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THE SECOND ECONOMY AND CORRUPTION AT
THE DISTRICT LEVEL

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In the past 25-30 years, the second economy has firmly entered into the life of every state and cooperative enterprise in the Soviet Union, from the industrial giant to the tiniest workshop of local significance only. To wit: padding of reports on plan fulfillment; falsifying accounting reports in order to camouflage the expenditure of moneys or materials that were either diverted from authorized uses or stolen; falsifying payrolls of workers or collective farmers; sale of goods at state and cooperative stores at black-market prices; exacting part of their pay and premia from workers, and also the crediting of wages to "dead souls" for work never done in order to obtain funds for use in the second economy; and, finally, bribes of all possible kinds to functionaries of the state apparatus in exchange for allocations of goods, raw materials, and equipment, to employees of wholesale depots and supplier enterprises for obtaining goods against the allocation permits, to employees of transport enterprises for the hauling away of such goods. Such is the far from complete roster of means and ways in which every kolkhoz or sovkhoz, every small factory or construction enterprise, every district consumer cooperative or office of sel'khoz-tekhnika [distributor of supplies and equipment for agriculture] enters the second economy.

And together with the second economy there enters into the everyday life of the local district its inevitable concomitant, mass economic crime. Theft of socialist property, defrauding of consumers, speculation, private enterprise, forgery of documents, bribery -- such are some of the crimes that enter

to commit daily.

The causes of expansion of the second economy and of economic crime on a mass scale in trade, industry, and agriculture are neither uniform nor unambiguous. One thinks of motives of personal gain, the position of chiefs of enterprises and bureaus in the hyper-centralized Soviet economy, and -- last but not least -- the necessity of finding money for the tributes and bribes that they are compelled to pay to district (raion) authorities.

The top level of the ruling state and Party apparatus (hereinafter, SPA) lacks the material resources to provide the giant governing apparatus at its lowest, district level with privileges comparable to those which it (the top level) has appropriated for itself at the expense of the state budget and the Party treasury. Consequently, the SPA's that rule the country's respective districts take care of their own well-being, thanks to their power over their districts, to raise tribute in kind and bribes from all those dependent on them. [Hereinafter, "tribute"^(pobory) stands for tribute in kind, while "bribe" designates a money bribe. - Tr.]

Bribes are widespread in all layers of the SPA; tribute, on the other hand, has become the form of corruption typical of the lowest layer of the ruling class. A characteristic feature of the latter form of corruption is that -- in contrast to bribes, which are collected for certain specific services -- tribute is taken by the district's bosses (verkhushka) in the form of goods and services from all who depend on it^{1/}. And since all institutions and enterprises on the district level are so dependent, the range of goods and services that may be used as tribute is for all practical purposes limited only by the district's possibilities and resources.

On the basis of materials from court trials, publication in the Soviet press, information from participants in cases of corruption on the local level, as well

as our own observations, it is possible to reproduce a rather full and accurate picture of the system of tribute-taking and organized crime to be found on the district level in the USSR. 2/

The small towns which serve as district capitals afford no possibility to obtain even the most necessary foodstuffs in the regular way, in state stores at state prices. Even ten years ago, at a time of relative well-being, food stores in district centers as a rule had no meat, poultry, fish, vegetables, or sausage. The ordinary resident of such a district center had to resort - and still resorts - mainly to his own garden plot and to the open market, while persons belonging to the district ruling elite resort primarily to tribute. And so, depending on the season and on the local climatic conditions, leading employees of the district SPA received from state and collective farms tons of vegetables, fruit, meat, poultry, fish, and canisters of honey, basketfuls of eggs, thousands of liters of homemade village wine, and other products.

In addition, the town's best (more frequently, only) restaurant contains a small dining room which is reserved exclusively to the district leadership and their guests. The dishes prepared for such visitors draw on a special stock of products, kept in reserve for them alone. As for bills for this fare, they are either not rendered at all or rendered in purely token sums that in no sense reflect the value of what was consumed or (even more important) imbibed.

The automotive parks of district Party and soviet committees are generally not very ample. And yet, these organs of administration have at their disposal all types of vehicle - passenger cars and trucks - belonging to any automotive park within the district or any organization or enterprise. Such vehicles are widely used for trips to the oblast' capital and even to Moscow for shopping and recreation, for the delivery of furniture purchased there, for hunting and fishing trips, etc.

