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Economics of Virtuous Haste: A View of Soviet Industrialization and Institutions

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12.1

It has been said by an economist that the "crucial dividing line between economic systems seems to lie [not so much between capitalism and socialism, or between plan and market, as] between the systems devoted to single, preconceived, and fixed purposes (maximum growth, 'classlessness,' or the winning of wars), and those giving priority to the diversified, spontaneous, and ever-changing aspirations of individuals."[1] The Soviet Union falls more into the first category than the second. Maximum industrial growth and the rapid amassing of military might (the two have been almost identical for most of Soviet history), while establishing and maintaining a social order committed to a set of distinct ethical values—such has been the overriding national objective of the Soviet Union for the last half century.

The race against time implicit in the military-economic strategy has inevitably imposed its own logic, a kind of logic of haste set against the background of the official vision of the new society. This new society would be morally superior to the old, capitalist, greed-ridden society of unequal wealth, opportunity, and power. It would be—here and now, even before the advent of the classless condition of full communism—a socialist, conflictless, virtuous society. Haste in industrialization, but haste with virtue in sharp contrast to the capitalist variety, is the distinctive Soviet modernization formula, if the official ideology is to be believed.

For a country with an overriding national objective, economic time is not the same as chronological time. As the late Alexander Gerschenkron stressed, the race is not so much against the clock as against someone.[2] *Dognat' i peregnat' Ameriku* ("to catch up with and surpass America") in the industrial realm was the proud goal of the Soviet regime from at least the early years of the Stalin era to nearly the end of Khrushchev's, the first two-thirds of the fifty years here under review.[3] True, since Khrushchev's fall, resource wealth allowed

this goal has not been often proclaimed, but it is not necessarily forgotten. On the other hand, to surpass America in military power seems to continue to be a prime, if prudently veiled, objective of the Kremlin to this day. Yet the race is not only against the historical rival on the outside. It is no less against the hardening of the internal institutional arrangements and the resistant fiber of man's psychology.

The race began in earnest in 1929, the first full year of the first Five-Year Plan (Stalin's plan of course), the year that also saw the fundamental restructuring of Soviet economic institutions for the sake of speedy industrialization and for the "construction of socialism," including the most violent restructuring of all, the collectivization of peasant agriculture. The general outlines of the Soviet economic growth record of the past fifty years are well known. While among its most notable achievements has been the amassing of military might, civilian industrial output and technological capabilities have also increased enormously, an accomplishment that is not greatly diminished by the failure (as yet) to surpass or even to approach the United States in per capita production and consumption. One should also take note of the impressive growth of education and science.

This study is concerned primarily with the interaction between performance, ideology, and the institutional system. Relevant to this standpoint is the persistence of certain seemingly intractable problems that tend to raise questions of the adequacy of the system itself and some of its major institutions at the given historical juncture. Such questions have been openly raised and discussed in the Soviet Union (and in the other countries of Eastern Europe) ever since 1956, when the 20th Party Congress lifted the bars to meaningful discussion of the economy's problems and the possibilities of improving the system. A rather limited, within-system reform of some of the economy's key institutions was attempted by the present (post-Khrushchev) leadership in 1965; it came to naught in practice. Since then the gradually but steadily tightening internal intellectual and political climate, reinforced by external events, such as those in Poland from mid-1980 on, has almost silenced open discussion of yet another try at economic reform, especially since it would have to be much more far-reaching than the 1965 measure to bear any promise of success. But substantial institutional and even systemic reform remains, so to speak, a shadow agenda, the agenda in the minds of economists, managers, and others, which, at this writing, awaits a more auspicious time to emerge into the open.

The logic of haste and the principles of a virtuous social order do not always fit well together, especially as the historical race is hard and the tenets of morality are overly demanding of the individual's powers of resistance to material temptation. Richard Lowenthal's brilliant analysis of this basic clash of principles—"development versus utopia," in his phrase—and of the consequent historical evolution of Soviet society is by now a classic.[5] It is not our purpose to replicate his argument—and certainly not to try to improve on it. Instead we shall attempt to develop a few individual themes that in one way or another illustrate the social tensions and institutional mutations that flow from the inner logic of the economics of "virtuous haste," Soviet-style.

12.2

Paradoxically, the rigidities in the Soviet institutional structure may to some extent derive from the blessings of Mother Nature, that is, the U.S.S.R.'s very rich natural endowment. Excepting some tropical commodities, of which very few had significance for the industrialization drive, and apart from certain serious weaknesses in the natural endowment of agriculture, the Soviet Union is blessed with an exceptionally rich domestic supply of the resources needed to launch and sustain its industrial plans. Thus the rapid growth of industrial output after 1929 rested almost entirely on indigenous natural resources, and in addition these absorbed many of the mistakes of the strategy and management of industrialization. For good systemic reasons Soviet use of its natural resources has been prodigal and continues to be so to this day.

