TITLE: THE LITTLE DEAL: BREZHNEV'S CONTRIBUTION TO ACQUISITIVE SOCIALISM

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PREFACE

This report is one of 13 separate papers by different authors which, assembled, will constitute the chapters of a Festschrift volume in honor of Professor Vera S. Dunham, to be published by Westview Press. The papers will be distributed individually to government readers by the Council in advance of editing and publication by the Press, and therefore, may not be identical to the versions ultimately published.

The Contents for the entire series appears immediately following this Preface.

As distributed by the Council, each individual report will contain this Preface, the Contents, the Editor's Introduction for the pertinent division (I, II, or III) of the volume, and the separate paper itself.
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EXECUTIVE SUMMARY*

To improve the distribution of goods and services to the population, to insure stability, and to provide labor incentive, the Gorbachev leadership may prefer continued decriminalization of petty market and reciprocal kinship and friendship transactions to the more difficult, uncertain and potentially disruptive course of wholesale economic reform.

Vera Dunham described the accommodation that emerged between regime and middle class under Stalin as the "Big Deal." It represented a dilution of the idealistic, egalitarian goals of Marxian socialism by means of a tacit accommodation in practice to the materialistic, self-regarding behavior of the new Soviet middle class. For technocrats and skilled workers in preferred sectors, material incentives increasingly displaced moral incentives. For the middle class, privilege and perquisite replaced egalitarianism and self-denial. The accumulation of private, personal property not only became acceptable, it was now protected against public encroachment, and acquisitive impulses gained relative to the altruistic.

The economy under Stalin relied heavily upon powerful, noneconomic disincentives as well as upon material incentives.
Success was rewarded materially and morally. Failure was unacceptable. Discipline and punishment provided counterpoint to privilege and perquisite, and they insured that acquisitiveness would not jeopardize the aims of the state. During the early years of Khrushchev's rule, high rates of growth and a general rise in the standard of living of the bulk of the Soviet population created a strong sense of optimism. Egalitarianism was taken seriously by Khrushchev and his advisers, or so it would appear. Wage differentials were reduced for managerial staff and skilled workers, and the urban-rural gap narrowed too. These changes were masked in the early years by the general rise in material well-being. Everyone, or almost everyone, was experiencing real income increases, and the reduction in differentials did not appear to be at anyone else's expense. At the same time, large scale economic "reforms" and experiments were introduced.

However, increase in GNP slowed to 5% in the 1960's, to 4% in 1970-78, and averaged less than 2% thereafter. The Brezhnev era introduced a period of institutional stability with reform and change confined to the microlevel in the form of greater political and economic maneuverability within close kinship and friendship networks, and greater tolerance for petty private enterprise and trade. These were the main components of Brezhnev's "Little Deal."

The Brezhnev leadership struck a new but implicit bargain with the urban population: to tolerate the expansion of a wide variety of petty private economic activities, some legal, some
in the penumbra of the legal, and some clearly and obviously illegal, the primary aim of which was the reallocation by private means of a significant fraction of Soviet national income according to private preferences. A new institutional mix was tacitly approved at the microlevel, one that elevated the importance of private markets, of which the officially sanctioned rynok was only one, of private enterprise and of kinship and friendship reciprocity networks relative to official state retail outlets. Ironically, the Little Deal afforded the individual increased freedom to wheel and deal at the microlevel of Soviet society, while, at the macrolevel, managerial discretion was restrained, overt-political dissent was generally repressed, and a grey, conservative pallor overspread the regime.

The advantages to potential participants in the Little Deal, which would have included a very large proportion of the population, may have seemed so patent and so harmless to households that the regime elected not to stand in their way. Tolerance of petty marketeering and of petty private enterprise was the obverse side of the decision to set aside for the duration managerial and other reforms for state enterprises.

The Little Deal included tolerance of an expansion of private enterprise, especially in service activities such as hair dressing, auto and electrical appliance repair and the like, of illegal middleman activity, of nepotism and of the conversion of public property for personal use or for private pecuniary gain. It led to a flourishing "second economy" and
widespread corruption.

As testimony to the effectiveness of petty private marketeering and private reciprocity systems, Brezhnev expanded "special access" stores for the state's own reciprocity "partners." Where scarcity of the most desirable consumer goods and services is a chronic feature of the economic landscape, the privilege of jumping the queue is potentially so powerful an incentive to work and so gratifying a reward for loyalty that it would be surprising had the Brezhnev regime denied itself use of these techniques. Thus, special access stores, "closed medical clinics," and similar special distribution systems multiplied during the later Brezhnev years for party members, high officials, successful scientists, artists, workers in priority industries and others of importance to the state.

Tension between "moral," or spiritual, incentives and material incentives antedates Marxism by many centuries, and no clear resolution has been achieved anywhere, whether sought by religious, secular or revolutionary organization. Acceptance of the imperative of material incentives pushes Soviet leadership toward increased use of markets, money and other pecuniary institutions, that is, toward accepting operation of the "law of value" and of "commodity production" under socialism. Aspiration of the leaders for a society governed by "moral" incentives, pushes Soviet leadership toward a completely different model, one in which a small, but pure minority imposes its spiritual aims on the majority. The Soviet government is not the first institution in the history of Western civilization
to be faced with this choice, nor is it the first to try first one and then the other, and then to reconsider.

