

The Soviet Black Market Under Gorbachev *

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Introduction

Under the Gorbachev regime, the Soviet black market continues to play a prominent role in the everyday life of most Soviet citizens. This second economy has grown to gigantic proportions and intrudes into nearly every aspect of Soviet society. The black market's service and agricultural sectors now rival their state owned counterparts. The second economy's level of sophistication is every bit as impressive as its size: the days of shadowy figures selling secondhand junk at secret locations have disappeared. They have been replaced by a well organized market-oriented system of enormous size and complexity.¹ The overwhelming success of the black market indicates its ability to meet consumer demands and the failure of the official Soviet system to do the same. The Soviet Union is currently at an economic crossroads: Gorbachev can either dramatically accelerate his capitalistic reform policies and attempt to integrate the Soviet Union into the global economy, or he can allow the Soviet economy to slip further into an economic abyss. This abyss holds the promise of a continued expansion of the problems of a two tier economy.

Many small-scale reforms have been attempted; however, they have frequently been obstructed by conservative officials. Such officials see many of these reforms as ideologically unacceptable and they oppose the incorporation of the capitalist forces that currently drive the second economy.

A Definition of the Black Market

The Soviets refer to their huge underground economy as *na levo*, which is slang for "on the left" or "under the table."² It has been estimated that under the table" transactions in the Soviet Union annually amount to US\$145 billion.³ This money is spent on underground services, agricultural products, and foreign goods that the official system is unwilling or unable to provide. The second economy provides goods and services to a broad base of consumers; several studies have demonstrated that about 83% of the Soviet population uses the black market to obtain foods and services.⁴ For example, urban dwellers overpay for 45% of their auto repairs. Services provided by the black market amount to almost US\$25 billion annually, which is nearly one-quarter of the entire official service economy of the Soviet Union.⁵ Quite clearly, the second economy is an enormous economic system, which operates outside of official channels.

The system is operated by a large number of Soviet citizens who come from many different backgrounds. Nearly 20 million Soviet citizens work full or part-time in this

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1 Galina Belikova and Aleksandr Shokhin. "The Black Market: People, Things, and Facts," *Soviet Sociology*, vol. 28, no. 3/4. (March/April, 1989); 51. As taken from *Ogonek*, no. 36, (September 19, 1987); 6-8.

2 Gary Lee, "Soviet Citizens Pursue Bargains on the 'Multicolored Market': Kremlin Experiments with Informal Entrepreneurship," *Washington Post*, September 21, 1985, p. A28.

3 David Remnick, "Profits Abound in Shadows of Soviet System: Illegal Goods, Services Create Millionaire Class," *Washington Post*, August 13, 1988, p. A15.

4 Belikova and Shokhin, 57.

5 Remnick, p. A15.

underground economy.⁶ Anyone from a common criminal to a highly educated professional may be involved. Many find the unprecedented wealth associated with the second economy irresistible.⁷ Even high-ranking factory managers employ the services of the black market. These managers must fulfill official production targets. Quite often, the only way to meet these official targets is to engage the black market and acquire the necessary materials and services that the formal system cannot provide. The safest and most accepted practice for factory managers is to use the underground economy only insofar as the official system does not meet their requirements.⁸ These factory managers are assisted by the *tolkachi* who play an important role by acting as middlemen for the factory managers.⁹ Through the *tolkachi*, the managers are able to tap a vast unofficial economic network and meet their official goals. The black market includes individuals from many occupations. Factory managers, doctors, nurses, carpenters, and farmers are among the participants. These individuals create a complex underground network of personal relationships.

The Sources of Black Market Goods

This diverse group of individuals operates an enormously complex network by acquiring goods from three primary sources - smuggled foreign goods, diverted or stolen domestic goods, and privately grown produce. For those who travel or work abroad, smuggling goods back into the Soviet Union can be very profitable. High quality goods from other socialist, capitalist, and developing countries are in great demand on the Soviet black market.¹⁰ In the past several years, these lucrative smuggling operations have created a growing economic distinction between those who work and travel abroad and those who do not.¹¹ For example, two couples smuggled 2,000 collector coins, antique and religious items, and sturgeon caviar out of the Soviet Union. They later returned from the West with 20,000 kerchiefs and 1,125 watches, which they bought with the money they earned from selling the goods that they had smuggled out. By selling the kerchiefs and watches, these two couples turned a profit of 350,000 rubles.¹² This case seems relatively minor when compared with the powerful Soviet officials, who are able to smuggle more substantial goods and in larger quantities. The individuals who "import" these illegal goods are called *vezony* and those who market the goods are *nesuny*.¹³ These smuggling operations represent the primary source of foreign goods in the Soviet Union.