The bulk of the hard currency earned during the past fifty years was generated by raw and semifinished material exports, including gold. The hard currency in turn paid for the purchases of western capital goods and technology, which have played a crucial role in Soviet industrialization (and, one might add, in the military program). In the past decade a substantial portion of the hard currency has had to be diverted to pay for *imports* of raw and semifinished materials, such as rolled steel and materials for the production of aluminum, not to mention very large amounts of grain during years of crop failure, but this is a more recent development.

Yet bountiful natural endowment has not saved the U.S.S.R. from serious balance-of-payments problems (in hard currency). On the contrary, the U.S.S.R. has had them continuously since the day of the Bolshevik revolution in 1917, owing to chronic excess aggregate demand and a generally overvalued exchange rate for the ruble. Foreign exchange has been tightly rationed in a centralized manner. In fact for most of the period the Soviet Union has been dependent on hard-currency imports for its *growth* and not for its day-to-day operating needs. It has hardly ever had to face the relentless discipline of the balance of payments. Moreover, again thanks to the rich natural resource base, such selling as the Soviet Union has been doing in world markets consisted of staple raw and semiprocessed materials, which unlike manufactured goods require little marketing, follow-up service, product innovation, or attention to fashion—in short, little adjustment to changing consumer demand by the Soviet exporter and virtually none by the Soviet domestic producer. They fit in well with the Soviet economic system.

Had it been otherwise—had the U.S.S.R. been from an early date a Hungary, Czechoslovakia, or East Germany, or even Poland, importing most of its raw materials for current operating needs and forced to earn its way through competition in world markets for capital and consumer goods against advanced western countries and (God forbid) Japan—the ineffectiveness of its inflexible, bureaucratic, command economy for such competition would have become evident very soon indeed (as it quickly became evident to the just-named East European countries after the imposition of the Soviet model). In such a case the Soviet economy, lacking another major country to support it economically, would have had to have its economic reform at an early point or go under. With less abundant natural resources it might have had a slower rate of industrial growth initially. But in the long run it might have been better off, not because resource-poverty is an advantage in development but because in the Soviet case resource abundance has been an obstacle to systemic adaptation in good time. Now it may be too late, the institutions may be too rigid and the vested interests too powerful, to reform the system in an orderly, noncataclysmic way.

As already suggested, hard-currency imports have begun to tilt significantly in the direction of current operating and consumer needs and will probably tilt further. At the same time the prospects for continued large exports of raw materials are not sanguine. Petroleum exports, which now account for over half the value of hard-currency merchandise sales (excepting gold), will most likely shrink in quantity (though possibly less in value) in the coming years, owing to domestic production difficulties, though natural gas may partly take their place. Lumber exports, the next largest category, are uncertain, too, for similar reasons. Soviet trade publications speak more and more of a major expansion of machinery exports to take over from raw materials, but this would place quite different demands on exporters, producers, and the whole bureaucratic and planning apparatus. It would require a basic reorganization, a transformation of an administered management of scarcity and physical output targets into a market-oriented, demand-sensitive (albeit socialist) production *and* sales mechanism.

Compromise solutions are not easily reached in this regard. A *partial* liberalization of the hierarchical structure of the domestic (so-called command) economy is not likely to work well, as several East European countries concerned with their balances of payments have learned in the past fifteen years. Planners' directives clash with market signals. The domestic cost-based price structure, on which much of the internal Party and bureaucratic power and privilege ultimately rests, conflicts with world market prices that must define behavior in foreign trade. Nor can the export sector alone be removed from the rest of the economy and turned toward the world economy (unless the bulk of the exports indeed are the traditional Soviet primary commodities). Should something like this be done, the rest of the economy would be a drag on the export sector, preventing speed and flexibility of adaptation to external demand and holding down the quality and modernity of the exportable goods. An economy cannot march at once to the drum beat of the planners' detailed, physical directives and to the siren song of the world market.

In sum, the Soviet economic system became what it is in part thanks to the country's rich resource base, which permitted the planners largely to ignore the day-to-day discipline of the balance of payments and therefore also the imperatives of the market place and the pains of real economic cost. On this basis an elaborate and rigid institutional edifice sprang up. This economic system thrived for two human generations and achieved marked successes by its own criteria. But inevitably it hardened and came to be supported and protected by powerful vested interests. Will it be able to reform itself now, in the face of growing need to respond to the forces of demand, internal as well as external, and to be more sensitive to economic cost?

12.3

The hardening of the economy's institutions and their incrustation with vested interests can be explained in a variety of ways. The sociologists and the political scientists will surely have their own theories. So will the economists who, among other things, will look for peculiarities in the price structure.[6] Soviet prices, wholesale and retail, and wages have been rigidly controlled for over fifty years. It takes little economic sophistication to deduce that the consequences of this policy must have been major, in the economic, social, and perhaps even political spheres.