As concerns the future, it is still too early to attempt to predict what the Gorbachev era will bring. But there are some constants that any policy will have to confront.

One way to eliminate petty marketeering and enterprise, and the most blatant and undesirable forms of reciprocity, is to initiate system-wide macroreforms designed to eliminate the rewards that the system now affords those activities. This would require increasing the prices of deficit commodities and services to equilibrium levels, which would eliminate the "scarcity rents" that so tempt individuals today. It would require increased powers by which enterprise managers could reward good, efficient workers and penalize the poor and inefficient worker. Reform would be required also to ensure that goods and services produced in state enterprises are distributed solely according to ability to pay, regardless of the location of the customer. This would require a complete overhaul of the retail distribution system to reflect consumer preferences and to overcome geographical obstacles. In the end, reform would have to include improvements in product and service quality, and, in all likelihood an increased share of resources flowing to the household sector.

This is a tall order, and it is not surprising that Brezhnev and his government were intimidated by the prospect.

There is every reason to expect that the new leadership under Mikhail Gorbachev will also be intimidated by what the
abrogation of the Little Deal would entail. The establishment of equilibrium, or market-clearing, prices in state retail outlets would have to be accomplished in one fell swoop, or things would in fact get worse. A general expectation of a sequence of price rises over time would only make matters worse by encouraging spending now rather than later when prices will be higher.

The problem presented by the system of prices that now exists, is as much one of incorrect relative prices as it is underpricing in general. The reluctance of the state to revise prices periodically over the last 25-30 years has caused prices of most food products, for example, to be underpriced relative to manufactures. But the problem is even more complex because the costs of producing various food products and the various consumer manufactures and services have changed over time at different rates. And wholesale prices are similarly out of alignment. Merely setting "correct" prices would itself, therefore, be a horrendous task.

Assuming that the regime is successful in establishing market-clearing prices, the result on the day they became effective would be a massive redistribution of real income. The precise impacts would be difficult to specify. In general, however, real purchasing power would be redistributed more unequally than before the reform because the ability and willingness of marketeers to spend time queuing would no longer count. Those with money income as well as those with money savings would benefit differentially. Marketeers who were
"rich" in well-placed and numerous kin and friends would lose relatively to those who were poor in such relationships at the time of the reform. Similarly, citizens who had access to special stores, special distributions and other similar queue-jumping perquisites would lose real purchasing power too.

It appears, therefore, that the privileged, the poor and the gregarious would all stand to lose real purchasing power as a result of the establishment of market-clearing prices, and that is potentially a powerful alliance. Price reforms would of necessity, therefore, have to be accompanied by an incomes policy designed to cushion the impact of the reform, and, once again, piecemeal reforms would be worse than no reform at all.

The Soviet experience with socialism has produced several important lessons. Among the most important is that socialization of production and distribution politicizes even the pettiest economic problem. Thus it is that whether or not to change a given price must be taken on political rather than economic grounds.

Political wisdom would argue for gradual adjustments of prices toward equilibrium levels. Economic wisdom argues decisively for a once-and-for-all adjustment. The outcome is a deadlock that no regime since Stalin has been able to break.
I. Trends in Soviet Society

The non-coercive aspects of social control in the Soviet Union have comprised a very strong leitmotif in Vera Dunham's work throughout her career. Most evident in her pioneering work, In Stalin's Time, her focus on state-society interaction has also been apparent in numerous scholarly articles and lectures. Professor Dunham has used the phrase "Big Deal" to describe one important use of positive social control under Stalin.

The Big Deal refers to the Soviet regime's tacit alliance with the new "middle class" of engineers, administrators, and managers who were vital to the rebuilding effort after World War II. Rather than relying on coercion, as might be expected in the aftermath of the Great Purges of the 1930s, the regime tried a new tack. This amounted to an accommodation of the personal, materialistic longings of this group of people whose expertise and skills were in critical demand. The goal of the Big Deal was to garner support of these experts and administrators by offering the incentives they wanted most: housing, consumer goods, and leisure time. The conversion of these private aspirations to acceptable public values was the key component of the Big Deal.

While Professor Dunham's analysis of the Big Deal has been confined to the postwar period, the use of accommodation by the regime to deal with the middle class was evident already in the mid-late 1930s and extended well beyond the immediate postwar years. This characteristic of the Soviet system tends to go unnoticed, however, especially in studies of the Stalinist era. Recent refer-
ences to the Soviet Union as the "Evil Empire" have also clouded the existence of other than the negative aspects of social control. However, as the revolutionary ethos recedes further into the background, the use of positive levers to attain many economic and social goals has become more important. Paradoxically, positive, materialistic levers have been used to bolster the political stability of a political system whose very legitimacy is based upon a radical restructuring of society. A thorough examination of the implications of this paradox, an examination continued in the essays that follow, is Professor Dunham's primary contribution to the study of Soviet society.
The Little Deal: Brezhnev's Contribution to Acquisitive Socialism