District centers lack "government residential buildings" like those which are to be found in Moscow and oblast' capitals and which are erected at government expense. But their absence is made up by the district ruling elite thanks to tribute. There are two particularly widespread methods used by the district leadership to obtain houses and flats for themselves.

The first consists of the following: a member of the local elite is allotted a piece of ground for building his house by decision of the local soviet. The cost of construction, as a rule, is borne by collective or state farms, the tens of thousands of rubles so spent are covered up by means of falsified documents. Labor and building materials are furnished by construction organizations within the district, the funds and materials so expended being generally charged to the construction of other, officially planned objects, such as kindergartens, clubs, and hospitals. As a result of all such manipulations, members of the district elite become owners of private houses.

[Second,] it is common in the Soviet Union for state enterprises and organizations to construct on their own account multi-flat houses and to allot some of the flats free of charge to their employees. In the smaller district centers, such houses, usually of two or three stories, generally contain 10-20 very modest two-room flats (with 24-28 square meters each on the average). At times, enterprises and organizations also build houses for their own executives. In the latter case, a universal unwritten rule goes into effect, according to which one or two flats per house are turned over to members of the district's ruling apparatus. Such houses have not the 10-20 flats, as do the others, but only 2-4, and in size they are not 24-28 meters but 100-150, and they are finished with special lavishness under the direct supervision of their future occupants. Such is the second method by which members of the district ruling leadership obtain free residences.

free repair of private cars in state-owned garages, free repair of private homes and flats at the expense of state construction organizations, free maintenance of private gardens and vegetable plots by workers of local enterprises, etc.

The contingent of those persons who belong to the district leadership and enjoy the fruits of tribute cannot be precisely delineated. At the very least, it includes secretaries of Party district committees, chairmen of district soviet committees and their deputies, the heads of departments of both kinds of committees, district military commissars, heads of district militia, prosecutors, heads of various functional inspectorates (financial, sanitary, veterinary, fire), executives of the most important organizations in the district (farm supply, inter-kolkhoz construction, consumer cooperative union, and some others). (Somewhat apart from this hierarchy are to be found the heads of district offices of the KGB, but we dispose of no reliable information regarding the corruption of this part of the district's leadership.)

Every person within this contingent receives his individual tributes according to his position in the district hierarchy. Thus, first secretaries of Party district committees will be found at the very peak of the hierarchy, chairmen of district soviet committees occupy the second tier. The power that each of these two wields is universal, i.e., it extends to everything on the district's territories, and therefore both can use the services of any enterprise or organization and to obtain tribute from all collective and state farms. Both receive tributes not for specific services they render, but for their general benevolent attitude and protection.

This model of relations between the district's rulers and the executives of enterprises and organizations under them rests on the total nature of the SPA's power it's not being subject to any law, public opinion, or free press. At the same time a material condition

ensure the proper operation of his unit unless he resorts to the means and methods of the second economy and, hence, violates the law in force. Accordingly, the normal existence and well-being of such executives is in the hands of those who hold power in the district, and depends on how benignly they will view such things as padding in his plan-fulfillment report, violation of laws and instructions regulating the expenditure of moneys and materials and the payment of wages, etc.

However, as a rule, such executives abuse their position not only in the interest of their enterprises and organizations, but also in their own acquisitive interests, which is what gives the possibility to prosecutors and militia commanders on the district level to obtain tribute. The place which prosecutors and militia commanders occupy in the district hierarchy is not very high; frequently they do not even serve as members of the district Party bureau (which is an unfailing test of belonging to the district elite). But to some extent they decide whether to press criminal charges against a director of a store or restaurant or the head of a collective state farm. The continuous potential threat turns all of the latter into obedient bearers of tribute to the militia and the procuracy. (I intentionally indicate that the pressing of criminal charges depends only to a degree on the prosecutor or the militia commander. They can initiate the case, conduct preliminary checks, collect incriminating evidence; but the definitive decision to press charges against executives at the district level (as, for that matter, against any member of the party occupying a leading position) falls within the competence of the first secretary of the district party committee.)