The partial price control of the later twenties was occasioned by relatively mild inflationary pressure plus social policy favoring the urban working class over the peasantry. Farm prices were deliberately depressed to enhance the purchasing power of urban wages, a policy that significantly contributed to the so-called marketing crisis, the diminution of off-farm sales of foodstuffs, which in turn acted as a stimulus to if not the prime cause of the fateful decision to collectivize agriculture at the end of 1929. So, looking at prices is not just the economist's parochial quirk.

Comprehensive price controls came early in the Five-Year Plan and almost simultaneously with the collectivization drive. The sharp drop in agricultural output (while grain exports were being deliberately pushed to help finance the plan) was certainly a major contributing factor. But no less important was the enormous rise in purchasing power and in demand for consumer goods, producer goods, and labor, as the plan took off—in other words, extremely strong demand pull occasioned by the haste to industrialize, a haste that in those days knew almost no bounds of common prudence, not to say economic reason. The first Five-Year Plan foresaw some government influence on prices but did not provide for anything like comprehensive price control. In other words, the historical and institutional specifics apart, the Soviet Union got into comprehensive price and wage control not so much for reasons of ideology or long-term strategy but in the same way as all countries get into it, by way of emergency response to a sudden inflationary spurt. Of course the ruling ideology was, to put it mildly, conducive to central controls and caused few tears to be shed upon the demise of the market.

The theoretical justifications came a whole decade later, when it became convenient for the dictator and necessary for the political economists to somehow link what was being done with prices to what Marx had said half a century earlier and in a completely different—even opposite—context. But leaving aside the ideological and theoretical aspects of Soviet price control, what *is* important is that in all three sectors—producer goods, consumer goods at retail, and labor—prices have remained controlled, as noted, for the next fifty years. There is no sign of change in this respect.

Yet one must not jump to the conclusion that the controlled prices in all three sectors mentioned are deliberately set with little reference to demand, at levels generally significantly below presumed equilibrium levels. This is in principle true only of producer goods prices, and consequently almost all producer goods of any significance are—as they must be under the circumstances—centrally allocated (rationed) and have been since the early thirties. Here we find one of the origins of the Soviet system of physical planning. Since the allocation of producer goods had to be in physical terms and inevitably grew increasingly detailed, production planning had to conform, rest on physical targets, and become progressively more detailed too. The usual consequences followed: disregard of cost of production, neglect of quality in favor of sheer physical quantity, resistance to innovation, and so forth. Incidentally, there is nothing distinctively Soviet about this list; such are the effects of price control universally, whether under socialism or under capitalism. Equally expected are of course the large bureaucratic establishments that grow and thrive on this soil, leading to the formation of strong vested interests at the levels of the firm itself, the superordinate trust or ministry, and the host of administering and planning agencies. If there are distinctively Soviet touches to this familiar picture they are (1) the fact of almost universal state ownership, the unusually distant separation of ownership and effective control, that does little to minimize the costs and wastes of this system, (2) the presence of the party as a parallel, and indeed paramount, structure of both management and monitoring, and (3) the uncommonly long perdurance of the whole arrangement, causing the institutions in questions and the vested interests resting upon them to be thoroughly entrenched.

Lastly, we should take note of the macroeconomic side of the price-control picture, namely, the maintenance of continuous excess aggregate demand in the production sector. Practically speaking, there is no lid on aggregate demand in the production sector—whatever goods can be obtained one way of another, can be paid for—thanks to an accommodating banking system and virtual disregard of costs of current production by the planners: a perfect engine of inflation, although in this case of the repressed variety. Now the repressed inflation is not entirely unfunctional. First, it makes possible one of the most important Soviet institutions, the virtually complete job security of the individual in a full-employment setting. Only a production system as oblivious of cost and as tolerant of constant excess demand as the Soviet can afford to guarantee nearly every individual's job security. In turn the political imperatives of universal job security help ensure that the repressed inflation in the production sector will continue indefinitely.

12.4

With regard to consumer goods' prices at retail and the remuneration of labor, the situation is somewhat different than with producer goods' prices. While here, too, with certain officially sanctioned exceptions, the state fixes all prices and wages, it generally eschews administrative allocation of scarcity, that is to say, the formal rationing of consumer goods (housing being the major exception) and, to a lesser extent, the administrative allocation of labor. (We may note here in passing the important contrast in this respect between the U.S.S.R. and Maoist China or Fidelist Cuba). In principle the authorities allow freedom of consumer choice and of choice of job, in the technical sense of these concepts. Consequently, the planners must take account of supply-demand relations in individual markets for both consumer goods and labor, must aim for at least a rough macro equilibrium in the household account as a whole, and must seek to set individual retail prices and wages so as to approximate demand-supply balance in specific markets. If they neglect these principles, they run the risk that the distribution of consumer goods and the deployment of labor will be less than orderly. (It must be remembered that "orderliness" is one of the highest virtues in the official value system, perhaps in part because it is more often honored in the breach than in the fact.)

