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REGIONAL DIMENSIONS OF THE "SECOND
ECONOMY" IN THE USSR

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by

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private activity. Next, we survey materials in respect to illegal economic activities, and, finally, offer some observations bearing on expected directions and possible magnitudes of regional impacts of such activities, if we could measure them. In this paper, the term "regions" refers to the USSR's 15 republics.

II. Regional Differences in Incomes and Consumption--the Official Economy

Data for the official economy reveal a well-defined hierarchy among republics in respect to incomes and consumption. There is a large degree of consistency in the data, with the patterns shown by data on per capita incomes tending to be corroborated by independent data on per capita expenditures.¹ Table 1 presents several relevant sets of data for 1979: other data and other years could be added. The Baltic republics rank highest on almost all measures, with personal incomes and consumption per capita about 20 percent above the national average and somewhat under 10 percent above the runner-up, the RSFSR. Next in order of affluence are the Western republics--Ukraine, Belorussia and Moldavia, with levels only a little below the national average and about 17 percent below the RSFSR. Next come two Transcaucasian republics--Georgia and Armenia--and Kazakhstan, with levels roughly 10-15 percent less than the national average and about one-fifth below the RSFSR. Consistently low men on the totem pole are the Central Asian republics and Azerbaidzhan, with levels for the most part about three-fourths of the national average or less and about two-thirds of the level in the RSFSR. The range of differences within the latter group is considerable. Because families are large and the populations are growing rapidly, the relative positions of Central Asia and Azerbaidzhan, in particular, would be raised, if incomes and consumption were expressed per family or per adult-equivalent. The basic regional patterns are not altered, however, when these refinements are made.² Although a few republics, notably Belorussia and Moldavia, have made sizeable relative gains,

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I. Introduction

Economic activity for private gain--both legal and illegal--is to be found in varying degrees throughout the vast geographical expanse of the Soviet Union. That much is clear and is also not surprising, for the peculiarly Soviet phenomena and institutional-legal arrangements that spawn much second economy activity have no regional boundaries. One would like to know, however, whether "second economy" activities have a differential impact on levels of living among regions and by how much. One would also like to know its impact on nominal incomes and their distribution among persons, industries and occupations within regions. Climatic factors may facilitate the private sector to a greater extent in some regions than in others. Ethnic characteristics, levels of economic development and political pecking orders may be important factors tending to foster or inhibit private economic activities. Again, one wishes to know in what ways and by how much.

The evidence that can be brought to bear on these questions is of three kinds--some quantitative data dealing with the legal private economy, a few studies of specific illegal activities, and a plethora of reporting by the Soviet and Western press and testimony by emigrees. The evidence bearing on regional aspects of the semi-legal and illegal economy is almost entirely anecdotal and impressionistic. This paper will provide no quantitative answers, but will try to formulate judgments based on perusal of these materials. We begin with a presentation of statistics concerning regional differences in incomes and expenditures produced by the "first economy" legitimate economic activity. We then consider the evidence dealing with regional aspects of legal

this general regional pattern of relative levels of per capita incomes and consumption has remained essentially unchanged for two decades. All republics, of course, have realized fairly rapid progress in levels of living. As indicated by our measures of real per capita consumption, average annual rates of growth during 1960-1978 ranged from 2.6 percent in Azerbaidzhan to 4.9 percent in Moldavia; the average for the USSR as a whole is 3.2. This measure is a Western reconstruction based on standard national accounting concepts; a much higher rate, but a generally similar pattern among regions, is given by the official Soviet measure of progress in living standards, labelled "real incomes per capita". Weighted coefficients of variation calculated for various indicators of regional disparities in levels of living indicate that differentials were essentially unchanged during the 1960's, but have widened appreciably thus far in the 1970's. These differences do not appear to be large by comparison with other semi-developed and developed countries. One should note, however, that one so-called "region" out of 15 in the USSR carries over half the weight in most indicators. The coefficients of variation would almost certainly be much wider, if disaggregated data were available for sub-regions of the RSFSR and the Ukraine.

III. The Legal Private Economy

The legal private economy has three major sectors--private agricultural activities, private housing construction and provision of a variety of personal services. All three types of economic activity are sanctioned by Soviet law, even though ideology finds them hard to tolerate. As a consequence, official policy has accorded them only grudging support, and the extent of this support has waxed and waned over the years, a phenomenon especially evident in the treatment of ~~the~~ private agriculture. By official and semi-official Soviet measures, the three sectors have been declining rapidly, relative to

their counterpart Socialist sectors. Nonetheless, each one retains a firm foothold which could form the basis for swift expansion, should future government policy provide sanction and material support. In 1976, the combined private sector as defined contributed a little over 5 percent of total GNP and somewhat less than 10 percent of total consumption.³

A. Agriculture

By far the largest of the three types of private activity is the production and sale of agricultural products on private account. Private agriculture and its symbiotic relationship with public agriculture have been thoroughly investigated for the Soviet Union as a whole in the definitive study of Karl-Eugen Wadekin.⁴ His work deals with data for the 1960's, for the most part, and pays scant attention to the regional dimensions of the private sector. With the wealth of republic handbooks now at hand, the data are available to fill this gap. This paper begins the task, relying on these official data and relevant studies made by Soviet economists. For the most part, we refer to the situation in 1975, the most recent year for which nearly complete data are available by republic.

In 1975, the private sector accounted for over one-third of the value-added in agriculture and about 29 percent of agricultural employment measured in average annual equivalents.⁵ With 3 percent of sown acreage and one-fifth of livestock herds, it produced 59 percent of all potatoes, 34 percent of the vegetables, 31 percent of meat and milk, 39 percent of eggs, 44 percent of fruits and 20 percent of wool.⁶ These familiar aggregates, however, contain fascinating regional differences. Only a few republics publish data on the shares of the private sector in gross output (GVO) or in marketed output, and none publishes employment estimates. The few examples point to great diversity among the republics; thus, in 1975 the private sector contributed

39 percent of agricultural GVO in Lithuania, 28 percent in Azerbaidzhan and 12 percent in Turkemenia (1974); it accounted for 49 percent of the GVO of livestock products in Uzbekistan.⁷ Table 2 assembles the data relating to land and livestock resources of the private sector in 1975. The preeminence of Transcaucasia is immediately apparent, followed by Lithuania, two Central Asian republics and Belorussia. Even these generalizations conceal diversity, notably in respect to the private sector's relative importance in different kinds of livestock.