The power of an inspector - financial, sanitary, veterinary, fire - is not great at all. But within the range of his authority he can cause serious trouble to an executive of an organization or enterprise. The financial inspector can conduct an accounting audit so as not to reveal any illegalities or falsifications, or he can conduct it so as to bring them out into the open and to prepare a protocol of

audit, which could become a cause for pressing criminal charges. Sanitary and fire inspectors can compile a protocol of violations and order a temporary closure of the store or restaurant, while imposing a fine on the director.

In addition to such individual tribute, there is to be found in many districts also a system of collective tribute for the benefit of whole district institutions. In such cases, collective and state farms must pay tribute to the apparatus of some important administrative organ. In the case of collective tribute the foodstuffs are brought from the farms in the daytime, i.e. during working hours, at which point the business manager of the institution or the chairman of its trade union committee distributes the goods among employees on a given roster. The distribution is either in equal amounts or in accordance with the person's position.

In some parts of the country (namely, in Transcaucasia and Central Asia) the recipients pay nothing for the goods so obtained. But in Russia, the Ukraine, and Belorussia those who receive the tribute usually pay to the collective and state farms ^{certain} insignificant sums based on those internal prices at which the farms - usually in insignificant amounts and infrequently - sell produce to their own workers or members.

In oblast' centers, capitals of republics, and Moscow (i.e., in cities containing urban districts) the ruling district elite also makes use of its position to collect tribute. But in the large cities the tribute system is somewhat different and operates more furtively than in the small, provincial district centers. Yet even there, and despite the proximity of provincial or metropolitan superiors, the system functions, unflinchingly and universally. There, just as in the provinces

zations in the district, and the services of garages for the repair of their own cars. But the large cities contain no farms to supply the district elite with foodstuffs. This function is therefore performed by state stores and restaurants.

Each district of a large city contains 2-3 food stores especially designated by the superior organization, on instructions from the district Party committee, to serve the district elite. These stores cannot be distinguished from ordinary stores either by their outward appearance, or by the assortment of products on their counters, or by the crowd of buyers on their premises. But in their warehouses and in the offices of their directors everything is different: goods, buyers, and even prices.

Cities enjoying preferential supplies (Moscow, Leningrad, Kiev, and some others), and stores serving the district elite, receive from wholesale distributors such products as are never to be found in ordinary stores. These are either expensive delicacies, which are in great demand in privileged circles despite high prices (e.g., black and red caviar, smoked salmon and sturgeon, imported salami, chocolate candy in handsome boxes) or inexpensive products that are in high demand among the public generally and are in short supply (e.g., beef tongue, smoked fish, instant coffee, and some others). None of the products ^{ever} appears on store shelves and the ordinary buyer never sees them. Instead, they are distributed directly by the store manager in his office and only to buyers on his special roster.

The store manager receives the roster of privileged buyers either from the district food distributing organizations or (more frequently) directly from the "instructor" of the district Party committee in charge of retail trade. The roster comprises the whole district elite except the Party first secretary and the chairman of the district soviet (the latter two being always among those who have access to legal privileges and can shop in the "closed" stores and restaurants of the oblast' or city Party committee). Altogether, such a roster consists of 45-50 names. Whenever a new name is

to be included or someone is to be removed from the list, the instructor of the district Party committee usually informs the store manager in person.

In Moscow, only sometimes do the privileged buyers pay the full prices of the products which they receive in this manner; however, there is no uniform pattern in this regard. As a rule, expensive delicacies and alcoholic beverages are paid for at full price. Yet, just before major national holidays the district Party committee usually issues an order to prepare for the leading members of the district apparatus holiday "gift baskets", which contain delicacies, cognac, wine, etc., which are distributed free of charge. For those products which are available to ordinary buyers in ordinary stores (until 1978, in Moscow and Leningrad, this included meat, poultry, frozen fish, inexpensive sausage, and cheese) members of the district elite usually pay one half or one third of the list price. For instance, the privileged buyer would pay ninety kopeks per kilogram, the price of third quality beef, for boneless beef which lists at two rubles eighty kopeks; for poultry of crop quality he would pay ten kopeks per kilogram, the price of third quality, instead of three rubles; for sausages of top quality, 1 ruble seventy kopeks, the price of cheap bologna sausage, instead of 3.40 or 3.70 per kilogram.