So much for theory. In reality things do not work out quite so neatly. Even with the best of intentions the planners cannot very accurately foresee the demand and supply of every separate consumer good in every locality and at all points in time. In addition the official economic mechanism is inept at distributing goods over time and space. Nor have the planners been able to keep the household sector's total purchasing power under close control, not to speak of its regional and temporal distribution. Both the planners' errors and their priorities tend to combine to bias the outcome on the side of excessive expansion of purchasing power in the hands of the public. In reality therefore the official fixed individual retail prices tend to deviate from their actual equilibrium levels and, more often than not, tend to be too low. Hence shortages of goods abound, though gluts are now also not uncommon so that, at the very least, relative prices tend to be wrong. Considering the official price-fixed sector alone, there seems to be chronic macro disequilibrium in the sense of a persistent repressed inflation; in plain English, persistent shortages of consumer goods in official channels.

This situation has spawned the usual responses, such as black markets, "black production," moonlighting, and bribes of all kinds. These parallel phenomena are widespread and in toto form a large underground economy, which together with the legal private sector constitutes the so-called second economy. The second economy is of course primarily a private-enterprise market economy. Black market prices and bribes (understood in a broad sense) are significant forms of expenditure for nearly everyone, and important sources of income for quite a few. But no less important for the individual is the web of his own personal contacts, the ubiquitous Soviet *blat*, through which favors in terms of access to goods or other benefits can be exchanged, whether for a kilo of meat or for admission to the university. One can perhaps speak of a "*blat* market," which parallels and intertwines with the second economy, the two together paralleling and intertwining with the first economy. The *blat* market is a major one in the Soviet context and even more difficult to estimate in quantitative terms than the second economy. Like any market it requires that the individual trader in *blat* possess some economic resources to trade, unless one can rely on mere family relationships, the Soviet equivalent of the old school tie, or (as the Russians say) one's beautiful eyes.

To acquire and control such resources is then a major objective for the Soviet person, who, as often as not, acquires and exploits them at the expense of the state. A desirable job with the state or a quasi-state organization is one where one can do favors for what we might harshly call bribes. Jobs that cannot be put to personal advantage in this way are poor jobs, and the state may have to pay relatively higher salaries or wages to fill them, other things being equal. Yet let us not forget another important characteristic of good jobs; they afford good possibility to steal from the employer. Possession of resources of this kind is an important, sometimes crucial, form of material advantage to the individual. If most such instances of possession do not have the protection of law, they at least benefit from the strong sanction of custom and the realities of a tight labor market. If not covered by property rights, they at least constitute what might be called crypto-property rights, and these crypto-property rights themselves may be subject to purchase and sale in the black or *blat* market. Indeed one can purchase the crypto-property right to sell crypto-property rights to others, as in the case of a truck dispatcher who buys his job in order to sell illicitly lucrative routes to truck drivers.

There is yet another way, an officially sanctioned one, to overcome the shortage of goods in the normal, official channels of distribution. The state conducts its own parallel economy for the privileged, the so-called closed distributors, a network of retail outlets of limited and strictly controlled access. The closed distributors are themselves differentiated by degree of privilege and the availability (and price) of goods. The best ones are naturally those that serve the top layers of the ruling elite, and judging by the rumors that leak out, they are very good indeed by Soviet and sometimes even capitalist standards. The effect of the closed distributors on national accounts and income distribution is also very difficult to quantify.

As a last resort to try to overcome the goods shortage, there is one's own time to stand in line, if one can spare it, and those who can spare time may have something valuable to sell too.

To recapitulate, in a Soviet-style disequilibrium economy, the poor are not as easily identifiable as they are in a market economy with little price control. The poor in the Soviet case are those who have little cash from legitimate sources, *and* little cash from the second economy or graft, hence little chance to patronize the open and black markets, *and* few resources to trade in the *blat* market, *and* little possibility to steal from the state, *and* no access to privileged forms of goods distribution. The Soviet poor are therefore different from the American poor. Our poor generally lack the purchasing power to afford a minimal basket of goods, period. The Soviet poor often *have* the purchasing power to buy their minimal basket of goods at the *official* prices. Moreover they know that the goods they can afford are there, somewhere, at the prices they can afford. They lack access to goods, as they lack the cash status or other resources to make use of the parallel markets. There may be a difference here in psychological terms, especially in a society formally committed to classlessness and social equality.

The Soviet poor would be very difficult to identify statistically even if the U.S.S.R. published minimally adequate statistics on income distribution, which it does not. The same can be said about those at the opposite tail of the distribution curve. Valiant and imaginative attempts have been made by several able western scholars to arrive at measures of income inequality on the basis of pitifully few Soviet figures. But these figures refer to legal money incomes and nothing else. Hence they may tell us little of the true distribution of the ability to obtain goods and services.