The private sector accounts for negligible shares of the output of grain and technical crops; its comparative advantage lies in the production of labor-intensive, high-valued food and livestock products. Table 3 presents data by republic on the private sector's share in the production of 7 food products in 1975. Again, the regional picture is variegated. In Lithuania, the private plots turned out 71 percent of all potatoes and vegetables. In respect to livestock products, the republics of Transcaucasia and Central Asia are the leaders; more than half of all meat, milk and eggs in Azerbaidzhan, for example, were supplied by the private sector. Four republics in diverse geographic areas produce the lion's share of wool. In the Baltics, more than 85 percent of fruit and berries comes from private activity, which also looms large in output of these products in Belorussia and Georgia.

A substantial part of private sector production is marketed (40 percent in the Ukraine in 1976, for example)⁸, both through sales to state and cooperative procurement and trade agencies and through sale on urban collective farm markets (CFM). For the USSR as a whole, the latter accounted for roughly half of total money incomes from such sales in 1976; such data are not available by republic. The next most important marketing channel is state procurement organizations. In 1975, these organizations obtained 16 percent of all wool, 13 percent of cattle and poultry, 5 percent of potatoes and milk and 6 percent

of eggs from private individuals.⁹ Again, the relative importance differs widely by region and by product. In Uzbekistan and Georgia, for example, over 40 percent of state purchases of wool were from the private sector. Georgia, Azerbaidzhan and Armenia supplied, respectively, 43, 49 and 28 percent of all meat and poultry purchased by centralized procurement agencies. The Central Asian republics, in contrast, accounted for relatively small shares of such purchases, even though their shares in meat production were relatively high. The contribution of the private sector to urban food supplies through the CFM markets also varies greatly by region and by product. Only scattered data are available, but in 1976 CFM sales accounted for 14 percent of all retail food sales in Georgia and 9 percent in the Ukraine, compared with 2.8 percent in the RSFSR, 5 percent in Latvia and 4.5 percent in the USSR as a whole (the share was 5.3 in 1965).¹⁰

As noted, the share of private agriculture in total output and also in food sales has been declining, but the rate of decline evidently differs greatly among republics. Evidence bearing on this conclusion is provided for the 1960's by indexes of the growth of private sector output per collective farm family.¹¹ In 6 republics private sector income per family rose 40 to 60 percent during the decade, whereas income from work for the collective farms per family rose faster in each case--between 45 and 214 percent. In Latvia and Estonia, private sector income per family actually declined, while income from the farms more than doubled. In the other republics, private sector incomes rose 4 to 24 percent, but incomes from the farms more than doubled in each case. In Azerbaidzhan during 1965-75, total private sector output rose 62 percent and public sector output rose 73 percent; the relationship seems to have been about the same in Armenia. In Georgia, private sector growth may even have exceeded that of the public sector, if one may judge from statements made by Party Secretary Shevardnadze in late 1978 about

"unfavorable developments" in this regard.¹² In Moldavia the respective growth rates were 25 and 40; corresponding figures for Kazakhstan are 38 and 82, and for Belorussia 11 and 32. In Uzbekistan, in contrast, the respective growth rates are 81 and 42, the result of much faster growth in the private livestock sector.

Another way of assessing the relative importance of private agriculture among regions is to look at its share in family incomes. Unfortunately, the needed data are far from complete; information about the importance of private plot incomes for state farmers is not available by region, so we shall have to make do with statistics relating to incomes of collective farm families. For the USSR as a whole in 1978, incomes from private agriculture provided 32 percent of total family incomes (excluding incomes from public consumption funds) compared with 43 percent in 1965 and 48 percent in 1960.¹³ Information of this kind is available for all republics only for 1965 and 1966. These data are provided in a research study by a Soviet economist, who evidently had access to data from official family budget surveys.¹⁴ In 1966, private plot activities provided more than half of family incomes (excluding the contribution of social consumption funds) in Georgia (63.9 percent) Lithuania (61.1 percent) and Belorussia (53.1 percent). It contributed 40-48 percent in 5 others (Moldavia, Estonia, Ukraine, Uzbekistan, Azerbaidzhan and 29-39 percent in the rest. The inter-republic relationships were about the same in 1965, although the values differed, reflecting variations in growing conditions in the two years.

Still another way of observing regional differences in the size of incomes from the private sector is given by information on the values of family incomes from this source (expressed per family) relative to the national average. We have such data for 1965 and 1969.¹⁵ While the values differ in the two years because of growing conditions, a well-defined hierarchy emerges.¹⁶

The Baltic republics and Georgia ranked at the top; in 1969, average family incomes from private agriculture ranged from 22 to 90 percent above the national average. In that year Uzbekistan ranked above Estonia, with average family incomes one-third above the national average. Moldavia, Belorussia and Turkmenia ranked next in order, exceeding the national average on our measure; the others fell below that average. One would like to add private sector incomes of state employees to this picture; their share has been rising, as state farm employment expanded steadily at the expense of collective farm employment. Unfortunately, there are no data with which to do so; to estimate their magnitude, as has been done,¹⁷ by assuming some fixed relationship with the private sector on collective farms is to assume the answer to the question one asks. In summary, we see that the private agricultural sector has a large regional dimension; its impact on relative incomes may become greater, if the Soviet government continues its present policy of encouraging such activity.