However, there is also a category of clients who obtain all products free of charge in the stores. This includes the district militia head and the district head of the economic police (UBKhSS); their occupying a privileged position within the privileged group owes to the fact that officials in retail trade are even more directly dependent on the militia and on the UBKhSS than on the Party and governmental apparatus of the district. No information regarding such forms of tribute ever finds its way into the Soviet press, nor have I ever heard that any leading official of a district SPA was criminally charged for collecting tribute in food stores. Nevertheless, it is possible to collect data on such tribute.

the elite and officials of food stores or by drawing on the personal experience of defense attorneys who repeatedly defended trade officials and who themselves therefore were in the role of privileged buyers, but also from the materials of court trials. Defendants in such trials comprise officials of stores, restaurants, and coffee shops. Their privileged clients are not summoned to court even as witnesses. The defendants - managers, salesclerks, food dispensers, waiters - are most often accused of theft of state property and cheating of customers. However, in explaining to the court how they came to commit the crimes, they frequently relate that they had to deliver to members of the district elite on orders from the district Party committee, at low prices or entirely free of charge, commodities for which they were financially responsible, and that they were forced to commit the crimes in order to make up the consequent losses.

In districts falling within oblast' centers (except Leningrad) the system of collecting tribute from food stores by the district elite is somewhat different than in Moscow. In recent years, the supply of food in provinces has worsened sharply. The overwhelming majority of oblast' centers (except in the Baltic republics) afford no possibility to their inhabitants to purchase even the simplest necessities - meat, fish, poultry, sausage, dairy products, vegetables - in the stores. Some of the just-mentioned food products the public can buy in the open market at prices which were 3-3.5 as high as store prices until 1978, and at present (according to private information received from the Soviet Union in August and September 1979) ^{are} 4-5 times as high. Under these conditions, naturally, such small quantities of food products which reach the stores in oblast' centers bypass ordinary buyers and proceed directly either to the black market or to all those upon whom the well-being of the store managers depends, namely, members of the district elite, leading officials of the militia and the procuracy, inspectors, auditors, etc. Moreover, under these conditions, even the privileged customers

(though excepting officials ^{of} UBKhSS) generally pay the full state prices for the commodities. Accordingly, officials of food stores do not suffer any losses from this kind of tribute-giving: they only forgo additional profit, the difference between state prices and black market prices.

As for the tribute paid by restaurants and coffee houses, it differs little in the oblast' centers and even in Moscow and Leningrad from the system in effect in small district centers. Typically, on orders from the district party committee, the district organization in charge of restaurants sets aside 2-3 restaurants or coffee houses for the purpose of serving the district elite. These are always second-category establishments (restaurants of the first and higher categories are not within the jurisdiction of district authorities and, what is more significant, regularly serve foreigners and are therefore under the unflagging surveillance of the KGB). The restaurants and coffee houses so

furnish food and drink to the district elite, either entirely free of charge or at prices only one third or one quarter as high as list prices. Upon specific orders, the managers of the restaurants and coffee houses provide banquets ^{for} several dozen persons on the same conditions. They keep for their privileged customers a special stock of delicacies that are not available to ordinary buyers, and all the food prepared for the special clients is prepared for them alone.

As already mentioned at the beginning of this paper, one of the main causes of mass crime in trade, industry, and agriculture, is the necessity to find resources to pay the tribute and the bribes. These resources can be found by the management of any organization or enterprise that is so burdened only in one way, by stealing - more exactly, by stealing from the state and the consumer.

farms, be involved in the system of corruption? Can they not refuse to pay the tribute and to commit the crimes that are invariably linked to the tribute and the second economy? Having studied court records, the Soviet press, and the direct testimony of persons with many years of experience on the district level, the author is convinced that it is impossible to refuse involvement, or in any case do so without suffering the inevitable loss of one's executive position. The evidence shows that those leading officials of organizations and enterprises who refuse to pay tribute are invariably subjected to persecution on the part of state and Party authorities in the district. At best, the victims are forced to leave their posts or are dismissed under some pretext. But in many cases they are dealt with much more harshly by the district bosses, who, making use of their own power over the procuracy and the court, commit them to penal camps, either for crimes which they had in fact committed or on trumped-up charges.