We should also note in passing that in principle there is nothing distinctively Soviet about either the second economy, *blat*, or the other phenomena just described. They are universal. That price control breeds black markets, and corruption is commonplace. There are underground economies harboring tax evaders and drug dealers in all countries, even without the benefit of repressed inflation. The old school tie can be red-white-and-blue, and so on and on. If the Soviet case is different, it is so in two respects. First, by dint of the comprehensive price and wage controls over several human generations, the parallel phenomena must be deeply ingrained in people's minds and affect their perceptions and reactions. The fact of persistent widespread shortages cannot but shape one's perception of one's immediate world. It must shape personal relations: on one hand, everyone for himself, not in earning money as it is with most of us but in the day-to-day struggle for goods (something like a continuous Filene's basement sale); but, on the other hand, one needs many friends and acquaintances for the sake of *blat*. For sheer economic reasons the line between one's friends and the rest would tend to be sharper than in a nondisequilibrium economy. These and other consequences of the economic arrangements, one should think, would color people's assessment of the society they live in, influence their degree of acceptance of deviant economic behavior, and probably affect their notions of the legitimacy of the political regime.

Again the economist has his own explanations to offer. He might point to the disequilibrium economy and the repressed inflation and, beyond that, to the history of Soviet industrialization under extreme pressure and in great haste. It would surely be excessive to argue that the Soviet preference for administrative handling of shortages as against their resolution by a market mechanism—say, for repressed as against open inflation (which in the event has been occurring, nonetheless)—is entirely motivated by the Soviet vision of the good society. Other considerations—power preservationist, pragmatic, self-serving—have played their roles as well. The fact remains that the micro disequilibriums attendant upon the administrative handling of shortages, in conjunction with the ease with which state property is misappropriated, gave an enormous boost to informal and illegal private gain, with numerous unintended effects on the building of the new man and the new society.

The émigré author of a recently published powerful novel about the Soviet economic underground puts it well in the words of one of the story's protagonists:

> Capital! It used to exist in this country (Russia). It has survived. Human nature, forced into marriage with the socialist economy, gave birth to giant enterprises and puny personal income. But from its covert cohabitation with private enterprise there were born tiny enterprises and huge incomes.[7]

Second, in the U.S.S.R., the basis of much of this illicit wealth is private appropriation of state-owned materials, equipment, and time.

12.5

Under Marxism more orthodox than Lenin's and Stalin's there would be no industrialization spurt following a proletarian revolution, in Russia or anywhere. The construction of a socialist society would not proceed simultaneously with the building up of a modern industrial plant. Whatever further accumulation and industrialization might occur after the revolution would hardly qualify as a spurt or a drive. It was of course Lenin's contribution to Marxism to envision the opposite historical sequence, a proletarian revolution under conditions of relative backwardness *preceding* the industrial maturation of the country, and it was Stalin's contribution to Leninism to turn the industrialization spurt under conditions of backwardness into a super-spurt, with correspondingly extreme policies, institutions, and effects.

Nonetheless, a Stalinist industrialization drive after the revolution, a prodigious effort at capital accumulation even while constructing a socialist society, could hardly preserve all the characteristics of its capitalist cousins.

It could scarcely rely on the institutions of private property and private enterprise; it had to be based on state ownership of means of production (or at least quasi-state ownership as in the case of the collective farms). State property was to be sacred, inviolable, untouchable by greedy hands. To be sure, society would employ material incentives to elicit compliance from the as yet not fully socially conscious and committed masses: but did not Marx himself stress in *Critique of the Gotha Program* that under socialism distribution to producers would be "to each according to his labor," according to his contribution to society's total product, and not, as ultimately under communism, "according to need" regardless of one's labor contribution? Other forms of income might be allowed for social reasons, but labor earnings would enjoy the highest honor and security.

Under Soviet socialism, we have been told, there can be no exploitation of man by man, the characteristic mark of all previous societal stages. There are no so-called antagonistic classes, and, although the workers and the peasants are still separate classes, their interests are not irreconcilable and their conflicts are not "antagonistic." In any case the disappearance of the peasantry as a class is to be only a matter of time and from the morrow of the revolution on society moves toward its ultimate classless form under communism. While the resort to material incentives necessarily means some inequality of earnings and personal possessions, the postrevolutionary society will not tolerate undue inequality of material condition. Personal wealth would be no more than accumulated savings from labor earnings, therefore neither unacceptably large in individual cases nor unjustified on moral grounds. The new savings banks were characteristically entitled "labor savings banks." Wealth obtained from income other than labor earnings may be subject to confiscation in some circumstances.

These norms of morality are of course those of man the good socialist producer; they are part of a would-be classless production ethic. The good Soviet producer is disciplined and eagerly productive at work, mindful not only of the pay envelope at the end of the week and the pension at the end of his working life but also of his unique role in advancing the march of history toward the inevitable good society. He stands as a political inspiration, a beacon of hope to the less fortunate workers still unliberated from the shackles of capitalism.