B. Housing construction

The private sector makes an important contribution both to the perennially inadequate supply of housing, and to incomes in the form of private earnings from construction activity. The sector's relative importance differs greatly among republics. Table 4 assembles the available data bearing on the activity of the sector in 1978. Private housing constitutes the vast bulk of housing in rural areas, even though in recent years collective and state farms have been building some apartment-type units in the villages.¹⁸ In 1978, over one-fifth of new housing space commissioned in the USSR was private. In three Central Asian republics and Moldavia, the private sector's share was over half, and it was a third or more in 5 other republics. In these 9 regions, private investment comprised 20 to 33 percent of total investment

in housing in that year. Republics with the largest shares of rural populations in the totals are those that figure largest in private shares of housing investment and new housing built. Although privately-built housing is largely a rural phenomenon, it retains a sturdy foothold in urban areas as well. As the data in Table 4 show, over one-third of all urban housing was privately owned in 5 republics and more than one-fourth in 5 others. The private housing urban stock (but not its share in the total stock) has been increasing in all republics. During 1965-78 the non-Russian republics had by far the fastest rates of increase.¹⁹ In Georgia, the private stock increased faster than the total urban population.

Private housing activity contributes to GNP in three forms: (1) as owner-occupied building services (2) as private earnings in construction and (3) as imputed rents on owner-occupied housing. The net contribution of the sector is estimated at 2.9 billion rubles in 1976, about .5 percent of GNP and 1 percent of consumption.²⁰ The importance of the sector could rise appreciably, if Soviet government policy were to become more permissive and supportive. This response was demonstrated in the early 1960's, when Khrushchev's policies briefly encouraged private investment in housing.

C. Services

Soviet law sanctions private activity in a variety of personal services, provided licenses are obtained and income taxes paid. The punitively high marginal tax rates surely provide an effective deterrent to reporting such incomes. The general testimony of emigres suggests that most such incomes are not reported and are therefore illegal. We treat privately provided services here as part of the legal second economy, however, because Soviet law sanctions them in principle, because their performance is accorded unofficial tolerance, since prosecution seems to be infrequent, and because

the skimpy quantitative information about their size does not and cannot distinguish degrees of legality. The services consist mainly of personal and repair services, building services, medical and dental care, tutoring, and rentals of private housing.

On the basis of a sample of some 1,000 Jewish emigree, multi-person urban families, Gur Ofer found that private wages added over 5 percent to the average wages of his respondents in the mid-1970's.²¹ Information on the regional dimension, however, is miniscule. Data from the Ofer sample indicates that all private incomes (including unidentified sources) amounted to 7 percent of total per capita incomes in the RSFSR, and Moldavia and the Ukraine, 5 percent in Belorussia, 4 percent in the Baltics, and, on average, in all other republics represented in the sample.²² A Soviet survey reports that private "everyday" services amounted to 6 rubles per capita in the RSFSR in 1970.²³ They are far more important sources of supply in rural areas than in urban areas, but their share in total supply is declining. No other scraps of quantitative information are at hand, although the press frequently notes the activities of private providers. One might speculate, however, that the relative importance of privately supplied services would be related both to levels of income and to relative availabilities of state-provided services. The latter are most available in the relatively high income Baltic republics and least available in the relatively low income republics of Central Asia and Azerbaidzhan. How these disparate factors translate into relative differences in the role of private services is anyone's guess. We simply do not know.

IV. The Illegal Economy

A. An Overview

In respect to the legal "~~second~~" economy we at least had some quantitative

data of a conventional sort with which to assess its relative regional importance. In respect to the illegal economy, we have only a mass of anecdotal reporting by the Soviet press, by former Soviet citizens, and by present Soviet citizens in statements to foreign visitors, diplomats and reporters. Our task has been to survey this mass of testimony and to bring it to bear on the question we have asked: to what extent do illegal economic activities alter our perception of relative per capita levels of living among the USSR's republics as gained from analysis of data from legal activities? We limit the scope of our inquiry, therefore, to those illegal activities that impact on incomes and consumption.

By the nature of the phenomena being surveyed, this question cannot be investigated quantitatively; the requisite data are not available for the USSR or any other country. So, we are left with the often scorned anecdotal evidence as our source of information. But let us who yearn to quantify not despair! As that savant Peter Wiles has told us, "enough anecdotes make a statistic." Having surveyed a mass of these anecdotes on regional manifestations of illegal economic activity, we have produced some statistics, which we offer with tongue partly but not entirely in cheek.

The sample of anecdotes is taken from 19 years of reporting in the Current Digest of the Soviet Press (1970-1979). The following types of illegal activities were chosen for inclusion in our definition of illegal economic activities: bribery, extortion, abuse of office for personal gain, speculation, black market activities, theft of state property, illegal production of goods and services. Excluded were illegalities involving drugs, prostitution and simple theft of money from firms by single individuals. The 324 items assembled were classified by republic, where the incidents occurred. The results of this "survey" are produced in the table below, which compares the share of each republic in the total number of reports with its share in the

total population. .

	<u>Percent of total population</u>	<u>Percent as anecdotes</u>
RSFSR	52.5	50.6
Ukraine	19.0	12.7
Belorussia	3.6	.3
Moldavia	1.5	1.5
Kazakhstan	5.7	4.9
Georgia	1.9	7.7
Azerbaidzhan	2.3	8.3
Armenia	1.1	4.3
Uzbekistan	5.8	2.8
Kirgizia	1.4	1.2
Tadjikistan	1.4	1.2
Turkmenia	1.1	1.2
Estonia	.6	.9
Latvia	1.0	.9
Lithuania	1.3	1.5

Over half the reports concern illegalities in the RSFSR, a sizeable share in Moscow itself. The number of "sins" reports for the RSFSR, the Baltics, and Moldavia are in line with their shares in the population. Central Asia, the Ukraine, Kazakhstan and Belorussia are under-represented. In contrast, to no one's surprise, I'm sure, Transcaucasia is over-represented; with 5.3 percent of the population it accounted for 20.3 percent of all reports. Because many of the reports described a variety of sinful activities, classification of the ~~234~~ reports by type of illegality proved impossible. One may state unequivocally, however, that no republic has a monopoly on a particular kind of malfeasance. Bribery and corruption, in particular, seem to know no regional bounds. Now that we have proved how easy it is to make statistics

out of anecdotes, we turn to more serious matters.