At the same time, our study of the just-mentioned sources brings out that those who regularly pay tribute can count on the protection of the district SPA, even if their crimes are uncovered. Should it be necessary to defend them from attack by higher authorities or by organs of law enforcement, the district's bosses do not hesitate to confront not only the state and with its laws but also the all-powerful superior levels of the Party apparatus, namely, the oblast' committee and even the Central Committee.

In sum, there has arisen in each of the country's districts a stable system consisting of two subsystems: a corrupted SPA, on one hand, and officials and enterprises who constantly resort to the second economy and who commit economic crimes, on the other hand. The system bears every indication of organized crime.

It is natural that the Soviet variant of organized crime should be an organic - though, by its creators, unexpected - extension and consequence of the dictatorship

by the apparatus of the country's single legal Party. Organized crime in the district carries the imprint of the political and economic system, and generally of everything which in the aggregate constitutes the Soviet regime. And it is in this manner that the paradoxical features of organized crime in the district arise.

First and foremost, it is paradoxical that ⁱⁿ the Soviet variant of organized crime the role of extortionist is played not by racketeers or gangster organizations, as in the West, but by the lowest level of the SPA, the district authorities. It is they who constitute that element in the system of crime on the district level which, on one hand, forces officials of organization and enterprises to pay the tribute, and, on the other hand, provides them ^{with} protection and defense against prosecution by higher authorities and organs of law enforcement. In this manner, the district SPA accomplishes its two necessary objectives: first, it stimulates the second economy, without which the district economy would be appreciably less effective, and secondly, it assures an inexhaustible flow of tribute for itself.

The other element of the system of organized crime, that which pays the tribute, is the district's criminal world, which ~~however~~ consists not of professional criminals but of directors and officials of enterprises and organizations. All of them without exception are members of the ruling Communist Party, their jobs are absolutely legal and legitimate. Yet, along with this legal side there is another and inevitable side to their activity, the criminal side that involves them in the second economy. The object of the criminal activity is manifold: ensuring the normal and effective operations of their unit, obtaining means to pay the tribute and bribe, and, lastly, their own personal gain. (The first two goals are always present, the

No government of whatever political complexion finds it easy to fight organized crime. In a democratic country such as the USA, the difficulties stem from the independence of ^{courts} from the executive branch, and from the basic principles of the legal system. Typically, the heads of organized crime are known to the police and are within its reach, but the police lacks ^{of} admissible evidence, indictment and conviction. On the other hand, in a totalitarian state like the Soviet Union, where the organs of prosecution and the courts are completely subordinate to the SPA, the difficulties of fighting organized crime on a district level are of a completely different kind. Organized crime in the district completely controls the political authorities, the administrative apparatus, the organs of law enforcement, and all key economic positions. For all practical purposes, such a system is safe against any attack from within the district (especially if it includes, as it does in a majority of cases, the first secretary of the Party). Any complaints against the district elite, wherever they may be lodged, will be eventually taken up by the very same district Party committee - despite the existence of a special law which forbids turning over complaints to the entities or persons against whom they are aimed. Thus, the system of district organized crime is invulnerable to any complaints submitted to higher levels. More than that, it does not lack means to settle accounts with anyone who dares to challenge its authority in the district.

Only the superordinate oblast' Party committee : the Central Committee of the Communist Party is capable of destroying the system of organized crime at the district level. This they can do by replacing the top leaders of the district and by dismissing from their jobs or sending to camps the most important representative of the criminal group. But such purges are so rare and extraordinary in the USSR that they can be readily neglected or ignored by organized

crime in the district. Ordinarily, the higher levels of the SPA - at the oblast' and republic tiers - although perfectly well informed about the goings-on in the district, not only fail to take decisive measures against the criminals but, as a rule, strive to protect them against any blows emanating from central authorities.

This phenomenon can be studied on the pages of the central Soviet press, and especially on the pages of Pravda, the organ of the CC CPSU. In terms of its compelling force and effect, a feuilleton in Pravda falls little short of a court sentence. But only extremely rarely does even such a feuilleton result in any punitive action on the district level. An analysis of columns in Pravda such as those entitled "After [our] Criticism", "After [we have] Checked It Out", or "After Pravda's Publication" shows that in the overwhelming proportion of cases (no less than 90 percent) the district and oblast' Party committees and republican central committees take care to cushion the effects of a feuilleton, even if it had uncovered a crime. To be sure, Pravda and the CC CPSU apparat are informed that the guilty persons have been punished: say, removed from their positions or subjected to strict intra-Party disciplinary action (vzyskanie). But they are hardly hurt by the disciplinary action, and almost immediately or in a short time they are appointed (often with the knowledge and permission of the oblast' Party committee) to new positions in the same or neighboring districts, positions that are no less prestigious and lucrative than the old ones.