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Introduction

Vera Dunham described the accommodation that emerged between regime and middle class under Stalin as the "Big Deal." It represented a dilution of the idealistic, egalitarian goals of Marxian socialism by means of a tacit accommodation in practice to the materialistic, self-regarding behavior of the new Soviet middle class. For technocrats and skilled workers in preferred sectors, material incentives increasingly displaced moral incentives. For the middle class, privilege and perquisite replaced egalitarianism and self-denial. The accumulation of private, personal property not only became acceptable, it was now protected against public encroachment, and acquisitive impulses gained relative to the altruistic. The rhetoric of Bolshevism continued, of course, glorifying self-sacrifice, collectivism and egalitarianism, but these goals, like a particular kind of optical illusion, retreated farther and farther into the future with each new official pronouncement. One day
collective farms would be elevated to full status as socialist enterprises. Private agricultural plots would disappear. Public distribution of consumer goods and services would be entirely socialized and thus depecuniarized. "Commodity production," the "law of value" and other relics of capitalism would eventually become otiose and disappear simultaneously with the appearance of the new Soviet man (and woman). Meanwhile, however, first the building of heavy industry, then prosecution of World War II, next, reconstruction of the post-war economy, took precedence. Thus private production, markets, differential wages, private wealth, and personal acquisitiveness had to be tolerated, and even encouraged, for the duration.

The economy under Stalin relied heavily upon powerful, noneconomic disincentives as well as upon material incentives. Success was rewarded materially and morally. Failure was unacceptable. Discipline and punishment provided counterpoint to privilege and perquisite, and they insured that acquisitiveness would not jeopardize the aims of the state, however it might militate against the early appearance of the new socialist citizen.

High rates of growth and a general rise in the material standard of living of the bulk of the Soviet population during the early years of Khrushchev's rule created a strong sense of optimism. Egalitarianism was taken seriously by Khrushchev and his advisers, or so it would appear. Wage differentials were reduced for managerial staff and skilled workers, and the urban-rural gap narrowed too. These changes were masked in the early years by the general rise in
material well-being. Everyone, or almost everyone, was experiencing real income increases, and the reduction in differentials did not appear to be at anyone else's expense.

After increasing at an average annual rate of about 6 percent during the 1950s, the increase in GNP slowed to 5 percent in the 1960s and to 4 percent for 1970-78. Since then growth has averaged less than 2 percent per year.\(^5\) This decline reflected the exhaustion of post-war slack, the diversion of investment to defense, and to agriculture, where marginal capital productivity was low, and social policies and demographic trends that reduced the rate of growth of effective labor force.

Khrushchev had been inclined toward large-scale programs and reforms. The Virgin Lands Program, de-Stalinization, abolition of the Machine Tractor Stations and of the old four-channel agricultural procurement system, development of sovnarkhozy, creation of parallel rural and urban party organs are principal examples. Except for the Kosygin reforms of industrial management in 1965, which had been conceived and designed in the Khrushchev years, the Brezhnev years did not witness large-scale institutional reform or further de-Stalinization. It was instead a period of institutional stability at the macrolevel.\(^6\) Reform and change were confined to the microlevel, mainly in the forms of increased political and economic freedom within close kinship and friendship networks and greater tolerance of petty private enterprise and trade. These represented the main components of Brezhnev's "Little Deal."

The Background of the Little Deal

The overthrow of Nikita Khrushchev ushered in a new era that was more conservative in at least three respects. The new regime elected
to avoid risks associated with further de-Stalinization. It decided to avoid system-wide institutional reform. And it initiated and sustained a substantial increase in military spending. The steep rise in defense spending, which became the hallmark of the Brezhnev years, jeopardized continued rapid improvement in living standards and thus progress toward Khrushchev's ambitious targets for production and consumption for 1980.

Consumerism of the Khrushchev period collided, therefore, with a new, ambitious defense policy, and the collision was all the greater because of the general slowdown in growth rates. This slowdown was partly a consequence of demographic changes that reduced the rate of growth of the labor force. It was also caused by an inefficient managerial system. Poor weather conditions and a failure of agriculture to respond to large investments with substantial total factor productivity increases were also important. The success of Khrushchev's egalitarianism, the reduction in differentials within industry and between industry and agriculture, may have also had an unfavorable influence upon work incentives. Moreover, shortages of the most desirable consumer goods and the continued need for queuing also reduced the effectiveness of material incentives. Absent illegal middleman activity or privileged access, chronic disequilibrium in consumer goods markets has the effect of reducing the effectiveness of income differentials. Purchase requires queuing time as well as cash. Each household must, therefore, optimize in allocating members' time between remunerable work and queuing, and any individual with pent-up demand is wise to slight his job in favor of slipping off to queue.
The Brezhnev regime did not repudiate consumerism as a principal goal, as increasingly heavy agricultural imports during the period testify. It did halt and begin to reverse the egalitarian results of Khrushchev's wage reform. It also chose not to reverse the policy of retail price stability that had been established and repeatedly promised ever since Stalin's death. Thus the resource crunch could not but be reflected in lengthened queues for desirable consumer goods and/or in decreased incentives to work hard or to work at all.

The problem of "deficit commodities" could not be resolved by 1980, as Khrushchev had hoped, by increasing output to absorb excess demand. Raising prices to equilibrium levels was ruled out too, apparently for political reasons. Under these circumstances, the temptation to individuals who were favorably situated with respect to deficit commodities (and services) to profit themselves and their families would certainly be overwhelming in the absence of severe, swift and certain punishment for doing so. Ideological commitment to the collective, and to socialist goals in general, was no longer sufficient to avert favoritism, nepotism, or even outright corruption. Stalin's system of discipline and punishment apparently could not be reestablished. Consequently, the very structure and functioning of the Soviet socialist economy, and the policies Soviet leadership believed could be invoked successfully, created the cracks, crevices and other interstices within which private economic activity could flourish to redistribute, and in some cases to augment, Soviet national product.

