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# **Soviet Business: Entrepreneurs, Black Markets, and Informal Economies**

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## Introduction

The image of the Soviet Union that most often prevails is one of vast state planning, monolithic central control, and the absence of private initiative. Yet, beneath the surface of official pronouncements and meticulously drafted plans, a parallel world thrived: a second economy fueled by necessity, initiative, and the relentless search for goods and services that the planned economy could not reliably provide. This informal sector—comprising entrepreneurs, black markets, personal favors, and ingenious “side hustles”—became both a safety valve for the system’s deficiencies and a quiet yet powerful force shaping daily Soviet life.

The story of Soviet business is, therefore, not only about illicit activity and evasion, but also about creativity, adaptation, and social cohesion in the face of institutional limits. Official doctrine treated private gain and market exchange as ideological enemies. Still, millions participated in the second economy every day, not just out of greed or opportunism, but as a survival strategy and a means to secure basic comfort, dignity, and opportunity. Whether it was sourcing fresh fruit that state shops rarely stocked, arranging household repairs, or trading in coveted foreign goods, informal markets became essential. These activities, while technically illegal or frowned upon, were hardly fringe; they were routine, woven into the social and economic fabric at every level.

This book examines the second economy in its full complexity, offering a narrative that goes beyond simple categories of legality and illegality. It explores the circumstances that encouraged this parallel world to flourish, including the systemic shortages, price distortions, and planning failures that defined Soviet economic life. Through case studies and practical examples drawn from archival sources, memoirs, and oral histories, we see how Soviet citizens—factory managers, state employees, peasants, and professionals—navigated, subverted, and sometimes exploited the boundaries of the planned system. We delve into networks of “blat,” the intricate practices of under-the-counter trade, and even the ambiguous role played by state officials themselves, who often facilitated or tolerated informal economies for personal and institutional survival.

The emergence and sustenance of these networks had enduring consequences. On the one hand, they softened the blow of official shortages, lubricating the economy and making life more bearable. On the other, the normalization of informal exchange corroded public faith in the state and legal norms, feeding cycles of cynicism, corruption, and moral ambiguity. As this study will show, the unofficial economy was not a peripheral phenomenon but a central—if unofficial—pillar of Soviet society.

With the seismic reforms of the 1980s, Gorbachev's perestroika explicitly sought to legalize and harness entrepreneurial drive. Yet decades of informal practice meant that the transition toward a market economy was marked by both opportunity and chaos. The legacy of Soviet informal economies carried over into the post-Soviet republics, giving some a head start in the adjustment to capitalism, while elsewhere fueling the rise of organized crime and new forms of corruption.

By tracing the contours of Soviet entrepreneurship, black markets, and the informal economies that flourished in the shadow of central planning, this book aims to illuminate not only how the Soviet Union truly functioned, but also the enduring ways that culture, necessity, and ingenuity can shape economic life—even, and especially, where market activity is officially denied.

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## **CHAPTER ONE: The Anatomy of Central Planning: Limits and Contradictions**

The Soviet Union, for much of the 20th century, presented itself as the antithesis of the capitalist world. Its economic engine was not driven by the invisible hand of the market but by the highly visible, often heavy-handed, directives of the state. From the grand industrial complexes to the humblest nail factory, every cog in the vast machinery of production was theoretically controlled by the State Planning Committee, or Gosplan. This was an economy built on ambition: to rationally allocate resources, eliminate waste, and achieve an equitable distribution of goods and services for all citizens. In theory, it was a magnificent vision of order and collective purpose. In practice, it was a perpetual struggle against the realities of human nature, information overload, and the sheer, stubborn complexity of economic life.

Imagine Gosplan's task: to orchestrate the entire economic activity of a nation spanning eleven time zones, home to hundreds of millions of people with diverse needs and desires. It was a logistical nightmare on a heroic scale. Planners, often brilliant and dedicated individuals, sat in Moscow, poring over reams of data, attempting to forecast demand for everything from tractors to toothbrushes, and then to ensure that the raw materials, labor, and machinery were precisely where they needed to be, precisely when they needed to be there. This wasn't merely about setting targets; it was about constructing an entire economic ecosystem from the ground up, with little room for error or independent initiative.

