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BODY

SUBJ BASIC 304

REF PMO71630 MOSCOW OGONEK RUSSIAN 15 DEC///AMENDMENTS AND IMPROVEMENTS.

TAKE 2 OF 9--OGONEK VIEWS CAUSES, EFFECTS OF 'SHADOW' ECONOMY

PMO71632

((TEXT)) NOW THAT THE HEALTH OF THE PREREFORM ECONOMY IS DISCUSSED ALOUD AND UNHYPOCRITICALLY, WE BELIEVE THE TIME HAS COME TO SPEAK EQUALLY FRANKLY ABOUT ITS SHADOWY SIDE, AS A SHORTCOMING WHICH IS A DIRECT CONTINUATION OF THE "MERITS" OF THE ADMINISTRATIVE DECREE STYLE OF ECONOMY: STRICT CENTRALIZATION OF PLANNING AND RATIONED DISTRIBUTION OF RESOURCES, PREVALENCE OF COERCIVE MOTIVATIONS IN THE MANAGEMENT SYSTEM, ADMINISTRATIVE DECISIONMAKING METHODS ORIENTED TOWARD QUANTITATIVE PARAMETERS, HIERARCHICAL CRITERIA FOR ASSESSING LEADERSHIP CADRES, CONSTANT REPRODUCTION OF LEVELING TRENDS, AND SO FORTH, THAT IS, A PHENOMENON GENERATED BY THE MAIN FEATURES OF THE ECONOMIC MANAGEMENT SYSTEM THEN IN OPERATION.

THIS APPROACH MEANS BROADENING THE FRAMEWORK AND REGARDING AS THE SHADOW ECONOMY NOT ONLY OUTRIGHT ECONOMIC CRIME (THAT IS, THE "BLACK" ECONOMY), BUT ALL UNRECORDED, UNREGULATED METHODS OF ECONOMIC ACTIVITY, AS DISTINCT FROM THOSE SET FORTH IN NORMATIVE DOCUMENTS AND RULES. THE SHADOW ECONOMY EXISTS BOTH OUTSIDE THE SOCIALLY ORGANIZED SECTOR (IN THE SO-CALLED "SECOND" ECONOMY), AND

UNCLASSIFIED

WITHIN IT (THE "INFORMAL," "FICTITIOUS" ECONOMY). LET US LOOK AT THESE FORMS OF THE SHADOW ECONOMY IN MORE DETAIL, PAYING PARTICULAR ATTENTION NOT TO DESCRIBING SPECIFIC SENSATIONAL CASES AND INTRIGUING DETAILS OF THE LIVES OF THE PEOPLE INVOLVED, BUT AS FAR AS POSSIBLE DESCRIBING IN DETAIL THE PHENOMENA AND CAUSES GIVING RISE TO THEM AND ASSESSING AND PREDICTING HOW THE SHADOW ECONOMY WILL "BEHAVE" IN THE REFORM PERIOD.

ICEBERGS OF THE "SECOND" ECONOMY ((SUBHEAD))

THE TERM "SECOND" ECONOMY IS NOT INFREQUENTLY USED AS A SYNONYM FOR THE SHADOW ECONOMY IN ITS CRIMINAL INTERPRETATION. HOWEVER, WE WILL FOLLOW THE WELL KNOWN HUNGARIAN ECONOMIST J. KORNAI AND USE IT TO REFER TO ALL THOSE FORMS OF PRODUCTION ACTIVITY THAT WERE FORMERLY DEEMED INEXPEDIENT--INDIVIDUAL LABOR ACTIVITY, SMALL-SCALE GROUP PRODUCTION (ARTELS AND SMALL COOPERATIVES), AND OTHER "SMALL FORMS" (THE "FIRST" ECONOMY, CORRESPONDINGLY, IS LARGE-SCALE STATE, COOPERATIVE, AND KOLKHOZ PRODUCTION, THE ONLY FORM CONSIDERED TO BE A GENUINELY SOCIALIST SECTOR).

THE "SECOND" ECONOMY IS LIKE AN ICEBERG: ON THE SURFACE IS THE LEGALIZED, REGISTERED PART COVERED BY TAXATION; BUT THE GREATER PART IS CONCEALED (FROM FINANCIAL AND CONTROL ORGANS, BUT NOT FROM CONSUMERS) AND EXISTS WITHIN THE FRAMEWORK OF THE SHADOW ECONOMY.

UNTIL RECENTLY THE "SECOND" ECONOMY WAS ILLEGAL OF NECESSITY, ALTHOUGH THERE WAS, FOR INSTANCE, NO DIRECT BAN ON INDIVIDUAL LABOR ACTIVITY AS SUCH (NOT ONLY IN LEGISLATIVE ACTS, BUT EVEN IN NORMATIVE DOCUMENTS AND PROVISIONS). MOREOVER THE RIGHT TO SUCH LABOR IS GUARANTEED BY THE CONSTITUTION, ALTHOUGH THE LOCAL AUTHORITIES, ON THE PRINCIPLE "WHAT IS NOT PERMITTED IS PROHIBITED," WERE EXTREMELY RELUCTANT TO REGISTER IT: IN THE COUNTRY AS A WHOLE, BY 1987 ONLY 100,000 INDIVIDUALS WERE "LICENCED." BUT THERE WERE CONSIDERABLY MORE OF THEM "UNDERGROUND": ACCORDING TO ROUGH ESTIMATES, SOME 20 MILLION PEOPLE WERE INVOLVED IN THE PROVISION OF SERVICES ALONE IN THE "SECOND" ECONOMY.

"PRIVATE OPERATORS," FOR INSTANCE, LONG BEFORE INDUSTRY AND TRADE COULD GET THINGS MOVING, WOULD SATISFY THE SPONTANEOUS PREMIUM DEMAND, WHETHER AMONG THE MASSES OR AN ELITE, FOR VARIOUS GOODS IN SHORT SUPPLY. THEY MANUFACTURED PHONOGRAPH RECORDS FROM X-RAY PHOTOS AND MADE "DESIGNER" CLOTHES; THEY MET THE DEMAND FOR CULTURAL WORKS THAT WERE NOT PERMITTED AT THE TIME: THEY COPIED WESTERN VIDEOS AND XEROXED "LOLITA," "WE," "DOCTOR ZHIVAGO," AND "HEART OF A DOG." AND IN THE BIG CITIES THE "PRIVATE OPERATORS" CLIPPED POODLES AND LAPDOGS; TAUGHT YOGA AND IKEBANA; PRACTISED PSYCHOANALYSIS AND CLAIRVOYANCE IN THEIR OWN HOMES OR THE CLIENT'S; SANG AT WEDDINGS, DID PEOPLE'S WORK FOR DIPLOMAS AND COURSES, AND SO FORTH.

ADMIN

(MORE) 15 DEC IRONTON/CM 07/1858Z JAN

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