As the Brezhnev regime matured, existent, but little-noted, private non-agricultural enterprise gained new significance and augmented the flow of private goods and services partly through
the rynok, but mainly through direct, unlicensed, floating free markets. Stalin's compromise with the peasantry in the 1930s had been forced by violence and the threat of destabilization, and it had forced retention of at least one free market in the Soviet economy, the collective farm market (CFM). Despite several attempts to drive it out of existence, Khrushchev was forced to accept private plots and the CFM, too. His government accepted an increased flow of consumer goods through regulated state retail markets as well at the expense, proportionately speaking, of direct, non-market distribution.

The Brezhnev leadership struck a new but implicit bargain with the urban population: to tolerate the expansion of a wide variety of petty private economic activities, some legal, some in the penumbra of the legal, and some clearly and obviously illegal, the primary aim of which was the reallocation by private means of a significant fraction of Soviet national income according to private preferences. A new institutional mix was tacitly approved at the microlevel, one that elevated the importance of private markets, of which the officially sanctioned rynok was only one, of private enterprise and of kinship and friendship reciprocity networks relative to official state retail outlets. Ironically, the Little Deal afforded the individual increased freedom to wheel and deal at the microlevel of Soviet society, while, at the macrolevel, managerial discretion was restrained, overt-political dissent was persecuted and generally repressed, and a grey, conservative pallor overspread the regime. Freedom of petty private economic transactions was accompanied by greater freedom of association and of private conversation (and criticism).
Western economists have long agreed that free exchange among marketeers who start out each with different initial resource endowments and with different preference functions can achieve an increase in total welfare of all marketeers taken together—without anyone losing in the process. There is little doubt that this was one outcome of the Little Deal, although we cannot know whether it was anticipated or an aim of the leadership. The advantages to potential participants, which would have included a very large proportion of the population, may have seemed so patent and so harmless to households that the regime elected not to stand in their way. Tolerance of petty marketeering and of petty private enterprise was the obverse side of the decision to set aside for the duration managerial and other reforms for state enterprises.

Gur Ofer described the Soviet consumer economy as a "cash and carry" system, in which the consumer is obliged to pay cash and to transport goods from points of sale home. Expansion of petty marketeering represents a means to offset to some degree the inefficiency and maldistributions caused by the cumbersome Soviet retail distribution system. In any event, the Little Deal included tolerance of an expansion of private enterprise, especially in service activities such as hair dressing, auto and electrical appliance repair and the like, of illegal middleman activity, of nepotism and of the conversion of public property for personal use or for private pecuniary gain.

Obtaining Goods and Services Nalevo

The Little Deal tolerated an expansion of private nonmarket as well as private market activities. The second of these has been
widely described as the "second," the "parallel," or the "underground" economy and represents straightforward market transactions. The former is composed primarily of reciprocity exchanges, which have not been dealt with extensively thus far in the literature. Both types of exchange have had legal existence in the Soviet Union at least from the beginning of the NEP. Both shade from the legal and overt into the illegal and covert, passing through a region in which legality is a matter of judicial discretion. Our primary concern is with the illegal and the questionably legal in both cases, that is, with transactions in which ultimate consumers receive valued goods and services nalevo and with the producers and marketeers of these goods and services. (Subsequently, I shall use nalevo as an adjective as well as an adverb. My apologies to tender ears of native speakers.)

Private Enterprise and Marketeering

Let me take up nalevo market activities first. I have defined the accommodation of the Brezhnev government to nalevo marketeering as a component of the Little Deal because scale appears to have been a very important constraint on it as far as regime tolerance was concerned. Petty trade, petty middleman activities, petty private enterprise, even petty theft or personal (illegal) use of government property have, for the most part, been winked at by the regime. This represents a "deal" in the sense that these activities frequently take place in plain view of police, citizens, bureaucrats and high officials. What is striking is not so much the total magnitude of petty enterprise and marketeering, which in any case would be
difficult if not impossible to measure. It is the pervasiveness of these activities that proves that a deal, albeit tacit, was struck between the regime and an acquisitive population.

Anyone who has spent an extended period living and working in the USSR will have witnessed and perhaps participated in a wide variety of nalevo transactions. Recent emigrants from the USSR have told endless tales of these illegal and quasi-legal transactions. Although anecdotal evidence cannot yield a reliable estimate of the total volume of such transactions, expressed as a percentage of national income or of urban household budgets, it does put two observations beyond doubt: 1) almost everyone, including party members, has obtained some goods nalevo, and 2) discretion is usually exercised by those engaging in nalevo transactions, but not so great as to disguise their pervasive character from official eyes.

Let me give a few examples. Anyone seeking a taxi in Moscow will from time to time be offered a ride by a chauffer in a state limousine. The driver will expect a gratuity for the transportation he provides. He is, of course, using the state's gasoline and time he would otherwise be sitting waiting for his boss or, say, for a delegate to a Congress in Moscow. Such experiences are so common as to cause no remark. Similarly, taxi drivers expect special gratuities for certain services, such as driving to an out-of-the-way hotel or residence after public transport has shut down for the night. They frequently have vodka that they will sell to partying citizens after hours for a premium price. Again, from any apartment overlooking a collection of garages for private automobiles one periodically witnesses the
arrival of official cars and trucks from which petrol is siphoned into private vehicles. I witnessed such activities from my kitchen window in 1979, and, as the number of chauffeured limousines arriving each morning before my building clearly indicated, so also could many high Soviet officials, including academics, party members, and high-ranking police and military officers who also lived in the building. It would, in fact, have been impossible to miss. These sorts of activities became so common and obvious during the last years of the Brezhnev era that one can only suppose that punishments for such infractions were too mild or improbable to make reporting them worthwhile.