B. The Case of Transcaucasia

A prevalent view holds that the economic positions of the Southern Republics (sometimes including Central Asia) are significantly higher relative to other republics than indicated by official data. The reason is the evident presence of flourishing 'second economies' in these areas. Events of the past decade, in particular, have provided a mass of evidence of wrongdoing in the South. The most notorious case, perhaps, is Georgia. The public revelations of the pervasive sins of the Georgians was launched in March 1972 with a CPSU Central Committee Resolution accusing the Tbilisi Party organization of persistent failure to cope with economic tasks and of pervasive corruption.²⁴ This resolution was, in reality, an attack on the First Secretary of the Georgian Party, V. P. Mzhavanadze, and his associates, who, besides illegal and immoral behavior, were accused of fostering nationalist and oppositionist tendencies.²⁵ In November 1972, E. A. Shevardnadze, former head of the Georgian KGB, became Party First Secretary on the platform of cleaning the mess in Georgia and getting the official economy moving again. In fact, industrial output stagnated in 1972, national income rose only 1.9 percent and gross value of agricultural output declined in both 1971 and 1972.²⁶

Revelations both before and after Shevardnadze took over the reins, indicated that bribery and corruption had become endemic, both within the Party and within government bureaus and institutions. Appointments to Party and government positions came to be determined by nepotism and favoritism. Private property tendencies were manifest, particularly in agriculture, where private plot activities frequently took the form of speculation, i.e., transporting produce out of the republic to be sold at high prices in fruit-starved Moscow and elsewhere. By way of indicating the seriousness of the

problem, it was reported that in 1970 only 68 percent of grapes produced were marketed, compared with 98 percent in Azerbaidzhan and 97 percent in Armenia.²⁷ Authorities were concerned about the flourishing state of private agriculture. In a speech in 1973, Shevardnadze complained that in 1970 income from private plots per family was three times that obtained from work on the collective farms.³⁸ Along with these revelations about illegalities and private property tendencies, perennial broadsides were leveled at the performance of officials in charge of the state sector. They were accused of inefficiency, neglect of duty, connivance with wrongdoers, disregard for state and consumer interests, false reporting, cheating and deception. "It is unfortunate", said Shevardnadze, "that report padding, which has been wide-spread in the past, makes it impossible to reconstruct a true picture of the state of affairs in many branches of the republic's economy."²⁹

A wholesale shakeup of Goergian officialdom accompanied the revelations of wrongdoing, the new Party First Secretary having declared, "There will be no mercy for bribetakers and extortionists."³⁰ Among those dismissed were the rector of the Tbilisi Medical Institute, the Minister of Health, the Minister of Trade and his deputy and many lesser lights. Although the performance of the Georgian economy quickly returned to normal, illegal practices and "excessive" private agricultural profiteering in agriculture persisted. Shevardnadze reported on the intractability of the problem in speeches to Party gatherings over the ensuing several years. Thus, in 1974, he revealed continued bribery and theft in health agencies, theft in the Ministry of the Food Industry and widespread exercise of favoritism in appointments to managerial jobs.³¹ The continuing mess in Georgia called forth a Resolution of the CPSU in Moscow, implicitly rebuking the Georgian Party and police for insufficient zeal in rooting out the evils.³² Meantime, the Georgian government continued to promulgate decrees forbidding sale of

privately produced or acquired products outside the republic,³³ but enforcement proved difficult. A press report in 1978 listed the names of 38 individuals who had been arrested for trying to transport fruit and vegetables outside Georgia, for the most part in large amounts and using state-owned trucks.³⁴ Evildoers persisted, but so also did their pursuers. In 1976, the Georgian Minister of Internal Affairs reported that corruption still prevailed at all levels, ranging from petty theft to large-scale extortion:³⁵ in early 1977 a Party Conference, convened to review progress of the cleanup, reported that much still remained to be done;³⁶ in mid-1978, a similar meeting lambasted the Ministry of Internal Affairs for insufficient efforts in combatting crimes of all kinds, declaring that significant improvements were not visible;³⁷ in December 1977, the Georgian Party formed Committees at all levels "for Strengthening Discipline and Coordinating the Struggle with Negative Phenomena in Trade and Services";³⁹ in mid 1979 the Party set up working groups to study and develop plans for "struggle against private property tendencies";³⁹ and the next month the Party held a conference to launch a struggle with "negative phenomena" in the services sector.⁴⁰ Along with these assaults on the problem, the press continues to provide evidence of its intractability. Thus, in 1979: new incidents of corruption and favoritism erupted in institutions of health and education;⁴¹ there were reports of persistent corruption in the allocation of housing;⁴² a press campaign attacked corruption by individual Party members;⁴³ theft and fraud prevailed in construction.⁴⁴ And in 1979, a number of officials of the Procuracy were fired for connivance with wrongdoers and failure to be vigilant in their duties to prosecute criminals.⁴⁵

Revelations of wrongdoing have also wracked the republic of Azerbaidzhan over the past decade. In July 1969, V. Yu Akhundov, First Secretary of the Azerbaidzhan Communist Party since 1959, was ousted and replaced by G. A. Aliev,

