicate the second economy to be a vital part of Soviet life. According to Simis (1982), the second economy begins with the payoff for the good obstetrician and does not end until the gravedigger has received an extra tip for the prestige burial plot. As elsewhere in Eastern Europe, the extension of large state enterprises into outlying areas has provided people with the possibility to transfer materials from the formal to the unplanned economy. Soviet citizens have unabashedly done so because of insufficient supplies of consumer goods, stagnating state-regulated incomes, rising consumer aspirations, and the consequent rise in black market prices. Diverting state goods to the black market is especially attractive: 80%–85% of all gasoline in the USSR, 25% of its internal fish catch, and 25% of its distilled alcohol have ended up on the black market (O’Hearn, 1980: 226). The extent of pilferage is indicated by the fact that in just one year (1971) 250 of Moscow’s 1,250 gasoline attendants were arrested for profiteering (*Current Digest of the Soviet Press*, 1976: 16). Fiddling with accounts and selling state merchandise for private gain is so widespread that on days when GOSBANK audits service enterprises, receipts are one and one-half to two times higher than on days when they are not controlled (O’Hearn, 1981: 103).

Legal or tolerated private enterprise is extremely widespread in the crafts, construction, and service sectors; 70%–99% of home repairs are carried out by private persons in various republics of the USSR (O’Hearn, 1980: 225). Eighteen percent of all consumption expenditures of Soviet households were made to private persons, and about 30% of food was purchased in the private sector or via the use of connections (Ofur and Vinokur, 1980: 58).

Emigré surveys indicate that second economy sources added an average of 12% to family income (Ofur and Vinokur, 1980: 70; Matthews, 1986: 23). The variety of income-producing activities included private tutoring, “procuring” spare parts, speculation, moonlighting, and various personalized services such as barbering and hairdressing. In one such emigré survey, families who reported income from “bribes, tips, and speculation” (i.e., not moonlighting or renting) added 79 rubles per month to their wages, or about two weeks worth of average legal labor (Ofur and Vinokur, 1980: 33). Barbers in Leningrad and Moscow doubled their wages via tips (which are considered unnecessary, if not illegal), while those in Yerevan, Armenia, quadrupled their wages (Grossman, 1985). The importance of extra incomes is demonstrated by the well-known Russian curse, “May you live only by your salary!” (Mars and Altman, 1987b).

The disproportion between official and unofficial wages is best indicated by the sizable bribes offered to obtain schooling or apprenticeships in jobs with quite moderate official salaries: waiter trainees in central restaurants, places in law and medical faculties, and even party posts — all have been up for sale in various republics of the Soviet Union, particularly in the southern republics (Law, 1974; Mars and Altman, 1987a, 1987b).

Soviet data also give us the best evidence about how socialist enterprises combine official planning mechanisms with a “shadow economy” of quasi-legal or outrightly illegal activities (Grossman, 1982). The career of a Soviet manager depends not on making profits or rationalizing his labor force but rather on fulfilling the plan. Managers thus try to cut across bottlenecks in order to procure enough supplies and to achieve a reasonable planning quota. This “benign plan violation” (Wiles, 1982) is clearly tolerated by the authorities as long as the plan is fulfilled. Strategies used in pursuing these objectives are called the “four B’s: barter, black market, *blat* (connections), and bribe” (Grossman, 1982). The 4 B’s are nothing new, but they indicate the degree to which the second economy is ingrained in the normal operation of a socialist enterprise.

Many of the same strategies are used to maintain the underground factories so widespread in the USSR. Items made in these enterprises tend to be small, easily produced consumer goods such as “ladies underwear, meat pirozhki, brooches made of a couple of plastic cherries, or fashionably tailored artificial leather jackets” (Simis, 1982: 177). Major centers of underground entrepreneurship are Moscow, Odessa, Riga, Tbilisi, and most of the Soviet Union’s regional periphery. Many such entrepreneurs are Armenians, Georgians, or Jews who have been denied avenues of social mobility in the normal hierarchies of science, arts, the army, or the party. Private factories normally coexist under the same name and roof with a state factory. The state “cover” is needed for effective procurement of supplies, cash, the labor force, and espe-

cially transport. While the state factory operates normally and achieves its plan, surplus materials and capacity are used to manufacture other goods. These unplanned goods may be identical with the official items or differ slightly in style or quality.