There are other sources of black market goods. Diversion or theft of state owned materials from official channels is another key supply route for the black market. Quite often, those who are officially employed in the service sector will use the tools and materials, to which they have access, to provide illegal black market services for customers. Most of the stolen goods are classified as "lost". For example, 33% of vegetables and fruit is "lost" during transport and storage and an additional 13% is "lost" in trade.¹⁴

As reported by *Foreign Broadcast Information Service*, September 27, 1989, p. 107.

⁶ Ed A. Hewett, *Reforming the Soviet Economy: Equality Versus Efficiency*, (Washington, D.C.: The Brookings Institution, 1988), p. 180.

⁷ Jack Anderson and Dale Van Atta, "Notes From the Soviet Underground," *Washington Post*, October 5, 1989, p. Md13.

⁸ Hewett, pp. 177-8.

⁹ *Ibid.*, p. 177.

¹⁰ Belikova and Shokhin, p. 53.

¹¹ *Ibid.*

¹² *Ibid.*, p. 54.

¹³ *Ibid.*, p. 52.

¹⁴ A. Binev, "Argumenty I Fakty," no. 37, (September, 1989).

Additional goods are acquired through various methods of short measuring and adulterating foodstuffs. For example, placing water next to sugar will cause the sugar to absorb water and weigh more. Selling meat and butter frozen significantly increases their weight because it includes the weight of the ice. Adding herring meal to black caviar increases its volume.¹⁵ These "created" and "lost" goods then find their way onto the black market, where they sell for much higher prices than they would fetch in state operated shops.

Agriculture is the largest area in which the second economy operates. An important source of second economy agricultural goods is quasi-private plots. Typically, these small plots of land are individually cultivated by the workers of cooperative or state farms. While constituting only 3% of the cultivated land, these individual plots produce a disproportionate amount of foodstuffs. For example, 45% of the fruit, 30% of the vegetables, 50% of the honey, 33% of the eggs, and 29% of the meat are produced on these private plots.¹⁶ These numbers demonstrate the size and importance of the underground agricultural economy.

Reasons for the Black Market

The existence of this second economy can be explained by the collision of two very powerful economic forces. A large pool of individual savings and an acute shortage of goods and services have created this secondary market. By 1982, accumulated savings was equivalent to 70% of annual income and was growing rapidly.¹⁷ "This bloated reserve of currency is a lien on future production."¹⁸ Soviet citizens are finding that they have the rubles to purchase goods; however, the goods are not available.¹⁹ Not all goods are in short supply. Many goods are in adequate supply and some are actually in surplus; however, the supply of high-quality or technologically sophisticated goods is severely limited.²⁰ These shortages result from the low priority which from the Soviet government has assigned to consumer demands.²¹

In earlier years, many consumer goods were produced by numerous small-scale artisans. Over the years, a gradual decline in the number of artisans occurred because of the harsh taxes levied on the artisans and an obstructive administrative system. In other sectors, specifically consumer services, self-employment was completely prohibited.²² The result of this government intervention has been slow and poor consumer services, when available. And widespread shortages of high quality consumer goods.²³ In addition to the shortage of quality goods and services, there also exists serious food production problems. Soviet consumers are plagued by problems of "insufficient quantity, poor quality, limited assortment, and unreliable distribution."²⁴ These unfulfilled consumers form the first half

¹⁵ Belikova and Shokhin, 58-9.

¹⁶ Vadim Medish, *The Soviet Union*, 4th ed. (Englewood Cliffs, NJ: Prentice Hall Publishers, 1990), p. 174.

¹⁷ Timothy J. Colton, *The Dilemma of Reform in the Soviet Union*, (New York, Council on Foreign Relations, Inc., 1986), p. 51.

¹⁸ *Ibid.*

¹⁹ Hewett, p. 176.