head of the KGB in the republic. The deposed Secretary and his colleagues were accused of a whole gamut of sins--corruption, bribery, selling jobs, failure to deal with widespread abuses and ordinary crime everywhere, and pervasive nepotism and cronyism in filling key positions in the republic.⁴⁶ During the following two years, Aliev purged the entire top leadership of the Party and many other officials, often replacing them with people from the KGB. As in Georgia, the new brooms failed to sweep away the malfeasances tolerated by the old brooms; in fact, many of the new people themselves soon became corrupt. In periodic speeches at Party gatherings, Aliev reported in considerable detail on the progress, or rather lack of it, in cleaning up Azerbaidzhan. In mid-1975, for example, he reported the firing of two candidate members of the Party Central Committee for "unworthy actions" he lashed out at the reshuffling of dismissed officials into other jobs, where they committed the same abuses as before; he condemned pervasive wire-pulling, favoritism and nepotism in education and research institutes, and failure of officials to cope with bribery and theft.⁴⁷ In 1976, he reported that 16 of a total of 61 Party First Secretaries had been fired for bribery and other abuses of office.⁴⁸ In January 1979, he reiterated charges of the persistence of these same kinds of illegalities and continued mistakes in selection of people for top positions.⁴⁹ The ouster of Key officials continued-- the director of the Baku Arts Institute in ~~1977~~⁵⁰ and officials of Shemakha District in 1977;⁵¹ the First Secretary and three high officials of the Party in Kazakh District for, among many other things, connivance in the notorious illegal knitwear enterprise that had operated from Kazakh.⁵² In 1979, the press reported the sacking of the First Secretary of Kirovabad district for aiding and abetting abuses of all kinds⁵³ and also the Ministers of Health, Trade and Motor Transport.⁵⁴ The bribery, corruption, cheating and tolerance of pervasive "negative phenomena" in these ministries had been

the subject of earlier press condemnation.⁵⁵ The press has also revealed details of the more egregious scandals. One of them, reported in 1976, involved 64 people in a scheme to defraud the state in the amount of 9 million rubles; the five ringleaders received death sentences.⁵⁶ Another scandal, involving the Party First Secretary in Kyurdamir District, entailed bribery and extortion involving 27 persons, who were punished and/or brought to trial; the Party Secretary received a 13 year sentence.⁵⁷ Still another expose' involved an underground knitwear factory in Kazakh, operating under cover of a state workshop for the deaf; ultimately, 56 persons were tried (in the Ukraine) and severely punished.⁵⁸ Numerous examples of lesser crimes have also been reported.

Although Armenia has escaped the publicized scandals that have rocked Georgia and Azerbaidzhan in the 1970's, much evidently is amiss there, also. In a speech to the Party Plenum in January 1975, Party Secretary Demirchian ticked off a devastating catalogue of ills:⁵⁹ Along with the usual failings in the state sector, he lashed out, specifically, at fraud and bribery in housing administration, extortion and abuse of office in transportation; theft, cheating and bribery in trade; use of service shops to produce illegal consumer goods; speculation in collective farm markets, illegal formation of small production units; and bribery in institutions of education and health. In 1976, reports of law enforcement officials to a Party Aktiv Meeting testified to the persistence of such illegalities.⁶⁰ According to a former Soviet jurist, two members of the Party Central Committee were dismissed for encouraging private enterprise, but in his view, "this was mere window-dressing for the fact that the epic scale of bribery holding sway among high-ups in Armenia had become too widely known, both locally and in Moscow."⁶¹ Reporting of such illegalities, however, is much less frequent for Armenia than for the rest of Transcaucasia. Whether this means that abuses are less

pervasive is anybody's guess.

In summary, the second economy clearly is alive and well in Transcaucasia. Judging from press reporting, its most prevalent forms seem to be bribery, corruption, abuse of office and favoritism of all kinds in filling important jobs. The need to combat private property proclivities, notably in agriculture, is a prevalent theme in the reporting on Georgia. Finally, Moscow Party authorities have displayed more public concern about the illegalities in Georgia than in the other two republics. One reason may be that the measured performance of the state economy in Georgia has been poorer than in the rest of Transcaucasia. The main reason, probably, is the overt manifestations of nationalism that have accompanied the events in Georgia over the past decade or more.

C. Other Republics

The illegalities so prominently displayed in Transcaucasia are to be found in other republics, as well. On what scale we simply do not know. Political purges associated with corruption have taken place in two republics of Central Asia. According to an emigre Soviet jurist, Konstantin Simis, the CPSU was informed by the KGB in 1964 that the entire Party and state leadership in Kirgizia had been in the pay of a network of racketeers for years.⁶² Many Party and state officials were dismissed, and the racketeers were executed. Simis also reports a series of trials in 1976-77 in Uzbekistan, in which it was revealed that the administration in the republic regularly received payoffs from farms, enterprises and stores, in return for protection from prosecution for illegal activities.⁶³ Judicial corruption also figured in the indictments, which included the heads of the Supreme Court and the Council of Ministers. The same source asserts that, "the sale of office has become an everyday phenomenon" in Central Asia, Kazakhstan and the Transcaucasus and that corruption of the law enforcement authorities" is the rule rather

than the exception" in these same republics and Moldavia.⁶⁴ Most of his specific examples of corruption and bribery in general refer to the USSR. My own survey of hundreds of items of press reporting on illegal economic activities over the past decade indicate that wrongdoing exists everywhere, in what degree is impossible to ascertain, because we have no knowledge of the biases that no doubt affect reporting by the central and regional press. The regional universality of the "negative phenomena" should not be surprising, since all republics are constituents of a politico-economic system and subject to economic policies that are tailor-made for spawning such behavior.

D. A Tentative Summing Up

In attempting to come to grips with the question with which we started-- what is the differential regional impact of "second economy" activities-- , the first task is to classify its activities. The first type adds to the total supply of goods and services available and therefore to total real incomes (consumption). A second type merely transfers existing money ~~and~~ ^{and goods} incomes _λ from ~~goods~~ to one set of groups and individuals to another set, either directly or through black market pricing. The latter type, however, could have significant affects--with regional differences--on the relative earnings among branches of the economy and occupations and also on the shape of the frequency distribution of personal money incomes. Although the variety of illegal economic activities seemingly is limited only by the human imagination, we concern ourselves here ~~only~~ with the major ones found to be most prevalent. In the argument to follow, we accept the conventional Western definitions of personal consumption and its measurement as reflected in the national accounts. Finally, the reference in this section is to illegal activities. This writer believes that legal private agricultural production is adequately reflected (at legal prices) in the measures of consumption and personal

incomes presented in Table 1 and that the rendering of personal services (legal and illegal) probably is distributed regionally more or less in proportion to population. The factors determining demand for private services--principally incomes and the supply of state services--tend to be offsetting, regionally.