The administrative-command system, as it was known, was founded on a few core principles. First and foremost was state ownership of nearly all means of production. Factories, farms, mines, and shops belonged to the people, managed by the state. Investment decisions, from building new power plants to developing new consumer goods, were centrally determined. Prices for almost everything—bread, boots, electricity, and even labor—were fixed by the state agency Goskomtsen, rather than being allowed to fluctuate based on supply and demand. This was intended to eliminate speculation and ensure affordability, but it often had unforeseen and distorting consequences.

Annual plans were the lifeblood of this system. Each year, Gosplan would issue directives, setting production targets for every enterprise. A factory producing shoes, for instance, would receive a quota for the number of pairs it needed to manufacture. This quota would then be broken down into specific types, sizes, and colors. Simultaneously, Gosplan would calculate the resources—leather, thread, rubber, machinery—required to meet these targets, and allocate them accordingly. The goal

was a meticulously balanced economy where every input led to a precise output, and every output met a pre-determined need. The sheer volume of calculations and interdependencies was staggering, requiring an army of statisticians and economists.

However, the ambition of central planning consistently clashed with its inherent limitations. One of the most significant hurdles was the problem of information. How could planners in Moscow accurately gauge the diverse and ever-changing preferences of consumers across such a vast and varied country? How could they know, with any real precision, the actual productive capacity of thousands of factories, each with its unique set of challenges and capabilities? The answer, more often than not, was that they couldn't. Information flowed upwards through layers of bureaucracy, often becoming distorted, filtered, or simply lost in translation. Local managers, fearing the "ratchet effect"—where exceeding a quota in one year would lead to even higher, potentially impossible, targets in the next—often deliberately understated their true capabilities and hoarded resources. This created a systematic bias towards under-reporting and inefficiency, undermining the very data upon which the planners relied.

The fixed-price system, while ideologically pure, proved to be another Achilles' heel. By divorcing prices from the realities of supply and demand, the state inadvertently created enormous economic distortions. When prices were set too low, demand often far outstripped supply, leading to chronic shortages and queues. If a good was priced artificially low, consumers would naturally want more of it than was available, and producers had little incentive to make more if their costs exceeded the fixed price. Conversely, if a good was priced too high, it would languish on shelves, creating artificial surpluses even as other goods remained desperately scarce. This meant that prices failed to convey crucial economic signals about what was truly needed or desired, leaving planners essentially flying blind in a dense fog of their own making.

The lack of market competition further exacerbated these issues. Without competing enterprises vying for consumer attention, there was little impetus for innovation, quality improvement, or efficient production. A factory producing substandard shoes faced no threat of losing its customers; after all, consumers had few other options. This often led to a general low quality of Soviet products, a frustration that became a common thread in everyday life. Why bother making things better if everything you produced would be bought anyway, simply because nothing else was available?

This administrative-command system, despite its enormous scale and ideological underpinnings, was therefore riddled with fundamental contradictions. It aimed for total control but struggled with pervasive inefficiency. It promised abundance but delivered chronic shortages. It sought to eliminate market forces but inadvertently created an environment where informal, illicit markets became not just desirable, but utterly essential for millions of people. The very strictures intended to create an orderly, equitable society became the fertile ground from which the "second economy"

would irrepressibly sprout.

The inefficiencies were not merely theoretical; they manifested in the daily lives of Soviet citizens. Imagine a factory manager desperate for a specific type of bolt to complete a production run, only to find that Gosplan had allocated an insufficient quantity, or perhaps the bolts were stuck in a warehouse hundreds of miles away. Or consider the frustration of a homemaker searching for a simple pair of shoes for her child, only to find empty shelves in the state store. These everyday realities were not isolated incidents but systemic failures, a constant friction between the grand plan and the gritty ground truth.

The official media, of course, presented a different picture, one of triumphant production figures and satisfied workers. Yet, behind the official facade, a silent acknowledgment of the system's shortcomings permeated Soviet society. People knew, intuitively, that the official economy was not enough. They understood that the official prices often bore little resemblance to the true value of goods. And they learned, through necessity, to look elsewhere, beyond the state shops and official channels, to get what they needed.

It was this gap between the official narrative and lived experience—between the promise of planned prosperity and the reality of persistent scarcity—that provided the existential impetus for the second economy. This parallel world wasn't an aberration but a direct, often ingenious, response to the constraints imposed by central planning. It was a testament to human adaptability, to the enduring entrepreneurial spirit that, even under the most restrictive conditions, finds a way to manifest itself. The following chapters will delve into how this spirit, often deemed illegal and morally suspect by the state, became an indispensable, if unacknowledged, feature of Soviet life, shaping the economy in ways its architects never intended.

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