²⁰ *Ibid.*, pp. 178-9.

²¹ Medish, p. 160.

²² Abel Aganbegyan, *The Economic Challenge of Perestroika*, (Bloomington, Indiana: Indiana University Press, 1989), p. 25.

²³ Padma Desai, *Perestroika in Perspective: The Design and Dilemmas of Soviet Reform*, (Princeton, NJ: Princeton University Press, 1989), p. 39.

²⁴ Medish, p. 173.

of the black market : the high demand.

Growing shortages and a widening gap between the Soviet population's demands and the state's ability to satisfy them has caused the secondary economy to proliferate.²⁵ In essence, a shortage is a collection of frustrated buyers. This is an invitation for sellers to come forward and meet the pent-up demand.²⁶ Black market sellers fulfill these compressed demands with quality goods and services; however, they charge exorbitant prices. The existence of this high profit potential provides the individual incentive upon which the black market thrives.²⁷ Consumers have the money, their accumulated savings - and are willing to pay high prices for high quality black market goods and services.²⁸ The high profits are the incentive for those who form the second half of the black market: the sellers.

The system of unfulfilled consumers and profit hungry sellers could not survive if Soviet officials did not acquiesce to its presence. Black market profits provide the money, which is commonly used to compromise Soviet officials. Without this "official" support, the second economy could not survive on such a vast scale. With "official" assistance, the black market economy has grown and spread into nearly every aspect of Soviet society.

The Extensive Activities of the Black Market

Operating within the "official" Soviet society, the links between farmers, auto repairmen, and butchers which are established by the black market, form a dense underworld network capable of providing almost any type of good or service imaginable.²⁹ In addition to the obvious black market in goods there is also an enormous second economy in services, which encompasses practically the entire service sector.³⁰ This service-oriented black market has developed because the state has committed little in the way of capital resources to the development of the Soviet service sector.³¹ For several decades, free-lance artisans have been rendering services, which are in short supply. These services include auto repairs, house painting, and plumbing.³² During the day many of these individuals have full-time state jobs as plumbers or carpenters. In the evenings, these *shabashniki* or moonlighters are hired by Soviet citizens to provide very expensive services. For the right amount of cash, many construction workers will undertake black market projects that the official system will not permit.³³ Many doctors and nurses will properly treat their patients only when they are given a "gift."³⁴ With the proper contacts, enough money, and a little effort, one can arrange for nearly any type of service, from dental work to large construction projects.³⁵ Within "the service sphere, there is no service for which one could not overpay."³⁶ This becomes evident when Soviet citizens are required to pay extra for "special" attention. This actually means having a service worker carry out his job conscientiously; such as when "the barber trims your hair in such a way

²⁵ Aganbegyan, p. 26.

²⁶ Colton, p. 51.

²⁷ Hewett, p. 179.

²⁸ *Ibid.*

²⁹ Belikova and Shokhin, 60.

³⁰ *Ibid.*, p. 52.

³¹ Hewett, p.180-1.

³² Medish, p. 186.

³³ Hewett, p. 177.

³⁴ Anderson and Van Atta, "Notes from the Soviet Underground," p. Md13.

³⁵ Desai, p. 21.

³⁶ Belikova and Shokhin, p. 57.

that you are not ashamed to go out in public."³⁷ The black market service sector rivals most state run service institutions.

The agricultural black market is even harder than the black market service sector. The limited supply, low quality, and poor assortment of agricultural goods has encouraged the large-scale development of an agricultural second economy.³⁸ Black market agriculture usually involves individual plots of land which are assigned to collective farmers and state farm workers. As already stated, these individual plots of land generate a disproportionate amount of the total Soviet agricultural output.³⁹ These farmers take what is grown on their private plots and sell it at a farmers' market at much higher prices than can be found at state stores.⁴⁰ For example, the Soviet population overpays almost 1.5 billion rubles annually for sausages.⁴¹ Published Soviet surveys admit that these "small plot" farmers produce 25-30% of all food sold; however, well-informed foreign observers estimate that the percentages are considerably higher.⁴² Quite clearly, the agricultural second economy plays a crucial role in feeding the Soviet population.