1. Additions to real consumption

The principal illegal activities that add to real consumption are (1) the production of new goods and their sale to consumers and (2) theft of consumer goods from the state for personal, use or sale; the presumption here is that, had they not been stolen, such goods would have been sold legally in state stores and hence counted in consumption. In order to avoid confusion we ignore the fact that the wherewithal to carry on illegal production may have been stolen from the state, and we carry out the analysis by reference solely to the consumption (final demand) component of GNP as it is calculated for the USSR by Westerners (Bergson, Becker, the CIA), for that is the concept that underlies the estimates of per capita consumption by republic shown in Table 1. It is calculated as the value of final sales of goods and services to the population (plus imputations and consumption in kind), measured in officially sanctioned prices--Bergson's "prevailing rubles."

Probably the single most important illegally produced good is samogon (home brew). Assuming that one wished to count moonshine in consumption (it is not so counted elsewhere), the total might amount to perhaps a few billion rubles. Treml estimated output of samogon in 1972 at a little over a million liters.⁶⁶ The activity is almost entirely a rural phenomenon, with a strong regional and ethnic dimension. Since the Muslim populations are abstainers, one might expect the consumption of samogon to be distributed among the non-Muslim republics roughly in proportion to their rural populations. Thus,

the bulk of it would be consumed in the RSFSR and the Ukraine. In GNP accounting terms, consumption in these republics would be raised by the addition of incomes in kind from samogon production, valued at retail prices with appropriate discounts for quality and distribution markups.

Because of similarities in accounting, we shall treat together illegal production of other consumer goods and theft from the state of consumer goods for personal consumption or resale. In order for consumption in a particular republic to be raised in a given year by these illegal activities, they must be appropriated by the residents of that republic for personal use (theft) or the illegally produced or stolen goods either must be sold within the republic, or if sold outside, the recipients of the income therefrom must have used it to purchase stolen or other illegally produced goods in the republic. Because GNP is accounted for in state-sanctioned prices, the goods in question must also be valued in those prices. When regional boundaries are traversed in illegal transactions, tracing the flows becomes unmanageable, even if the volume of transactions were known. Nobody knows the size of illegal production and theft in a given year, and there is no way even to estimate it. However, the volume would have to be very large, in order to raise per capita consumption significantly in an entire republic. The differential regional incidence also would have to be great, in order for such uncounted, second economy-generated consumption to appreciably alter the relative position of a particular republic.

A numerical example will illustrate this point. Let us suppose that in the USSR as a whole illegal production and theft resulting in additional consumption amounted to 5 percent of retail trade in 1978, or 12 billion rubles. Since we know from our survey of anecdotes that malfeasance is widely but unevenly distributed geographically, let us assume, further, that the illegalities amount to 10 percent of retail trade in Transcaucasia,

7 percent in Central Asia, 5 percent in the RSFSR and the Ukraine and 3 percent elsewhere. The result would be to leave unchanged the general hierarchy of republics ranked by per capita consumption. Georgia's level would rise from 82 to 84 percent of the RSFSR level, and Uzbekistan's level would rise from 71.0 percent to 71.3 percent. Next, let us assume that the additional illegal consumption amounts to 20 percent of retail trade in Georgia (752 million rubles) and that it amounts to 4 percent of retail trade in the RSFSR and Ukraine, 10 percent in Central Asia and 3 percent elsewhere. Again, the general hierarchy would not be altered appreciably. Per capita consumption in Georgia would now be 90 percent of that of the RSFSR, and that in Uzbekistan would become 73 percent of the RSFSR level. Similar permutations and combinations of evildoings by region could be presented ad infinitum. Indeed, the writer has performed quite a few such calculations. On the basis of values for the total and its regional distribution that seem plausible, supplemented by a survey of hundreds of items of press and other reporting, this observer believes that the second economy does not, beyond activities already counted in GNP, add substantially to real consumption. Even if, in fact, the addition is substantial, it can be argued that the extra goods merely offset the probable overstatement of consumption on account of report padding and other aberrations in official data on retail sales of goods and services. The writer also believes that relative levels of per capita consumption among republics would not be greatly altered by inclusion of illegal production and theft ~~by inclusion of illegal production and theft~~. Under any set of plausible magnitudes for additional uncounted goods, the Baltics likely would still rank at the top, followed by the RSFSR, the Western Republics; Georgia, Armenia and Kazakhstan, with Central Asia and Azerbaidzhan bringing up the rear. Nor would the phenomena appreciably change our perception of levels of living (real per capita consumption)

in the USSR and its republics relative to other countries, for, to be fair illegally produced and stolen goods and services would have to be added to GNP in all countries. Who knows, the results might astound us!

Some observers believe that the revelations of "second economy" activities in Georgia and Azerbaidzhan indicate that people in these republics are quite well off. According to one journalist living standards in Georgia are the highest in Russia.⁶⁷ The speeches of Shevardnadze and Aliev do not suggest to me that they think they are presiding over affluent societies; rather, one gets the impression that they believe they are presiding over rather poor societies, where elite groups are profiteering egregiously at the expense of the ordinary citizen. Thus, Shevardnadze stated on 1973, "Frankly, a trend toward the appearance of economically privileged elements and groups became evident in the republic. Large sums of money obtained through dishonest and criminal means were illegally concentrated in their hands."⁶⁸ Zemtsov attributes much of the crime and theft at low levels in Azerbaidzhan to widespread poverty; he states that the Information Sector of the Republic Party Central Committee (which he headed) had estimated that in 1971 some 75 percent of the population lived below the poverty level and that only 7 percent had sufficient income.⁶⁹

2. Nominal incomes

The differential regional impact of such activities as bribery, extortion, job-selling, price-gouging and cheating of customers is more complicated to deal with. All such activities increase both nominal incomes and prices. Illegal production, theft and sale of goods also adds to nominal incomes. The combined impact of this spate of illegalities could raise average incomes and the price level substantially in the USSR. By their nature, they could also appreciably alter relative wages and prices and the shape of the personal

income distribution. These affects could differ significantly by region. Reliable measurement of these differential impacts is beyond the grasp of research; there are no suitable data.