The case appears to have been similar for the resale of one's own "special distributions," such as the special packages of cold cuts and other delicacies that widows of former high-ranking officials and officers receive, or the occasional purchase and resale of items purchased through privileged access to special state stores or from foreign colleagues. Once again, scale appears to have determined risk. Large-scale middleman dealings are clearly illegal and severely punished. Not so petty, infrequent transactions conducted in modest volume with discretion. The degree of risk associated with most of these sorts of transactions would appear to have been less during the later Brezhnev years than buying a "joint" or two at any urban high school or university campus in the United States today.

When one sees state retail clerks selling special cuts of meat, or chocolate, or other deficit commodities at hastily-improvised outdoor stands, one cannot but wonder about how far petty profit seeking has penetrated the state retail network itself.
Willingness to pay a slightly higher price, or a rebate, allows the customer to jump the queue. The question is, however, who pockets the premium? Is the individual the profiteer, or is the state mimicking private trade as a way of charging a price more nearly at an equilibrium level?

It is certainly common for individuals who occupy state-owned apartments to barter them and to pocket, in the process, the "rent of location" that technically should accrue to the state. A three-room apartment, well-located in Moscow, for example, can readily be traded for an apartment elsewhere, in Moscow or in another city, plus a consideration reflecting the locational or other desirable features. Dachas are also sold at prices that reflect the value of the location as well as of the structure, even though the individual does not have title to the land. And so it goes. As a general proposition, true for the Brezhnev years at a minimum, Soviet citizens have been able to collect these kinds of economic "rents," attributable to scarcity of desirable properties, because the state does not. Only fear of swift, certain and severe penalties could prevent their doing so. This is an aspect of the Little Deal too.

One could relate anecdotes about private marketeering indefinitely. Let me confine myself, however, to a third and very important category: the provision of services by private entrepreneurs. Contrary to the belief of many outside the USSR, private enterprise is not illegal there. It is illegal to put money out at interest or to rent out land or housing professionally. It is also illegal to hire others for profit or to engage in middleman activities. What you sell and profit from must
be your own (or your family's or cooperative's) making; it cannot
embody the labor of others. People do rent out "corners," of
course, and they do legally hire typists, housekeepers, washerwomen
and the like. But it is the prohibition upon hiring others for
profit, upon middleman activities, upon putting out money at
interest and upon the purchase or rental of land that insure that
legal private enterprise will be small both in scale of production
and in distribution.

Apart from the production and marketing of agricultural
products from private plots of kolkhozes and sovkhozes, legal
private enterprise in the USSR during the Brezhnev years has been
composed primarily of individuals offering services in a
service-starved economy. The repair of automobiles, of television,
radio, and stereo systems, and of other consumer durables
represents a large class of such activities. Hair dressing,
tutoring, clerical help, housekeeping and other similar direct
direct services to the individual, including private medical care,
represent a second large class of petty private enterprise. The
variety is endless. Some individuals, for example, make a
substantial living queuing for others for profit. In an economy
where the most desirable goods, and even some necessities at times,
are in deficit supply, it can pay to shop for others.

The activities described above are characterized by being small
scale, individual or family enterprises, and by a dubious legal
standing. That they persist and are so pervasive is evidence that
the Little Deal was a conscious, if implied, contract between
Brezhnev's leadership and the population of the USSR's urban
centers.
Let me give one example to indicate some of the ambiguities that characterize the legal status of petty, private service enterprises. My typewriter broke down during a recent extended stay in Moscow, and I was anxious to have it repaired promptly. Friends put me onto a private repairman, who appeared a day later at 5:15 p.m. with an apprentice in tow. The master's coat liner was lined with tools and spare parts, and he soon "manufactured" a workable spare part for my German-made machine. The charge was high, but reasonable given my haste. The question is: was the transaction legal? In general, the answer is "yes." He was free to charge what the traffic would bear, and I paid in rubles. The repairman was off-duty, working on his own time. What, however, about the apprentice? Is it legal to take someone other than a family member for an apprentice? What about the tools he used? Were they borrowed from his place of state employment? It is unlikely that such tools are sold retail anywhere in the USSR. The spare part he adapted had probably the same dubious provenance. And, this enterprising repairman also offered to buy my typewriter when my departure should come. The probability is, therefore, considering all factors, that the transaction was illegal and that criminal sanctions could have been invoked against the repairman, and perhaps against his customer too. This kind of complex interdependency between private and public transactions is what makes most private transactions (outside the CFM) maliy transactions, that is, transactions that are either illegal or in the penumbra of the legal only.