A core of factory personnel supervise the theft of materials, machinery, transport, and labor time from the formal factory and its re-allocation into illicit production. Raw materials may be skimmed off and suppliers bribed for extra allocations. Profits from the factory can be only partially reinvested, since there are few legal means of accumulating money in the USSR. Instead, profits are paid out in salaries, bribes, protection, and conspicuous consumption: giant houses, weddings, feasts, vacations, helping children get into medical school, etc. Here is a crucial difference between Western capitalist entrepreneurs and their counterparts in the Soviet second economy. Given Soviet conditions, where simply possessing large amounts of cash is cause for suspicion, saving capital for eventual reinvestment is counterproductive for an entrepreneur in the second economy. Second economy enterprises cannot expand or intensify production. It is via feasting and cultivating networks with higher-ups that second economy enterprises succeed.

Ethnic networks and isolated regions provide excellent social climates for second economy factories. This is why there is such widespread underground activity in the Soviet republics of Georgia and Central Asia. The key to effective underground factory operation is to cultivate relations with planners so that they will reduce quotas and increase supplies, and with the continuing stream of controllers and inspectors so that they do not interfere with production. Finally, good relations must be established with the local and regional economic police, and with the traffic police, which control all major traffic arteries and can inspect trucks. The Georgian biscuit factory studied by Mars and Altman (1987b) had practically the entire local police force on its payroll. The managers knew which police were covering which highway and gave periodic gifts to each inspector. Moreover, the underground entrepreneurs cultivated relations with local and regional party chiefs. The Georgian millionaire Laziashvilli handed out a million *rubles* yearly in bribes to Georgian party officials, to police, to the employees of ministries on whom his factory depended, to the Georgian Minister of Internal Affairs, to public prosecutors, and even to Georgian Central Committee members (Simis, 1982: 166; see also Radio Liberty Research, 1977). Roughly 15%–20% of the “black” incomes were spent on bribes (Simis, 1982: 168).

The biscuit factory had been “inherited” by two Jews from their fathers, who also had run it “black.” A third partner, a gentile, was added later. The hidden product consisted of biscuits produced off the plan and sold to distributors at a 15% discount. Distributors sold the “black” biscuits (identical with the planned ones) at the regular price but pocketed the earnings instead of re-

porting them. The factory owners began each year by making a “pilgrimage” to the plan-setter in Tbilisi to insure that their official plan quota would be reduced. By cheating on quality — reducing the amount of flour, sugar, eggs, fat, yeast, and coloring in the “official” biscuits — they created materials for their underground production. By copying the existing product, they had fewer problems with police checks of trucks and cargo. The workers were paid extra but were otherwise kept in the dark. Drivers were very highly paid because they had access to factory secrets and had to be able to negotiate in case they were taken into custody by police. At each stage, from procurement to production, transport, and selling of goods,

partnerships were necessary because no single person or personal support network could provide all the links necessary to keep the operation going and ensure the mobilization of support in times of crises (Mars and Altman, 1987b).

One owner had a large kin group; another had ties to non-Jewish networks; a third knew someone on the police, etc. The combination of network linkages, traditional entrepreneurship, political connections, and payoffs to the controlling bureaucracy yielded a healthy profit for this factory with relatively low risk.

The Georgian underground economy is not just a matter of entrepreneurship and payoffs, however. Mars and Altman point out that Georgian cultural values are particularly conducive to such risk-taking behavior. As an “honor and shame culture,” a Georgian’s public face is determined by one’s personal linkages (Mars and Altman, 1983). Earnings derived through normal state employment do nothing to demonstrate one’s individual talents. Prestige is indicated by one’s activities in the second economy — by taking risks and manipulating the authorities. Allegiance to relatives and friends is a higher moral duty than adherence to abstract state laws. The cultivation of social networks and obligations via feasting combines public face and utilitarian connections. In view of the fact that those heading the control organs are non-Georgians, or seen as having allegiances to non-Georgians, participation in the second economy takes on the features of a political and cultural clash between Georgians and the dominant Great Russian culture.

We tend to think of using private solutions when the official system does not work. Georgians may use private solutions as the preferred strategy even when official channels are available. It is through the second economy that they demonstrate the culturally preferred attributes of Georgianness: public reputation, feasting, manipulation, free spending, consumerism, nepotism, etc. The second economy thus becomes a means of articulating certain cultural values and behaviors (Mars and Altman, 1983). Far from being revolutionary

(in Stuart Henry's sense), Georgia's second economy is a means of perpetuating tradition.

Hungary: Second Economy as Social Mollifier

Since its introduction of the New Economic Mechanism in 1968, the Hungarian regime has gone furthest of all East European countries in allowing legalized second economy activity. The principal reason for this progress seems to be the party's decision, under Janos Kadar, to let experts and managers (and entrepreneurs) run things because of its fear — in the shadow of 1956 — that political stability can be achieved only if the population is reasonably satisfied with their material incentives.