Our concern is with the regional aspects of corruption and the like. This brief excursion into the subject leads me to believe that important regional differences do exist and that they are of profound import, for their political and societal implications, even more than for their economic affects. The case study approach is the only one that can enlighten us much, in my view. Georgia and Azerbaïdzhan are prime candidates. While awaiting volunteers to do these definitive works, I offer some cursory observations. First of all, illegal economic activities to some extent reflect the comparative advantage of a particular region. Georgia, with its semi-tropical climate, goes in for selling fruit and flowers; Russians and Ukrainians seem to engage in illegal hunting and fishing more than others. Grain ~~the~~ ^{they} flourish where grain is grown, and so on. But though nature provides the possibilities, the economic environment of pervasive shortages and controls, along with human greed, provide the motivation. The sale of Georgian-grown mandarin oranges in Moscow at black market prices typifies the consequences.

To the extent that one can judge from anecdotal evidence, the conventional forms of bribery and corruption seem to be more prevalent in Transcaucasia, and possibly also in Central Asia, than elsewhere in the USSR; how much more is anyone's guess. Reference here is to corruption associated with office (or position), and therefore with the power to exercise favoritism in the allocation of scarce goods and services. There are several reasons why one might expect a greater incidence of such behavior in the Southern republics. For one thing, they are less developed. In market economies, corruption seems to flourish to a greater extent in Third

World countries than in those more highly developed. By all accounts, too, the quality of goods and services produced legally in the Southern republics is poorer than elsewhere, and the distribution network is also relatively inferior. In all likelihood, a less than proportionate share of the better goods produced elsewhere ends up in the South, thus aggravating scarcities and fostering illegalities. Finally, the dominant ethnic populations in these republics are cohesive and strongly nationalistic. Networks of corruption along ethnic lines could be a means of ensuring that "we get our share." The phenomena, perhaps, may be viewed as a subtle form of protest, a separation of "us" from "them."

Obviously, the various forms of corruption have a differential impact on average incomes among branches of the economy, because of the uneven distribution of opportunities to exercise such activities. Pervasive bribery no doubt raises the average wages in public administration (apparat), but the net impact would be tempered by the fact that most such jobs do not provide opportunities for abuse of office. If bribery is rampant in the higher echelons of medical and educational institutes in Georgia and Azerbaidzhan, then average earnings in health and education are raised there relative to wages in other sectors. They are also raised relative to those in other republics, assuming, of course, that bribery is less pervasive elsewhere. Clearly, the illegal economy entails the shuffling around of substantial amounts of money among population groups within regions and also to a lesser extent, surely, between regions. As a result, household cash balances may differ significantly among republics, thus distorting the perceptions of regional savings rates based on data on savings bank deposits. There are no data on cash holdings, nor is there any way to measure the income and expenditure affects of illegal and immoral activity. Its very nature precludes doing so, in respect both to the USSR and to individual republics.

Source References

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2. See Martin C. Spechler, "Regional Developments in the USSR, 1958-1978," in Soviet Economy in a Time of Change, Joint Economic Committee, Washington, 1979, pp. 151,155.
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6. Narkhoz USSR, 1975, pp. 321, 350, 392-393.
7. These and other data are cited in the text ^{are} taken from the handbooks of the respective republics for 1974 (Turkmenia), 1975 or 1976.
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9. Narkhoz USSR, 1975, p. 326.
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14. M. I. Sidorova, Obshchestvennie fondy potrebleniia i dokhody kolhoznikov, Moscow, 1969, pp. 148-149.

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16. The same hierarchy is shown by data on private plot incomes expressed per capita. See Voprosy ekonomiki, No. 5, 1972, p. 71.
17. McAuley, op. cit., p. 108, 330. McAuley assumes that yields per hectare on private plots of state employees are the same as for collective farmers. He recognizes, however, that the resulting estimates are unreliable and have unknown regional biases.
18. The data on the private sector's share of new housing units given in Table 4 include those financed by collective farms. A variety of related information indicates that the latter's share is very small.
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20. See 5 above.
21. Gur Ofer, Private Economic Activity in the Urban Sector of the USSR, RAND (unpublished manuscript), August 1978, p. 17.
22. These data are cited in Martin C. Spechler, loc. cit., p. 152.
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27. Izvestia, March 23, 1973.
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54. Pravda, July 19, 1979.
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Table 1
Regional Differences in Incomes and Indicators of Levels of Living
in the USSR in 1978 (RSFSR=100)

	Average Annual Wages	Personal Incomes Per Capita ²	Per Capita Consumption ³	Retail Sales Per Capita ⁴	Savings per Capita ⁵
RSFSR	100.0	100.0	100.0	100.0	100.0
Western Republics	85.9	86.4	86.4	83.9	98.5
Ukraine	86.9	86.5	85.7	83.4	101.9
Belorussia	83.9	88.3	89.6	89.7	98.0
Moldavia	76.8	81.1	88.5	76.3	57.3
Kazakhstan	95.2	79.7	82.2	78.2	50.6
Transcaucasia	83.1	71.6	71.9	65.0	77.5
Georgia	79.8	84.4	82.0	73.9	103.1
Azerbaijan	82.1	57.4	60.9	53.1	42.3
Armenia	91.1	78.2	76.5	73.5	103.9
Central Asia	90.6	63.1	68.9	57.8	37.2
Uzbekistan	88.1	64.5	71.0	56.3	35.8
Kirgizia	85.7	62.8	67.5	64.9	44.4
Tadjikistan	83.9	54.0	58.4	52.9	32.7
Turkmenia	101.8	67.7	73.4	63.5	41.8
Baltics	97.0	105.5	107.9	118.7	130.9
Estonia	106.0	114.5	118.6	132.1	125.3
Latvia	95.8	102.5	106.7	129.9	106.9
Lithuania	94.0	103.8	104.5	104.4	151.3

¹ Average wages of state employees. Based on data given in republic statistical handbooks and plan fulfillment reports.