These questionably legal and illegal private enterprises and private marketeering in general have been studied in some detail by
Western scholars. Gregory Grossman and Vlad Treml call them part of the "second economy." Others describe them as composing the "parallel" or "underground" economy of the USSR. These studies suggest that such activities compose a significant fraction of total final product transactions in the Soviet economy, and they cover large-scale, Mafia-type black market activities as well as petty private marketeering and enterprise. To my mind, the term "second," or "parallel," economy implies a degree of separateness that is misleading, especially where the focus is upon the small-scale transactions covered by what I have called the Little Deal. These transactions do not necessarily operate outside the system, or parallel to it. They stand, instead, in a symbiotic relationship with state enterprise and marketing, serving to make the total system more flexible and more responsive to Soviet household demand. They also produce some products and services that would otherwise not be available.

For my purpose, which is to make a case for the existence of the Little Deal, of an accommodation between political leaders and an increasingly acquisitive society, what I need to show are: 1) that petty private marketeering and enterprise are ubiquitious; 2) that government officials are well-aware of their existence; and 3) that both sides stand to gain something from the "deal." As I have pointed out earlier, there can be little question about the first two. The symbiotic character of the bulk of nalevo transactions and enterprises is sufficient evidence that both state and marketeer stand to gain from the deal. The final distribution of consumer goods and services would be less satisfactory from a welfare standpoint than would be the case should nalevo activity be
halted by strict police action—unless the state is prepared to reform the systems by which consumer goods and services are produced, priced and distributed by the state. This is the sense in which the Little Deal represents an alternative to serious, thorough-going, large-scale economic reform. The Brezhnev regime elected instead to temporize, and the Little Deal was thereby contracted.

Kinship and Friendship: Private Reciprocity Systems Nalevo economic transactions in the USSR comprise more than market transactions. A large volume of nonmarket transactions takes place by means of reciprocity. This aspect of private economic activity in the USSR has been examined hardly at all by Western scholars. Reciprocity systems for the distribution and redistribution of goods and services were first discovered by anthropologists. The most systematic analysis of such systems was produced by Karl Polanyi. All economies we know of have relied upon reciprocity to distribute certain valued goods and services. It represents a nonmarket distributional system. In Polanyi's words, the distributional function is "embedded in social relations" and driven by them, as, for example, by kinship and/or friendship relations.

As a principal for organizing economic activity, reciprocity is familiar to us all. Take, for example, the mutual dependence relationship of parents and children. As is typical of many such reciprocal systems, the relationship is temporal. Tradition calls for parents to care for children when they are young and helpless and, in turn, for them to be cared for by their children when old
age, misfortune or illness has undermined the parents' ability to support and care for themselves. Reciprocal economic obligations are still quite obvious even in highly industrial, pecuniary societies within the family and within friendship networks. Blood is, of course, thicker than water, as mutual obligation among siblings testifies even in today's atomized Western economies. But friendship reciprocity systems remain strong too.

The important point about reciprocity systems is that the initial contribution of a valued good or service does not thereby establish a contractual or legally negotiable claim on the recipient. The obligation of parents to children may be codified in law, but the child is not required by any enforceable claim to render a quid pro quo. The claim is enforceable only by custom and tradition, by the shame attached to an ungrateful child. It is defined and socialized as a kinship obligation, not as an economic exchange of "equivalents." In many, if not most, reciprocal relationships, the initial contributor does not himself receive a quid pro quo even from those who benefited initially. For example, friends help one another move, or neighbors get together to harvest the crops of an ill or widowed acquaintance. Fraternity and sorority members benefit from alumni, and they will contribute themselves to a completely different membership generation.

Benefits that parents provide their children may appear to be comparable to an investment on which a return is expected, but this is misleading because the children's performance cannot be enforced as an economic contract or alienated to a third party. A reciprocal obligation is not comparable to a debt or other market transaction. It is an IOU enforceable only by custom and tradition, and it may
be collected, if at all, from any member of the kinship or friendship circle when it falls due, whether or not he or she was a member at the time the obligation was undertaken. The result of failure to meet a reciprocal obligation is not bankruptcy, but the destruction of that particular reciprocal relationship. Parents disown children. Siblings cease to communicate. Friendships end. Blood feuds begin.

Reciprocity relationships may permeate the economy, but they are confined to specific kinship and friendship networks. They are thus atomized and necessarily small scale. They cannot link all households in the economy the way open markets do, or the way nationwide taxation-benefit systems do. Reciprocity is distinctly personal and attached to the person or family. As a principle for organizing economic activity, reciprocity is nonmarket and nonstate, and it has flourished under all sorts of economic systems. It has represented for centuries the main way that families and friends have traditionally protected the individual against both the vagaries of economic fortune and the arbitrary exercise of economic power by the state.

The Little Deal of the Brezhnev years extended to reciprocal economic relationships as well as to petty marketeering. The ever present condition of excess demand in the Soviet economy not only creates opportunities for personal gain to individuals willing to act as middleman or to intercept rents the state declines to gather from deficit goods and services. It also enhances the benefits that flow from membership in kinship and friendship networks. It pays to have a relative or friend located strategically with respect to deficit commodities: someone in Moscow to buy scarce
goods when they appear and to store them for your arrival from
Omsk; someone employed by a retail fur outlet to set aside a real
fur coat from the next shipment before the store opens; someone in
admissions at the university to shepherd your child's papers. The
very structure and functioning of the Soviet economy, with its
deficit commodities and services and its faltering, uneven retail
distribution system, reinforces the benefits of reciprocity systems
and therefore reinforces kinship and friendship ties.