Hungarian workers are thus able to contract with their enterprise to work a second shift at higher wages. They may establish construction cooperatives, open restaurants, drive their own cars as taxis after work, and open small businesses with five to ten employees. According to official statistics, about 70% of Hungarians now earn some income from the second economy, including private-plot agriculture. Hungarians are encouraged to find extra employment and they remain the only East European country which carries out research on the second economy (Galasi and Sziracki, 1985) — including its more sordid aspects such as bribery. According to a recent Hungarian press report, Hungarians tipped and bribed in the sum of eight billion *forints* in 1986.

Although Hungarians do not suffer from acute shortages of goods and services, a market for high-quality items still exists because of import restrictions, the nonconvertibility of the Hungarian *forint*, and the low quality of goods and services produced in the socialist sector. The real shortage in Hungary is that of labor in the socialist sector. Since wages in the second economy are two to four times that of the formal economy, workers tend to "shirk," saving their energy for their "second shift." Some workers are fortunate enough to work their second shift while still on the job, like the truck driver who picks up paying passengers on his route or sells state gasoline. On the second economy social hierarchy, the truck driver stands higher than those forced to actually work at two separate jobs, such as the moonlighting repairman, the clerk who drives a night taxi, the collective farmer who also cares for her private plot, or the hard-pressed peasant-worker who returns to his village vegetable patch after a day in a Budapest factory. In terms of the amount of labor time, cash earnings, and the social connections established, the social hierarchy could be even further subdivided.

Such a widespread, legalized and tolerated second economy has become part of the Hungarian regime's "social contract" with its people. In return for relinquishing genuine control at the workplace, political pluralism, and a decent wage, the regime gives the workers the "right" to work 16 hours a day. Hungarians thus become "Westernized" in a very special way. If they do not

have a certain consumer item, they cannot blame the state; they blame themselves. For the state has now given them the opportunity to work overtime. In effect, the legal or semilegal lengthening of the working day — one of the very reasons Marx condemned capitalism — has become the “solution” to the Hungarian regime’s crisis of legitimacy. The second economy has become a surrogate reform.

In order to obtain high-quality goods and services or certain items not available on the private market, Hungarians resort to a variety of strategies. As Janos Kenedi (1981: 58) writes: “Under socialism one must not only learn to read between the lines; one must learn to squeeze through them.” Although the average Hungarian village store sells items unavailable in Moscow or Bucharest, Hungarians’ consumer aspirations are much higher. Kenedi describes three methods of obtaining these necessary or prestige goods. All of them involve a private, personal relationship with the seller. The first type is the cash payment, bribe, or tip used when buyer and seller do not know each other and do not expect to have a long-term, multisided relationship. Where such relationships do evolve, there may develop a system of mutual favors, as when the auto repairman fixes the teacher’s car “free” in the hope that the teacher will assure his son’s admission to the preferred high school. Enterprise managers typically operate in this manner — known as “family circles” — in order to assure supplies to each other. Finally, second economy trade can be based upon personal obligations of friendship and kinship. Here no immediate or equal repayment is expected. The exchange remains permanently and intentionally unbalanced. Kin and friends become an alternative strategy of procuring scarce resources and a safety net in case of crisis.

This three-tiered system is a fluid one. Cash payments may develop into mutual favors, and favors may evolve into a more stable friendship. Alternatively, one may decide that a friend unable to do anything helpful is not a real friend. The line between sentimental and utilitarian relations is a hazy one. Friendship relations, however, are certainly more dependable and less risky than the bribe. No cash is passed around. At most there are gifts, but these have a symbolic character.

The inability to procure goods and services via normal bureaucratic allocations or anonymous market channels makes it imperative for East Europeans to establish relations of exchange via kinship, friendship, and acquaintance networks. Such networks do not simply “cement” deals as in the West; rather, making the deal is a manifestation of one’s network. Insofar as many of these deals may be illegal, the code of secrecy between friends serves as a way of making sure economic exchanges will continue. (Similarly, it is no accident that mafia-type criminal organizations recruit via kinship or village networks, that they create quasi-kinship bonds such as blood brotherhood, and enforce elaborate codes of honor, all in order to assure secrecy within the group.)