The production ethic extends from the work place to leisure time, dictating socialist realism in literature and art and Victorian prudery in sexual comportment. The Soviet man is to be honest, law abiding, and sober—sober literally as well as figuratively—at work and at play. Naturally, there would be no distinction of status and condition in this society of toilers, except in the case of those few who have mastered the laws of history and have fully committed themselves to their speedy realization, that is to say, the members of the Communist Party who would provide leadership while shouldering especial burdens of responsibility.

Such then has been the vision of the virtuous society in full swing of industrialization and socialist construction, and the policies and institutions of the industrialization drive had to fit within the options permitted by the official norms of morality. It was a tall order. Earlier societies gripped by a production ethic had it easier. Classical capitalism, whatever that was, did not have to combat private acquisitiveness or proscribe nonlabor incomes; it hailed them and harnessed them for its own historic task.

An interesting parallel instance is to be found in American history. The Mormon state in Utah between 1847 and 1890—small in numbers but large in geographic extent and communal aspiration—was an early modern instance of a society committed simultaneously to speedy industrialization (in part for the sake of economic autarky and military security) and total social transformation. It anticipated many of the Soviet economic institutions by nearly a century: a central planning board, development plans, centralization of much of the economy's economic surplus in the hands of the state (or rather the church), an authoritarian policy in a hostile encirclement, and unflinching belief in modern technology and education, church ownership and management of many of the most important means of production, large public investment in infrastructure, central control of external trade, and so forth. The dividing line between the Church and the polity was thin, thinner even than that between Party and government in the Soviet Union. In its organization and functions the Church bears many parallels with the Soviet Party. Mormon society had, as it still has today under very different arrangements, a highly pronounced production ethic. It maintained a *virtuous* social order. It was in many ways successful economically, as its chief economic historian, Leonard J. Arrington, amply documents.[8] If it perished as a territorially based, distinctive, integral economic system, this was by dint of the onward march of the encircling forces, the expanding United States. The strength of its experiment lay, first, in remarkably able leadership with great organizational talent; second, in that its human element, at least in two generations in question, was largely self-chosen and inwardly committed to the system; and, third, in its genius for combining seemingly disparate institutions into a functioning whole. For the system was a mixed one, with a large nationalized ("ecclesiasticized") sector but with full-blown capitalism in the rest of the economy. Material incentive did not stop with labor earnings. Making money was highly approved of by the church, which frequently tapped the privately accumulated fortunes for communal purposes. It is interesting to note that its other major experiment, that of communal farms, failed for lack of labor incentive.

In its own effort to industrialize and build simultaneously a virtuous social order, the U.S.S.R. has been at some disadvantage compared to the Mormons. The Soviet public was, so to speak, drafted and not self-selected for the millenarian experiment. The attempt by the Soviets to harness private interest through deliberately structured material incentives has been less than a full success. To begin with, a fundamental difficulty resides in that the controlled and basically nonfunctional price structure defies attempts to link creatively individual rewards to socially meaningful objectives. Worse still is the use of physical targets. Local success indicators are thus insufficiently congruent with social goals. Every man his own eager and gainful sub-optimizer! The rewards are, as likely as not, paid for antisocial behavior.

12.6

We do not know to what extent the Mormon Church in the last century was successful in protecting its property from grasping private hands. There is little doubt that the Soviet state has had the greatest difficulty in exercizing proper custody over its own. It is on this score that the Soviet moral (not to say criminal) code is most frequently tested and, by all indications, appears to be of little practical effect. In general, the safety of organization's assets from internal pilferage and embezzlement seems to be inversely related to the size of the organization. The Soviet state is a very large organization. What is more, it has to safeguard its assets in an environment of widespread shortages, pervasive cynicism, and a great deal of illegal economic activity in general. In a word, the state is being stolen blind, and not surprisingly the chief thieves are the custodians. Much underground activity, and especially of the large-scale operations of this type, rests on large-scale misappropriation of state property and takes place behind a facade of legitimate state-owned or other socialist entities, a crime that Soviet law qualifies as "private enterprise." (It is curious that in the U.S.S.R. today the official juridicial definition of private enterprise is the use of *state* property to conduct an organized operation for private profit.)

To restore socialist moral norms to their rightful place is not an easy matter in the Soviet Union today. One very traditional Soviet approach is what Leon Lipson, a perceptive student of Soviet law, has called "coercion to virtue."[9] The phrase speaks for itself—and so does the historical record. The other traditional approach, appeals to ideological symbols, exhortation, and the like, are hardly the solution either. If the Chinese and the Cubans have largely failed in this regard, why should the Soviets succeed sixty years after *their* revolution?

There are of course various legal devices to enhance the safety of state-owned property, but their effects are not always predictable.