In addition to the service and agricultural black markets which rival the state run enterprises, there exists a flourishing trade in industrial products. The farmers' markets have their counterparts which deal in factory-made consumer goods. These "flea markets" trade in secondhand items, but they also offer new goods at premium prices.⁴³ New goods that are stolen, smuggled, or somehow diverted, find their way into this market and are sold at astronomical prices. Not surprisingly, the most profitable items to sell are Western radios, televisions, video cassette recorders, stereos, clothing, and computers.⁴⁴ The popularity of these items not only rivals but surpasses the popularity of domestically-produced items, when they are available.

The Soviet black market extends beyond agriculture, the service sector, and industrial production and includes an illegal money exchange system. The black market is extensively involved in the buying and selling of foreign currency. Foreign tourists and business people, who require Soviet rubles for internal use, must purchase them from government banks, which inflate the value of the ruble. The black market offers many more rubles for the dollar or deutsche mark.⁴⁵ The recent dramatic rise in the number of Soviets permitted to travel abroad has created an enormous demand for foreign currency, which the Soviet banking system cannot meet with its hard currency reserves.⁴⁶

Soviet government rules have also contributed to the development of the underground exchange market. Strict limits have been set on the amount of foreign currency that Soviet travelers can buy from the government. In addition, the Soviet ruble is not traded on any international monetary market. Thus, when a Soviet traveler arrives in a foreign country, he cannot exchange rubles for the host country's currency.⁴⁷ With these rules, the Soviet government has created a highly profitable black market for foreign currency. During the 1980s, for example, the black market exchange rate for American dollars was ten to

³⁷ *Ibid.*

³⁸ Medish, p. 173.

³⁹ *Ibid.*, p. 174.

⁴⁰ *Ibid.*, p. 181.

⁴¹ Belikova and Shokhin, p. 58.

⁴² Medish, p. 181.

⁴³ *Ibid.*

⁴⁴ Belikova and Shokhin, p. 55.

⁴⁵ Medish, p. 177.

⁴⁶ Esther B. Fein, "Soviet Official Explains Ruble Devaluation," *New York Times*, October 28, 1989, section I, p. 33.

⁴⁷ *Ibid.*

twenty times higher than the official government rate.⁴⁸ Therefore, many foreigners exchange their valuable foreign currency on this illegal market, which further exacerbates the already critically low foreign currency reserve.

The Effects of the Black Market

This second economy does have some positive effects upon Soviet society. The black market is a "safety valve for the disaffected and a provider of goods and services not supplied by the state."⁴⁹ In certain areas of the Soviet Union, the second economy alleviates political tension. A study of the most populous Moslem republic, Uzbekistan, concluded that the Uzbeks, who work mainly in agriculture and the service sectors, derive substantial income from their involvement in the second economy.⁵⁰ The Uzbeks, whose activities are well suited for the crossover into the black market, often have annual incomes that are much higher than those of many ethnic Russians.⁵¹ These high earnings do help to quell some of the dissatisfaction that many Uzbeks feel toward the Soviet government. Furthermore, the Uzbek participation in the black market also directly stifles overt demonstrations of political dissatisfaction "in that those involved [in the black market] frequently violate Soviet laws and can ill afford to draw attention to themselves by making political demands."⁵²

In addition to silencing overt demonstrations of political dissatisfaction, the black market is able to alleviate some consumer anxiety by "ferreting" out reserves of goods which might not normally be utilized. When the demand for a particular good is high, the black marketeer can charge an even higher price; therefore, he will go to greater lengths to find a supply of this good.⁵³ The fulfillment of consumer demands and the silencing of political unrest are two positive influences that the black market has on Soviet society. They do not, however, attack the illness; the Soviet Union's inability or unwillingness to satisfy consumer wants. The mere existence of a large black market confirms this inability. The widespread dissatisfaction, poor supply of consumer goods, and the black market are all indications of a faltering economy.