² Money incomes from all legal sources plus income in kind from private agricultural activities. The underlying data and methodology for these relatives are given in Gertrude E. Schroeder, "Regional Living Standards", to be published in 1980.

³ Measures per capita private consumption of goods and services plus government current expenditures on health and education. See Ibid.

⁴ Narodnoe Khoziaistvo SSSR v 1978 godu, p. 435.

⁵ Savings deposits plus investment in private housing. Ibid., pp. 330, 415.

62. Ibid., p. 47.
63. Ibid., p. 48-49.
64. Ibid., p. 42, 45.
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Table 2
 Percentage Shares of the Private Sector in Total Sewn Acreage
 and Livestock Herds and Agricultural Employment by Republic, 1975

	Sewn Acreage	Cattle	Hogs	Sheep and Goats	Poultry	Agricultural Employment
USSR	3.0	21.1	21.1	20.0		29.2
RSFSR	2.3	17.2	17.8	23.7	43.0	26.3
Western Republics						
Ukraine	6.2	18.1	22.7	6.5 ₃	46.0	32.8
Belorussia	8.1	20.8	37.6	26.5 ₃	61.8	25.6
Moldavia	6.0	17.1	9.0	50.5 ³		34.1
Kazakhstan	1.1 ¹	22.8	23.4	9.3		31.2
Transcaucasia						
Georgia	12.2	55.9	61.8	34.5	43.9	36.4
Azerbaijan	2.5	52.1	40.5	40.5	22.0	39.9
Armenia	9.4	30.0	23.3	39.2	31.6	36.6
Central Asia						
Uzbekistan	2.8	53.2	37.7	25.0	40.7	16.2
Kirgizia	4.3	29.3	21.4	8.0		25.2
Tadjikistan	9.4	20.8	3.7	15.0		51.0
Turkmenia ²	1.8	50.6	.8	23.7		20.0
Baltics						
Estonia	4.7	16.8	6.5	95.7	27.8	30.8
Latvia	6.2	24.4	15.1	76.4	27.5	38.4
Lithuania	9.1	30.9	26.7	77.2	52.1	35.0

¹Total agricultural land.

²All data for 1974, except agricultural employment.

³Sheep.

⁴Average annual equivalents.

Source: Statistical handbooks of the USSR and republics for 1975 or 1976 (1974 in the case of Turkmenia). Agricultural employment shares calculated from data in USSR, 1970 Census, Vol. V, pp. 162-191 and Stephen Rapawy, "Regional Employment Trends in the USSR," in JEC, Soviet Economy in a Time of Change, Washington, 1979, pp. 604 and 608. Percentages may be unreliable.

Table 3
Percentage Shares of the Private Sector in the Physical Production of
Selected Agricultural Products by Republic, 1975

	Potatoes	Vegetables	Meat	Milk	Eggs	Wool	Fruit and Berries
USSR	59.0	34.0	31.0	31.0	39.0	20.0	43.5
RSFSR	59.0	36.0	29.2	27.9	34.7	19.8	39.7
Western Republics							
Ukraine	65.9	26.7	34.7	28.1	46.8	4.2	41.6
Belorussia	51.6	52.4	30.8	36.2	57.3	16.2	84.4
Moldavia		11.2	22.2	17.2	38.8	56.3	26.6
Kazakhstan			29.1	44.0	42.5	14.1	37.3
Transcaucasia							
Georgia	44.0	51.0	63.8	53.3	42.6	45.5	63.5
Azerbaijan	57.3	25.4	65.6	57.0	64.2	43.9	19.1
Armenia	48.3	79.1	40.6	30.9	42.2	30.7	29.2
Central Asia							
Uzbekistan	48.0	40.0	48.0	63.0	52.0	46.0	51.9
Kirgizia			26.8	32.4	47.3	9.5	56.0
Tadjikistan	46.0	46.4	41.3	49.7	21.6	33.5	51.8
Turkmenia ¹			44.8	54.2	37.8	30.2	44.6
Baltics							
Estonia	30.2	43.9	21.1	24.4	28.9	93.9	88.3
Latvia	57.0	35.0	27.7	34.3	27.8		84.4
Lithuania	71.0	71.1	30.8	39.7	48.9	66.7	89.2

¹Data are for 1974, except for Fruits and Berries, which is for 1975.

Sources: Statistical handbooks of the USSR and republics for 1975 or 1976 (1974 in the case of Turkmenia).

Table 4
Indicators of Private Activity in Housing Construction,
by Republic, 1978

	Share of Private Housing in Total New Housing Built ¹	Share of Private Housing in Total Urban Housing ²	Private Share Of Total Invest ³ ment in Housing
USSR	21.4	24.0	9.7
RSFSR	12.6	17.9	4.0
Western Republics			
Ukraine	34.3	36.6	22.0
Belorussia	23.7	25.5	10.9
Moldavia	51.4	33.5	29.1
Kazakhstan	11.9	27.2	5.3
Transcaucasia			
Georgia	33.3	40.5	22.9
Azerbaijan	36.8	28.3	27.6
Armenia	22.1	27.1	14.3
Central Asia			
Uzbekistan	44.0	35.0	26.1
Kirgizia	51.6	37.8	32.9
Tadjikistan	52.8	28.6	32.7
Turkmenia	53.1	27.5	31.4
Baltics			
Estonia	21.1	21.1	5.9
Latvia	23.0	19.3	7.3
Lithuania	38.3	23.4	20.3

¹Percentage shares of total measured in m² of useful space. Includes housing built by collective farms.

²Percentage shares of total urban stock measured in m² of useful space.

³Percentage shares of total investment in housing measured in rubles in constant prices.

Source: Narkhoz, USSR, 1978, pp. ~~361, 414, 417.~~ 350, 376, 398-99.