An illustration can be found in a relatively little-known institution in Soviet law. In Russian it bears the name *material'no otvetstvennoe litso*, which may be translated as "financially liable person" (FLP). Now *any* state employee can be held administratively and sometimes criminally liable for damage to or loss of the physical or monetary assets of his employing organization or enterprise. (Naturally, third parties may be liable under law as well.) But, given the extreme difficulty of safeguarding the state's property, Soviet law provides for a *contractual* agreement between the individual and his employing organization (firm), whereby the individual undertakes full responsibility for the integrity of the organization's (the state's) assets in his custody, and is *personally* liable to the *full* extent and value of any damage or loss. Admittedly, to be so liable the individual must be guilty of wrongdoing, but the burden of proof of lack of guilt is on *him*. There is no presumption of his innocence, no onus of proof of guilt on the state. On this point the law is explicit. Should it come to that, the person must make good to the state out of his *own* pocket; his salary is docked as long as necessary, and his personal property may be confiscated. Such then are the financially liable persons in Soviet law and business practice.[10]

This institution is not without parallel in our own practice. Employees such as bank tellers or cashiers in retail establishments frequently bear a similar kind and measure of liability without the benefit of a presumption of innocence. But it is not unusual in this country for such individuals to be covered by an indemnity bond, and the premium for the bonding may even be paid by the employer. Moreover rules of this degree of strictness apply in this country almost exclusively to handlers of cash. In the Soviet Union the described arrangements may pertain to all those having custody of any kind of state property, and there are no indemnity bonds (another indication of the limited autonomy of the Soviet firm).

Except in certain special cases provided by law, one becomes a financially liable person with reference to a particular set of the state's assets by entering into a written agreement with one's employer, the agreement incorporating an inventory list duly taken for the purpose. Before one can be discharged of the responsibility, or if there is suspicion of loss, another inventory is taken. Should a shortage be revealed in this manner, the financially liable person must make good out of his own pocket, as mentioned. (Incidentally, the mystery of the high proportion of Soviet retail establishments that are at any moment closed for inventory seems to be explainable in these terms.)

One should remember that in the U.S.S.R. state-owned goods of almost any description are close to fair game for anyone able to help himself to them. Consequently, the chance of loss or damage is often great, and hence the financially liable person's own risk is not trifling matter. Yet it should also be noted that at least in ordinary Soviet business practice the individual is not compelled to undertake the risk, he is free to choose whether to assume it. To be sure, refusal to assume the risk may impair one's career in the given organization and possibly even one's immediate earnings; it may also preclude other major benefits, as we shall see. Still, so far as we know, typically the individual is free to choose.

One might ask why anyone *would* choose to serve in this capacity when the risk is so great. Yet there must be millions of people who do. Taking together business (broadly understood in the American sense), agriculture, finance, education, and health care, there are today just about two million establishments. Although many of them may be quite small, each probably has at least one financially liable person, and many have several; the larger establishments may each have many. In addition there must be many more in general government, military units, and so on.

Now a high proportion of the financially liable persons may not in fact incur excessive personal risk, either because the value of property in the individual's custody is modest or because the assets are secure, or for whatever reason.

But many do bear considerable risk, which is of course the state's object. At least in a certain fraction of these cases an interesting psychological transformation seems to have taken place, which helps explain the willingness of individuals to bear the risks. I owe this hypothesis to a number of interviews with recent émigrés who themselves were financially liable persons in the U.S.S.R.

The psychological chain runs as follows. If one is a residual bearer of the unexpected losses of a given state-owned firm, it is not unnatural for one to think of oneself as also the residual beneficiary of the unofficial profits, if any. The next step is to work actively for unplanned, unreported profits, in order to compensate oneself for the risk of personal loss, and the step after that is to work actively for profits, period. A residual bearer of both losses and profits is, after all, the *de facto* owner of the firm in the usufructuary sense. Thus the managers of such firms, who are also the financially liable persons, have come to think of "their" firms as virtually their private possessions, as their crypto property. "The state gets its plan, and everything else goes to me."

The individual may even invest his own money in the firm—the state-owned firm—as in a particular instance in which the manager of a retail store purchased on his own account, at high price on the black market, several cash registers of foreign make ("the Soviet ones are worthless") in order to minimize embezzlement by his cashiers from the store, which now meant from *him*. In a sense the institution of the FLP works as intended; the manager indeed is eager to safeguard the state's money—though in his capacity as residual loss bearer it is really his money, or his profit, he is protecting.

The illicit profit can be very large. Such data as I have so far collected point to gross illicit profits that in some cases are large multiples of the manager's official (legal) income. No wonder that in such cases the individual is prepared to sign the financial liability agreement, indeed eagerly seeks it for it is his status of FLP that delivers the assets—and the profit opportunities—to his charge.