The black market hurts Soviet society far more than it helps. In addition to being embarrassing evidence that the Soviet economy does not work, it contributes to the shortages of goods and services. Because there is so much money to be made in the underground agricultural economy, one third of the 600 employees of a music instrument factory in the Novosibirsk region disappear for three to four months during the summer to grow and sell vegetables from their kitchen gardens. Obviously, the income that they receive from this produce is far greater than the income they would receive from the instrument factory.⁵⁴ The "disappearance" of these workers severely impairs the factory's ability to produce instruments. This is only one example of an annual phenomena that plagues the entire Soviet economy. Another type of shortage is created by the large demand for black market alcohol. Since Gorbachev initiated his anti-alcohol policy, the Soviet mob has siphoned off vast quantities of Cuban sugar and used it to distill alcohol. This, in turn, creates an acute shortage of sugar.⁵⁵ The black market readily satisfies this demand for sugar illegally. Both phenomena contribute to the already acute shortages of

⁴⁸ *Ibid.*

⁴⁹ Colton, p. 60.

⁵⁰ *Ibid.*

⁵¹ *Ibid.*

⁵² *Ibid.*

⁵³ Hewett, p. 212.

⁵⁴ *Ibid.*, pp. 41-2.

⁵⁵ Anderson and Van Atta, "Notes from the Soviet Underground," p. Md13.

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consumer goods.

In addition to the shortages of goods, the presence of the black market also contributes to critical shortages in the service sector. More often than not, those who work in the black market service sector use state-owned tools and state-owned materials. These tools and materials are then unavailable for official projects, creating additional shortages and delays. Furthermore, these moonlighters will work on private projects when they are supposed to be working at their state jobs.⁵⁶ The misuse of tools and materials and the lack of time that the serviceperson works at his state job further compounds the shortage of services. In essence, the black market fills a demand that is partially created by its own presence.

The black market also denies the Soviet government access to billions of rubles in taxes. Tatyana Koryagin, a Soviet economist, estimates that the second economy is worth roughly US\$145 billion.⁵⁷ If the Soviet Union could tax this income at a rate of only ten percent, the Soviet government could generate US\$14.5 billion annually in additional tax revenue. However, the Soviet government is unable to draw on this resource because the illegal transactions are never recorded.

The most devastating aspect of this second economy is its intimate relationship with organized crime. The Soviet mafia reaps huge profits by providing alcohol, narcotics, prostitutes,⁵⁸ and nearly every other type of good or service. There are nearly 200 major mobs and 1200 smaller ones located in every large town and city.⁵⁹ Each of these mafia is well organized, both within the organization and between the different mafia. Each city has a boss who organizes his "troops" and sets the rules. Territories have been carved out and mafia courts have been established to settle the frequent disputes which arise between the different organizations.⁶⁰ These courts cannot always settle disputes, which are often financial. As the monetary stakes have risen, so has the violence. Murders, shootouts, and murder contracts have become more common as the Soviet mob has grown. Quite obviously, the Soviet mafia has acquired unprecedented wealth and influence within Soviet society.

One of the main sources of mob wealth is the illegal production and sale of alcohol. When Gorbachev launched his anti-alcohol campaign in 1985, he created a windfall for Soviet gangsters. Gorbachev created another consumer demand for the black market to fill. Gorbachev's anti-alcohol program has had much the same effect as Prohibition had in the United States in the 1930s.⁶¹ The combination of alcohol profits with income from the mafia's other black market activities has enabled them to amass great fortune and influence.

These Soviet gangsters have been able to convert some of their financial power into political influence by compromising Soviet government officials.⁶² There are no reliable estimates of the actual amount of government corruption that can be directly attributed to the black market, but few people question that it is the largest source of corruption. The black market could not exist without extensive cooperation on the part of government officials and the silent assent of law enforcement.⁶³ It is difficult for these officials to

⁵⁶ Medish, p. 186.

⁵⁷ Remnick, p. A15

⁵⁸ Jack Anderson and Dale Van Atta, "Underworld Undermining Gorbachev," *Washington Post*, October 2, 1989, p. B14.

⁵⁹ *Ibid.*

⁶⁰ *Ibid.*

⁶¹ *Ibid.*

⁶² Georgy Ovcharenko, "I'm Buying a Pistol," *Pravda*, (March 23, 1989); 6. As reported in *The Current Digest of the Soviet Press*, vol. 41, no. 12, (April 19, 1989); 1.

⁶³ Colton, p. 53.

refuse the large sums that the black marketeers can offer.