These relationships bring together widely disparate categories: teachers become "friends" with shoe clerks; engineers "court" butchers, etc. East European traditions of feasting and drink (heightened when certain kinds of beverages are themselves obtainable only through connections) help solidify these connections. Connecting these relations are a host of intermediaries. It is in the interest of these individuals that goods and services remain scarce.

In the Hungarian situation, who you know is more important than the money one has. Gaining access supercedes gaining ownership. Most important is access to state resources and supplies which can be utilized or channeled for private needs. This may be as crude as pilfering materials from a construction site or using the firm's truck to help one's mother-in-law, or as sophisticated as opening up a channel in the bureaucracy via the cousin of a friend's uncle. This is why Kenedi writes that "we must not do away with the state. It's the only one we have" (1981: 57).

Conclusion: Is the Second Economy Revolutionary?

As Stuart Henry has noted, relations between formal and second economies can be both functional and contradictory at the same time. Henry's observations regarding capitalist economies hold equally true for the socialist states. In Romania, the second economy is a largely criminalized economy. As the formal economy has collapsed, more and more goods and services have entered the sphere of the second economy. The Romanian state has reacted by increasing its "administrative measures" which try to recapture these resources under state direction. Such policies only further "illegalize" and marginalize those participating in the second economy, while forcing other Romanians to pay the increased black market costs by finding new ways to generate cash — invariably illegitimate or illegal. Romanians' traditional distrust of state institutions has been reinforced by the state's inability to provide even basic necessities, and by state efforts to squeeze what it can out of primary producers and reduce consumption to the bare minimum. For most Romanians, informality and illegality have become not choices but absolute necessities.

The emergence of Romania's second economy as an absolute necessity has its consequences. When so many items and services must be procured using social exchange networks rather than via what the state supplies, a myriad of social obligations are established. The problem is that these obligations cannot be fulfilled, inasmuch as the total amount of resources is being reduced. More people need more connections to get more items. The result has been a kind of involution in Romanians' social relations: people have too many obligations. Romanians complain that people have become "uncivilized," that they have become "bad," that "each of us has our own problems" (Sampson 1986; 1988). It is a society of competing, overburdened networks, each of which is ripe for an explosion. In this sense, lack of provisioning in the first *and* second

economies becomes the last straw. In the Romanian context, the chances are that it will lead not to a Polish-style Solidarity movement, but rather to the kind of jacquerie or explosion one saw in 19th-century peasant movements, or in Eastern Europe in the early 1950s.

In the Soviet Union, too, the second economy has long been a means of supplementing incomes and obtaining scarce goods and services. But it has also been a means of articulating cultural differences and political resistance vis-à-vis the dominant Great Russians, as well as an alternative channel of social and economic mobility. In view of the cultural importance of the second economy among non-Russians and in the non-Russian republics, one must look with caution on recent efforts at structural reform of the economy and the legalization of certain forms of entrepreneurship. Such reforms may not have the desired effect because it is often illegality itself which provides the impetus for second economy behavior. For example, legalizing underground production would never lead to the kind of rich, respected factory owners found among the underground entrepreneurs of Soviet Georgia. Legalizing smaller enterprises or traders may reduce bribery, but, at the same time, it would take away the kinds of status markers Georgians use. Economic crime and cultural assertiveness seem to be intimately connected.

Here one can see some of the limitations of Gorbachev's *glasnost* ("openness") and *perestroika* ("restructuring") policies. Because of *glasnost*, the extent of economic crime is undoubtedly becoming more known to the Soviet population. The idea that "everybody is doing it" is now being publicly acknowledged in the press and on the television, even by Gorbachev himself. *Glasnost* and *perestroika* are supposed to build a new spirit and structural conditions so that economic crime and the second economy are reduced. Yet openness about problems is not the same as resolving them, and the *perestroika* process has encountered many difficulties. For example, few of the intermediaries in the second economy would like to see the Soviet economy function more effectively. Intermediaries profit by their role as links in a chain. Such people have little interest in genuine reform. The restructuring process has also spawned its own antibureaucratic bureaucracy, which invariably means more second economy strategies.

Moreover, any kind of economic reform in the Soviet Union is inevitably limited. Various goods, services, prices, and profits remain out of bounds. What the reform has done is simply to re-draw the line between legal and illicit second economy activities. This line is itself a hazy one. Visiting Riga in March 1988, Gorbachev praised "industrious and honest initiative" among private entrepreneurs, while saying he would not permit "outright money grabbing" (M. Porubcansky, Associated Press Report, March 18, 1988).