Brezhnev's Little Deal included a tacit accommodation with
private reciprocity systems as well as with petty private
marketeering and enterprise. Soviet citizens have been openly
allowed to obtain goods and services not merely nalevo, but also
po druzhbe, po znakhomstvu, po sviazi and po protektsii. In its
most attractive form, reciprocity reflects the concern of family
and friends for one another. In its less attractive form it is
nepotism, favoritism and cronyism. Reciprocity has the advantage of
not being a straight economic exchange, and thus the risk of a
penalty for setting a deficit commodity aside, for using state
enterprise tools and/or spare parts for private advantage, for
allowing someone to jump the queue for tickets to the Bolshoi or
Taganka theaters, and so forth, is much smaller.

Although participation in reciprocity networks is less risky in
general than petty marketeering or enterprise, many reciprocity
transactions violate either the letter or the spirit of the law.
Every adult member of society is in a position to do some kind of
favor for someone else. The main function of reciprocity systems
in the USSR has been to allow individuals access to deficit commodities or services that would otherwise be impossible or uncertain. A few examples will be sufficient to illustrate this point.

With reciprocity systems it is difficult to know where friendship or kinship feeling ends and pure economic calculation begins. A friend or relative on the admissions committee to Moscow State University is of incalculable value if one has university-age children. A friend or relative with access to tickets to the Bolshoi or the Taganka Theater is essential if an ordinary Moscovite wants to attend performances. Friendly relations with the neighborhood butcher pay dividends in an economy in which all cuts of any red meat are 2 rubles a kilo. Having relatives, or friends, who know one is "in the market" for a special type of boot, fur coat, or rare book, will maximize one's chance of satisfying this desire. If one lives outside the main "cash and carry" supermarkets of the USSR that is, outside Moscow, Leningrad, Kiev, and a few other major state retail markets, kin or friends are essential to a reasonable style of life, regardless of income level. The payoff of reciprocal relationships is so great that young people find it difficult to survive independently of their families, for the family is the nexus of reciprocity networks. Kin and friends are both more desirable and more burdensome in the USSR for this reason. As in the case of petty marketeering and private enterprise, any given reciprocal transaction may involve illegal or questionable elements. Repairing a friend's TV set privately may involve company time, company tools and/or illegally acquired spare parts. Setting aside a fur coat for kin or friend to buy later,
even without a private markup, could bring the law down upon one's head. Giving a regular customer better than average cuts of meat at no extra cost, but in return for a future possible gift of American-made cigarettes, or an occasional "single" to the Bolshoi, could mean trouble. And it is not difficult to imagine much more gross violations of law in the realm of nepotism, expensive durables or contacts with foreigners from hard-currency countries.

The Future of the Little Deal

I have argued that the Brezhnev regime contracted a "deal" with the Soviet population, especially with the urban population, tacitly agreeing to overlook and thus condone petty private marketeering and enterprise as well as instances of petty reciprocal advantage. The critical element has been the state's willingness to permit an expansion throughout Soviet society of the quest for the individual's, but especially of the individual household's, gain, as opposed to collectivist and traditionalist socialist aims. This implicit contract has tended not only to increase the rewards to petty materialism and self- or family-centered acquisitiveness, but it has also tended to strengthen the family as the fundamental societal unit of authority, employment, and distribution.

The Little Deal has also had an important impact upon the distribution of real income in the USSR. There can be little doubt that the distribution of real product (and services) in the USSR more nearly corresponded with the diverse preferences of the population as a result of the Little Deal than would have been the case otherwise, absent thoroughgoing reform of the production,
pricing and distribution of consumer goods and services. Because
time, especially queuing time, but even time to negotiate, plan and
scout, has been so important a requisite for acquisition of deficit
commodities in the USSR, the Little Deal has tended, in all
likelihood, to produce a more equal distribution of real
consumption than would otherwise have been the case, for time is
distributed essentially equally on a per capita basis.

Ironically, the Brezhnev government was not prepared to accept
fully this implication of the Little Deal. As a result, and as
testimony to the effectiveness of petty private marketeering and
private reciprocity systems, Brezhnev expanded "special access"
stores for the state's own reciprocity "partners." Where scarcity
of the most desirable consumer goods and services is a chronic
feature of the economic landscape, the privilege of jumping the
queue is potentially so powerful an incentive to work and so
gratifying a reward for loyalty that it would be surprising had the
Brezhnev regime denied itself use of these techniques. Thus,
special access stores, "closed medical clinics," and similar
special distribution systems multiplied during the later Brezhnev
years, for party members, high officials, successful scientists,
artists, workers in priority industries and others of importance to
the state.

The growth of special distribution and of limited-access
outlets highlights a chronic dilemma for Soviet leadership. The
thrust of Marxism is toward equity in the distribution of (real)
income, regardless of "rents" of ability, location, special
training and so forth. But "equity" seems to fly in the face of
the need to reward those who are prepared to make a special effort to become skilled, to accept extra responsibilities, to work efficiently, or to render a full day's work.

The tension, between the desire to ensure that each citizen has his or her needs met and the need to motivate each to contribute his or her best, is not new. The tension between "moral," or spiritual, incentives and material incentives antedates Marxism by many centuries, and no clear resolution has been achieved anywhere, whether sought by religious, secular or revolutionary organization. Acceptance of the imperative of material incentives pushes Soviet leadership toward increased use of markets, money and other pecuniary institutions, that is, toward accepting operation of the "law of value" and of "commodity production" under socialism. Aspiration of the leaders for a society governed by "moral" incentives, pushes Soviet leadership toward a completely different model, one in which a small, but pure minority imposes its spiritual aims on the majority. The Soviet government is not the first institution in the history of Western civilization to be faced with this choice, nor is it the first to try first one and then the other, and then to reconsider.