Gorbachev's Reforms

Gorbachev has recognized the damage that the undirected and illegal underground economy has done to the Soviet Union. In an effort to eliminate the presence of the black market and improve the overall economic situation of the Soviet Union, Gorbachev has attempted to reform the various sectors in which the black market predominates. Gorbachev hopes "that . . . harnessing individual initiative and competition will generate more [quality] goods and services."⁶⁴ In addition, Gorbachev has continued Andropov's anti-corruption campaign.⁶⁵ However, the elimination of widespread official corruption will not be accomplished until the root cause of the corruption is solved. In essence, the elimination of widespread corruption will occur only when the economic conditions in the Soviet Union improve and the demand for black market goods and services vanishes.

One of the ways by which Gorbachev hopes to improve the economy is through the encouragement of business cooperatives. Gorbachev has concluded that parts of the second economy are all but impossible to suppress; therefore, he has permitted the addition of large numbers of business cooperatives to the already existing agricultural cooperative system.⁶⁶ Business cooperatives have several advantages. They are politically and economically relatively risk free. The concept of cooperatives is more ideologically acceptable to conservative Soviet politicians because the idea of cooperative farms has been with the Soviets since the 1920s. Business cooperatives also give the Soviet economy greater economic flexibility in responding to consumer demands, which is something that the current official system cannot do.⁶⁷

These new business cooperatives include small artisan workshops, retail stores, and services. These business cooperatives are essentially limited to light manufacturing and the service sector.⁶⁸ There are few heavy industry cooperatives. This business cooperative program was begun in May 1987. At that time, the Soviet government explicitly permitted the use of individual labor activity to earn a living. The next step came in September 1987, when the government permitted the opening of privately run shops and the use of state-owned stores to sell privately and cooperatively-produced goods and services.⁶⁹ Today, cooperatives are free of many of the early restrictions, which greatly inhibited their early activities. For example, they no longer require permission from local authorities. Cooperatives are also free to engage in banking and foreign trade and they can hire anyone they wish;⁷⁰ however, they are still restricted primarily to light manufacturing, the service sector, and agriculture.

The number and success of these cooperatives and private businesses has been remarkable. In 1988, approximately 23,000 urban cooperatives employed nearly 300,000 workers. By 1989, the numbers had grown to 48,500 cooperatives and 800,000 workers. Over the same time period, their percentage of retail trade and services had grown 830%, from .1% to .83%.⁷¹ Many stories attest to the overwhelming success of cooperatives. The

⁶⁴ Anderson and Van Atta, "Notes From the Soviet Underground," p. Md13.

⁶⁵ Seth Mydans, "Corruption Campaign in Soviet Union Takes Its Toll," *New York Times*, February 8, 1985, section A, p. 1.

⁶⁶ Colton, p. 148.

⁶⁷ Desai, p. 104.

⁶⁸ *Ibid.*, p. 119.

⁶⁹ *Ibid.*, p. 39.

⁷⁰ *Ibid.*, pp. 39-40.

⁷¹ Medish, p. 190.

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Elektron Radio and Television Repair Association of Tallin Estonia is an excellent example. In 1985, Elektron was allowed to rent a workshop to a group of workers. After the workers each paid a fee and agreed to a 30% gross income tax, they were permitted to earn as much as they could. The remaining income would be divided among the workers. The quality of service provided by these workers improved dramatically and the customers' wait time was cut from two weeks to a single day.⁷²

One would think that Soviet citizens would be lining-up to join cooperatives and share in their success; however, there is a considerable amount of reluctance. Many peasants and business people are wary because, throughout Soviet history, millions of Soviet citizens have died in the name of collective and cooperative efforts. During Stalin's forced collectivization of agriculture, millions of Soviet citizens perished. Furthermore, workers and peasants have rarely been given any input on these projects.⁷³ One additional fear is that any conservative swing in leadership could lead to a termination of the business cooperatives and possible negative repercussions for those who participated in them. These factors dampen the average Soviet citizen's enthusiasm for business cooperatives.