In sum, the oblast' or republican level of the SPA fails to conduct any action against the system of organized crime on the district level. One reason is, of course, that a chain of corruption links the district elite with the ruling apparatus of the oblast' and of the union republic, and a certain share of the take from tribute and bribery flows continuously from the district centers to oblast' and

the capability of the oblast' Party committees and republic central committees.

Though the central authorities evidently dispose of the most powerful and effective punitive machinery in the modern world, only very rarely do they employ it for the liquidation of organized crime on the district level. The reasons for this forbearance are to be found in the fact that such action would require permanent and all-embracing purges of the governing apparatus in absolutely all the districts of the country. The central SPA is unable to mount an operation that would inevitably unhinge the whole governmental structure of the country. The central authorities cannot afford to destroy the very numerous bottom tier of the SPA - the framework on which all local rule rests - as would be the case if they declared war on all district Party committees and soviets.

Only in the rarest cases of crisis do the central authorities resort to a mass purge of the bottom tier of the SPA in some individual region. For instance, such a crisis arose in 1970-1972 in Azerbaidzhan and in Georgia, republics in which organized crime and general corruption acquired a scale so vast that the very reality and totality of the power of the central SPA were placed in doubt.

Following revelations of absolutely scandalous corruption within the ruling elites of these republics, (involving their first secretaries, Politburo candidate-member Mzhavanadze and CC CPSU member Akhundov, respectively) there took place an almost universal purge of the whole governing apparatus on the district level. In regard to Georgia, this much is evident from a sample of materials published during 1972 and 1973 in the newspaper Zaria Vostoka. As the materials indicate, 56 first secretaries of district and city Party committees were removed from their posts from December 1972 to January 1974. Since, as a rule, both the respective second secretaries

and soviet chairmen would be removed together with the first secretaries, and bearing in mind that Georgia contains 66 district and 13 city committees, one is justified to say that the purge involved two-thirds of the local governing apparatus. Simultaneously, a considerable proportion of the heads of collective and state farms and of district organizations and enterprises were also removed throughout Georgia. Although relatively few of these persons were criminally indicted and brought to trial, for a certain time organized crime in the majority of the republic's districts remained routed.

Similar mass purges were conducted with the help of the KGB in Azerbaidzhan in 1970-1971 and in Kirgizia in 1962-1964, but all these purges were episodic and of purely local importance; they did not affect the structure of district organized crime in the country as a whole. More than that: All information at our disposal (including that published in the republican papers Zaria Vostoka and Bakinskii Rabochii) bears testimony to the fact that the new ruling apparatus, after the purge, also turns out to be overwhelmingly afflicted by corruption, though possibly not to the same extent as the previous one; that the officials of district organizations and enterprises, unable as they are to give up involvement in the second economy, continue to systematically commit economic crimes; and that the paying of tribute has become a routine matter again.

To conclude, we stress two propositions.

First proposition: The central SPA maintains a tolerant attitude toward the existing system of organized crime on the district level throughout the country. Only in rare and exceptional cases, and only in individual regions, does it use the powerful machinery of suppression in its hands to try to liquidate such crime.

Second proposition: Even where the structure of district organized crime and

a short period of time.

These two propositions taken together demonstrate that organized crime and the second economy on the district level are so firmly entrenched in the USSR that they can resist the central authorities. It follows that organized crime and the second economy on the district level have organically fused with the political regime and with the economic system of the country, and have now become their inevitable and inseparable companions.

FOOTNOTES

1. The prinosheniia [presents] mentioned by Gregory Grossman in his article are one of the forms that tribute takes. Gregory Grossman, "The Second Economy of the USSR", Problems of Communism, Sept.-Oct. 1977, p. 32.
2. Owing to lack of space, we do not cite the underlying materials in the present paper.

Translation dictated by Gregory Grossman