Hungary's different approach to the second economy can be best explained by the violence and hatred of the 1956 revolt and the party's fear that such a

thing could happen again were some social compact not reached with the population — “social contract” or “gulasch communism,” as they are usually called. The regime’s major reforms were implemented in 1968; the party was not only scared of its own citizens, but it was also scared of the effect of the Prague Spring. Reform economists have had considerable political influence in Hungary, which has not been the case elsewhere in Eastern Europe.

The Hungarian experience may be seen as a predictor of Gorbachev’s policies in the long term. Compared to Romania and the Soviet Union, Hungary has treated the second economy in a much more benign fashion. The second economy has helped individuals achieve their own needs and has acted as a social mollifier. Such ability to “squeeze through lines” attests to Hungarian inventiveness. However, one should not glorify or romanticize the efficiency of such arrangements. They take time and energy and produce exasperation. They create interminable obligations which cannot always be fulfilled, and cast a utilitarian character on the most innocent of social relations. Hungarians and other East Europeans may be “free” to subvert the formal economy, but they have in effect exchanged subordination to the state to subordination to an overtaxed social network with unceasing demands on one’s time, patience, and resources.

The Hungarian solution has been to partly depoliticize economic life via the second economy. Hence, if people do not have certain items, they can only blame themselves for not going out and earning enough money, or not being “clever” enough to find the right connection. The state retreats more and more into a “regulative” role. Nevertheless, this retreat is also an admission by the state that the formal wage-labor system will never function effectively as long as it allows the second economy to compete with it on unequal terms. Workers will simply rest during their official jobs so that they can use their energy on their second shift. Their overall personal economies may be sufficiently prosperous, but the social cost and personal cost in time is higher than it appears. The state renounces criminalizing the second economy in order to purchase a degree of social passivity. Thus, the state not only stimulates the idea that “everybody is doing it,” but that “everybody *should* do it.” While this approach lubricates the economy and mollifies society in the short term, the long-term effects of lengthening the working day and perpetuating inefficiency in the formal economy are corrosive for society, for government policy, and for individual Hungarians.

The Hungarian solution should be seen in its total context: the more the second economy is encouraged, the fewer incentives there will be for effective work in the official economy. Here the socialist project loses its “transitional” character. “Real” socialism is the second economy. It is a socialism of social contracts in which avenues of access — in the second economy if not the official one — remain open, and in which there is social and political peace, but

also where the socialist economy becomes increasingly irrelevant. What was once considered an economic crime is now seen as a factor in political stability, but not necessarily political legitimacy.

Stuart Henry poses the question in this issue of whether the informal economy is revolutionary. He answers (social scientist that he is): "It is and it isn't." Although this question may have been important for early research into the second economies of capitalist countries, I believe it to be somewhat misplaced. Economies, as such, are never "revolutionary." It is ideologies, social conditions, and social movements which are revolutionary and which thereby make economies a threat to the system. Let us rephrase Henry's question: In what way do people's participation in the second economy create or reinforce "revolutionary" thinking on the part of Eastern Europeans? In what way does the pervasive economic criminality embodied in the second economies of the East European states pose a political threat to these regimes? The socialist states of Eastern Europe provide us with some excellent cases, for it is just when (literally) bread-and-butter issues go from being economic to political questions that entire regimes fall apart and the tanks must literally be brought out.

If one examines the social revolts which have occurred in Eastern Europe over the last 30 years, two groups seem notoriously passive: the peasants and the retail and service workers (Montias, 1980). I would suggest that the reason for this passivity is not that they are more satisfied with these regimes than the urban workers, students, or intelligentsia. On the contrary they have been discriminated against in terms of wages, pensions, privileges, and rural services. It is the workers in heavy industry who obtained higher wages and specialized treatment in terms of canteens, food deliveries, housing, pensions, etc. What made the peasants and retail/service workers passive was that they were benefitting from the second economy in a way that heavy industry workers could not. Urban industrial workers were tied into the official economy in such a way that they had less recourse to the second economy when the regime tightened the economic screws via price rises or reductions in food allocations. They also had social solidarity which enabled them to mobilize. Peasants could feed themselves and could sell produce in what amounts to a sellers' market. Retail and service workers had easily saleable commodities, where value increased as allocations declined. In concrete terms, a shoe clerk can sell shoes under the counter, but a steel worker cannot pilfer steel, nor can he find individual customers for it.

Hence, the question of the second economy's revolutionary potential generates a paradoxical answer. In Eastern Europe, those who rely most on the second economy seem to be the least revolutionary. Those least able to employ second economy strategies tend to be the most revolutionary. Lest we forget: it is not "economies" which are revolutionary but people.

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