Gorbachev has also attempted to duplicate the success of cooperatives in the area of self-employment. In the past, illegal moonlighting activities were tolerated out of necessity. Gorbachev has relaxed many of the restrictions and has begun to encourage the growth of self-employment. Many individual business activities, such as tutoring, private medical practice, and street vending, which previously were illegal black market activities, have been legalized.⁷⁴

Gorbachev has attempted to incorporate agriculture's second economy into the official state run agriculture. The astonishing success of the private plots has already been explained. Gorbachev wants to expand upon this success by providing farmers with more substantial acreage. At present, private plots can often be measured in square feet. Gorbachev faces an ideological dilemma. In the Soviet Union, the "private ownership and the use of the means of production" is ideologically unacceptable. According to communist ideology, "private ownership and use of the means of production" creates economic inequalities, which are the source of all social evil.⁷⁵ In the past, the private plots have not presented this dilemma because it could be claimed that they are worked only to grow food for the farmer's family. Recently, Gorbachev has worked around this problem by authorizing 99-year leases of property, on which the farmers are free to grow and sell whatever they want. He hopes that this new system will replicate the success of the private plots on a much larger scale and alleviate the food shortages.

Gorbachev has also addressed the black market money-exchangers. In a recent effort to create an additional obstacle for exchange speculators, Gorbachev drastically devalued the ruble. The ruble was lowered against the American dollar by a factor of ten. Before the devaluation, one ruble was officially exchanged for \$1.62; the exchange rate now stands at one ruble to sixteen American cents.⁷⁶ Gorbachev has also instituted two major rule changes. There is no longer any limit on the amount of hard currency a foreigner can exchange and the new devalued ruble rate will be linked to the American dollar, the yen, the deutsche mark, and the Swiss and French francs.⁷⁷ Gorbachev hopes that these changes will stem the money exchanging activity on the black market.

⁷² Marshal I. Goldman, *Gorbachev's Challenge: Economic Reform in the Age of High Technology*, (New York: W. W. Norton & Co., 1987), p. 75.

⁷³ *Ibid.*, p. 238.

⁷⁴ Medish, p. 160.

⁷⁵ *Ibid.*

⁷⁶ Fein, section I, p. 33.

⁷⁷ *Ibid.*

The Failure of Reform

At first glance, Gorbachev's reforms would appear to address many of the Soviet economic problems and severely curtail the activities of the black market. Unfortunately they have not accomplished their objectives. There are many reasons for this lackluster performance. Business cooperatives and self-employment are often small service providing businesses or very small artisan workshops, which are restricted to light industry. At present, there are still too few business cooperatives, and their activities are far too limited. Furthermore, many of Gorbachev's reforms have yet to reach the provinces.⁷⁸ The 99-year lease program on plots of land was only recently implemented and has not had the opportunity to succeed. The monetary exchange reforms were too little too late. To deal the currency speculators a definitive blow, the Soviet government must again devalue the ruble and allow it to be traded on international monetary markets. This would be a major step towards real participation in the global economy.

One additional reason that Gorbachev's reforms have not had the desired effect is that the reforms are frequently hampered by conservative politicians and the mammoth Soviet bureaucracy. Conservative politicians have, for decades, believed that during the transition to communism, all cooperative enterprises would be converted to state enterprises. Conservatives claim that these state enterprises occupy a higher level of economic development because society in general owns the state enterprises, whereas cooperatives are owned by small groups.⁷⁹ These opponents of "privatization" of the economy claim that it would create economic inequality and leave Soviet citizens at the mercy of "the arbitrariness of market prices."⁸⁰ Conservative politicians see the new cooperative reforms as a step backwards in the economic evolution of the Soviet Union. These conservatives understand how to work the huge Soviet bureaucracy and use their knowledge to impede the progress of Gorbachev's reforms.

Armed with this ideological perspective, the conservatives have tried to undermine Gorbachev's cooperative reforms. Initially, restrictions on entry into cooperative employment were very harsh and made the cooperative unappealing. Only retirees and the unemployed, such as housewives and student, were permitted to work full-time in cooperatives. Those who held state jobs could only work in cooperatives during their off hours. Furthermore, a steeply graduated income tax, which rose to 90%, was levied on income derived from cooperatives.⁸¹

Additional restrictions were placed upon agricultural cooperatives. By October 1985, rules prohibiting the sale of cooperatively grown produce by anyone other than the grower were being enforced.⁸² This conservative communist philosophy is rooted in the belief that this "unearned" income, which is derived from selling the fruits of someone else's labor, leads to economic inequality.⁸³ Gorbachev has been able to eliminate or mitigate many of these restrictions, but they were effective in impeding the programs' early development. Additionally, they have further heightened the average Soviet citizen's suspicion of an enduring official commitment to permit such ventures.