The story does not end here of course. The manager has to share his profits with very many others: his accountant, an indispensable cog in the machine, his hierarchical administrative superiors, and a whole gamut of suppliers (crucial in a seller's market), transporters, and so on. Then there are the inevitable bribes to the innumerable authorities, large and small, from the big local party boss to the fire inspector, any one of whom can stop the money machine. In my interviews the larger operators indicated that 70 to 80 percent of their gross profit went into bribes, though what was left was still more than sunflower seed.

Thus the moral is that a stern device, the institution of FLP, meant to safeguard the state's socialist property has also contributed to the sprouting of thousands of crypto-private operations, large and small but all illegal. Through them it has advanced the corruption of the structure of power and authority. It has indeed helped to strengthen the custodianship of physical and monetary assets, though as the crypto property of the individual residual beneficiaries as well as state property.

12.7

The twentieth century is strewn with social experiments of every ilk and hue, many of them falling into the "virtuous haste" category. The Soviet is not the least of these. Many others are also communist.

In his "Development vs. Utopia" Lowenthal finds, "The existence of a long-term trend toward the victory of modernization over utopianism: as Communist-governed developing societies approach the level of advanced industrial societies, the arbitrary reshaping of their social structure by ideologically guided political power ... becomes increasingly difficult and ultimately impossible." A major reason is the rigidification of the power structure: the "movement regime ... turns into an essentially conservative bureaucracy which is bound to affect its institutional structure as well."[11] The thrust of this chapter is surely in harmony with Lowenthal's conclusion. Specifically, the attempt to combine haste in industrialization with virtue in social arrangements in the course of the Soviet experiment has in a sense succeeded to turn both into their own opposites: haste into waste, leading ultimately to a sharp retardation of growth despite the still very high rate of investment out of GNP, and the virtuous society into one with an inequitable and dysfunctional distribution of material income, private wealth, opportunities, and power.

In evaluating and re-evaluating the Soviet record, and in playing their counterfactual games, historians will long continue to refer to the formative decade of the Soviet Union, for the proper understanding of which Alexander Erlich has made a seminal contribution in his masterful analysis of the *Soviet Industrialization Debate*.

Notes

These observations, humbly offered in personal homage to Alexander Erlich and in deep admiration of his work on the political economy of Soviet history, are a revised version of the Bernard Moses Memorial Lecture (in social science) read on the Berkeley campus of the University of California in May 1980. I am grateful to a number of my Berkeley colleagues for valuable comments.

1. Francis Seton in a comment on Michael Polanyi's Towards a theory of conspicuous production, *Soviet Survey*, no. 34 (October–December. 1960), p. 107; interpolation in square brackets added.

2. See his *Economic Backwardness in Historical Perspective: A Book of Essays* (Cambridge, Mass.: Harvard University Press, 1962), *passim*.

3. The idea actually goes much further back, at least to Dmitrii Ivanovich Mendeleev, the Russian chemist and prolific writer on politico economic subjects, who in 1899 proposed to catch up with American industrial output in twenty to thirty years. D. I. Mendeleev, Zavetnye mysli, *Sochineniia*, vol. 20, p. 280. Here cited from Leon Smolinski, Recent changes in long-range future image of the Soviet economy, processed, June 1977, p. 6.

4. A set of reformlike measures was promulgated in July 1979, which appears to be as unpromising as it is timid and internally inconsistent.

5. Richard Lowenthal, Development vs. utopia in communist policy, in Chalmers Johnson, ed., *Change in Communist Systems* (Stanford, Calif.: Stanford University Press, 1970), pp. 33–116.

6. At times the tendency of different social science disciplines to instinctively look for different causes may border on the humorous. When in 1971 there were street disturbances in Zagreb, ostensibly over the allegedly unfair division of hard-currency proceeds among Yugoslavia's republics, my political science friends were shaking their heads and saying "traditional Croatian nationalism is on the rise again!" But some of my economist friends were patting themselves on the shoulder and saying, "We told you so, the exchange rate of the dinar has been wrong!" The economists were right, too, of course, for, had the external value of the dinar been in equilibrium, the question of the fair division of foreign exchange proceeds could have never even arisen.

7. Nelli Gutina, *Dvoinoe dno* ("*The double bottom*") (Tel Aviv: KANE, 1978), p. 8.

8. Leonard J. Arrington, *The Great Basin Kingdom: An Economic History of the Latter-Day Saints, 1830–1900* (Cambridge, Mass. Harvard University Press, 1958), is the major work in the Mormon theocratic economy.

9. See his Coercion to virtue: First principles and second economy, in Gregory Grossman, ed., *Studies in the Second Economy of Communist Countries*, forthcoming.

10. The Soviet legal literature on this subject is quite voluminous. See, for example, IU. N. Korshunov et al., *Sovetskoe zakonodatel'stvo o trude* ("*Soviet Labor Legislation*") (Moscow: Profiszdat, 1976), Chap. 8.

11. Lowenthal, Development vs. utopia, p. 54.