What is the future of the Little Deal now that Brezhnev's regime has been replaced? The most fundamental issue, as I suggested earlier, is that of system-wide reform versus the Little Deal. Because of his background with the secret police (KGB) there was speculation that Andropov was not happy with what I have described as Brezhnev's Little Deal. It implicitly sanctioned petty illegal activities and implicitly decriminalized a wide range of petty economic crimes. And it probably contributed to a
widespread contempt for the law too. Andropov's reported distaste for the Little Deal would have been, therefore, quite understandable. Chernenko gave mixed signals about continuation of the Little Deal during his brief rule, and it is still too early to anticipate what Gorbachev will do.

There are, however, some constants that any policy will have to confront. One way to eliminate petty marketeering and enterprise and the most blatant and undesirable forms of reciprocity is to initiate system-wide macroreforms designed to eliminate the rewards that the system now affords those activities. This would require increasing the prices of deficit commodities and services to equilibrium levels, which would eliminate the "scarcity rents" that so tempt individuals today. It would require increased powers by which enterprise managers could reward good, efficient workers and penalize the poor and inefficient worker. Reform would be required also to ensure that goods and services produced in state enterprises are distributed solely according to ability to pay, regardless of the location of the customer. This would require a complete overhaul of the retail distribution system to reflect consumer preferences and to overcome geographical obstacles. In the end, reform would have to include improvements in product and service quality, and, in all likelihood, an increased share of resources flowing to the household sector.

This is a tall order, and it is not surprising that Brezhnev and his government were intimidated by the prospect. Hence, the Little Deal was an accommodation that required neither major reform nor a significant reallocation of resources, only ideological retrenchment.
There is every reason to expect that the new leadership under Mikhail Gorbachev will also be intimidated by what the abrogation of the Little Deal would entail. The establishment of equilibrium, or market-clearing, prices in state retail outlets would have to be accomplished in one fell swoop. Prices would have to be raised to or above equilibrium levels at once, or things would in fact get worse. A general popular expectation of a sequence of price rises over time would only make matters worse by encouraging spending now rather than later when prices will be higher.

The problem presented by the system of prices that now exists in the Soviet economy is as much one of incorrect relative prices as it is underpricing in general. The reluctance of the state to revise prices periodically over the last 25-30 years has caused prices of most food products, for example, to be underpriced relative to manufactures. But the problem is even more complex than this because the costs of producing various food products and the consumer manufactures and services have changed over time at different rates. And wholesale prices are similarly out of alignment. Merely setting "correct" prices would itself, therefore, be a horrendous task.

Assuming that the regime is successful in establishing market-clearing prices, the result on the day they became effective would be a massive redistribution of real income. The precise impacts would be difficult to specify. In general, however, real purchasing power would be redistributed more unequally than before the reform because the ability and willingness of marketeers to spend time queuing would no longer count. Those with money income as well as those with money savings would benefit differentially.
This answer must be qualified, however, by the fact of kinship and friendship networks. Marketeers who were "rich" in well-placed and numerous kin and friends would lose relatively to those who were poor in such relationships at the time of the reform. Similarly, citizens who had access to special stores, special distributions and other similar queue-jumping perquisites would lose real purchasing power too.

It appears, therefore, that the privileged, the poor and the gregarious would all stand to lose real purchasing power as a result of the establishment of market-clearing prices, and that is potentially a powerful alliance. Price reforms would of necessity, therefore, have to be accompanied by an incomes policy designed to cushion the impact of the reform, and, once again, piecemeal reforms would be worse than no reform at all.

The Soviet experience with socialism has produced several important lessons. Among the most important is that socialization of production and distribution politicizes even the pettiest economic problem. Thus it is that whether or not to change a given price must be taken on political rather than economic grounds.

Political wisdom would argue for gradual adjustments of prices toward equilibrium levels. Economic wisdom argues decisively for a once-and-for-all adjustment. The outcome is a deadlock that no regime since Stalin has been able to break. It will be interesting to see whether the new administration will be able to deal more effectively with the economy than Brezhnev's did. When all is said and done, there is much to be said for continuation of the Little Deal.
Footnotes: Little Deal

*An earlier version of this article was published in Slavic Review, Vol. 44 (Winter 1985).


2 See, for example, the pronouncements in J. V. Stalin, Economic Problems of Socialism in the U.S.S.R. (Peking: Foreign Languages Press, 1972).

3 Consider, for example, Khrushchev's prediction: "In the coming 10 years all Soviet People will be able to obtain consumer goods in sufficiency, and in the following 10 years the consumer demand will be met in full." Documents of the 22nd Congress of the CPSU, Volume II, "Report on the Program of the Communist Party of the Soviet Union," October 17, 1961 (New York: Crosscurrents Press, 1961), p. 85.


5 Statement of the Honorable Henry Rowen, Chairman, National Intelligence Council, CIA, Before the Joint Economic Committee, Congress of the United States, December 1, 1982 (mimeo), pp.5-6


8 Sources as in footnote 6, and preliminary findings of the Soviet Interview Project.


13 See, for example, Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1957), especially Chapter 4.