These suspicions will continue until the Soviet people believe that the cooperatives will be permitted to operate in perpetuity without government hindrance. Gorbachev hopes that his "suspicious" cooperative reforms will draw the ailing Soviet economy away from

⁷⁸ Stephen E. Deane, "Talking Across Russia," *Meeting Report: Keenan Institute for Advanced Russian Studies*, vol. 7, no. 14; 1.

⁷⁹ Medish, pp. 159-60.

⁸⁰ Colton, p. 148.

⁸¹ Desai, p. 39.

⁸² Goldman, pp. 75-6.

⁸³ *Ibid.*, p. 76.

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economic collapse. The second economy is a system that has arisen and succeeded from beneath the underlying economic inadequacies of Soviet style communism. To solve these inadequacies, the Soviet government must incorporate many of the capitalist principles that are inherent in this second economy. In essence, the Soviet government needs to harness the energies of personal gain, which is the driving force of the second economy.

What the Soviets Must Do

Until the Soviet citizens know that there will be goods and services available for purchase, the urban worker and peasant farmer will be reluctant to devote their energies to producing quality work. Without the ready availability of quality goods and services, Soviets would find that any extra rubles they might earn by working harder would be empty rubles and would simply accumulate in their savings accounts. Therefore, Soviet farmers must produce more and better food. "Improved treatment of the peasants [farmers] is a prerequisite for progress elsewhere in the economy."⁸⁴ The most effective way to accomplish this is to scrap the current collective and cooperative farm arrangement, in which the Soviet state sets the prices artificially low and discourages the peasants from working productively. Today, the farmers are more concerned with working their highly profitable private plots. By aggressively pursuing the 99-year lease scheme or completely converting to a system of private ownership of property, the state would be giving the peasant farmer the profit incentive to grow more and higher quality food for distribution throughout the Soviet Union. This would provide a sound basis upon which to build a solid economy and thwart the current underground agriculture economy.

In addition to encouraging the 99-year leases, the Soviet government must encourage the current growth of business cooperatives. In addition to promoting light industry and the service sector, the Soviet government must include heavy industry in the overall cooperative system. At present, the small scale of Soviet cooperatives and the lack of industrial cooperatives retards the growth of the Soviet economy. In addition to the taxes generated and the rubles saved by not having to combat the black market, the Soviet economy would be producing more and higher quality goods. These goods could be bought with the extra money Soviet citizens would be earning from their harder work.

The Soviet Union also must swallow the bitter pill of monetary reform. Despite the recent devaluation, the Soviet ruble is still overvalued. To increase foreign trade with non-socialist countries, the Soviet Union must establish a convertible ruble, which it has not done.⁸⁵ The only way to do this is to place the ruble on the international monetary market and allow it to take an inevitable nose dive. Only by permitting the ruble to find its true market value will the Soviet government be putting the monetary speculators out of business. This would have some definite negative impacts. The cost of imports would skyrocket. Rampant inflation would persist, until the currency stabilized; however, the cost of the exports to the rest of the world would fall almost as fast. Thus, before they attempt this, the Soviets will have to build a productive economic base so that they will have something to export and so that cheaper domestically produced goods will be available to substitute for the expensive imported goods.

Conclusion

Until now, monetary reform, cooperative business, and individual farming have only been attempted at moderate levels. Gorbachev's reforms have been inadequate in

⁸⁴ *Ibid.*, p. 238.

⁸⁵ Aganbegyan, pp. 154-5.

effectively dealing with the monumental economic problems that confront the Soviet Union. To eliminate the presence of the second economy and create an internationally competitive economy, the Soviet government must undertake large-scale economic reforms by incorporating the profit incentive found in the black market. These large-scale reforms are the Soviet Union's final hope of creating an economy capable of playing a role in the global marketplace. In the absence of large-scale reforms the black market and its associated problems will continue to flourish. In essence, the Soviet Union must rebuild its economy with the incorporation of capitalist incentives, which abound in the black market. Without the incentive of personal gain, upon which the second economy operates, the Soviet economy will continue to slip into an economic abyss, which will inevitably lead to a complete political collapse.