Price Adjustment under the Table

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Price Adjustment under the Table

Abstract

Direct data on corruption and its prevalence is scarce because of the illegal nature of corruption. Based on first-hand account, this paper offers evidence on corrupt price setting and price adjustment mechanisms that were illegally employed under the Soviet regime. The evidence is anecdotal, and it is based on personal experience during the years 1960–1971 in the Republic of Georgia, while it was still a part of the former Soviet Union. The description of the social organization of the black markets and other illegal economic activities in Georgia that I offer, depicts the creative and sophisticated ways the people in the former Soviet Union were routinely using in order to overcome the problems of constant shortages created by the country’s inefficient centrally-planned command economic price system with its distorted relative prices. The description of the specific cases and events and the details of illegal arrangements that were employed in Georgia’s black markets, offers a glimpse of quite explicit micro-level evidence on various types of corruption that were common in Georgia, where rent-seeking behavior led to emergence of remarkably well-functioning black markets. The evidence I describe, underscores again the power of incentives in a rent-seeking society.
“Science requires more resources of the language than raw sense data and first-order predicate logic… Economics is a science, and a jolly good one, too. But a serious argument in economics will use metaphors and stories as well—not for ornament or teaching alone but for the very science.”

Deirdre N. McCloskey (1998, p. 19)

“The tendency of economists to treat statistical studies as automatically more informative than narrative studies has no justification in general and is clearly pernicious in contexts… where the data are so poor.”

Steven Durlauf (2001, p. 67)

“The people who can best describe corruption are those themselves engaged in corruption.”

Arye Hillman (2004, p. 1067)

1. Introduction

Although corruption is believed to be a widespread phenomenon (Marjit, et al. 2000; Abed and Gupta, 2002), direct hard data on corruption and its prevalence is scarce because of its illegal nature. The absence of hard quantitative data on corruption makes it difficult to bring corruption-related debates—and more generally debates related to unethical behavior—to the forefront of the policy discussion agenda (Hillman, 2002).

Some public institutions and private organizations have been trying to fill this void by producing cross-country indicators of corruption. These indicators have been used in recent empirical studies that explore the economic effects of corruption or the determinants of corruption in cross-sections of countries. Examples of such indicators of corruption include the International Country Risk Guide Index (ICRGI) which is published by Political Risk Services, Inc., the Institute for Management Development Index (IMDI), which is included in the World Competitiveness Yearbook, and the Corruption Perception Index (CPI), which is compiled by Transparency International. These indicators are typically constructed using various forms of surveys which include businessmen, political analysts, and general public, and where the respondents are asked to rank order countries based on their perceived level of corruption, the rule of law, risk of contract repudiation, quality of bureaucracy, quality of law-enforcement institutions, etc. (Herzfeld and Weiss, 2003).1

Given the illegal nature of most forms of corruption, there is little hope of obtaining direct evidence or actual hard quantitative data on corruption from any official government source such

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1 See Méndez and Sepúlveda (2006) for more details on these indexes. Other examples that use these indexes include Mauro (1995, 1997), Gupta, et al. (2001), and Paldam (2002). See also the studies published in the four-volume set on The Politics of Corruption, edited by Williams (2000) and Williams, et al. (2000).
as government statistical agencies and other data collection institutions on a large scale.\(^2\) Although anecdotal evidence about prevalence of corruption abounds, such evidence is rarely published in academic studies. Indeed, only a limited number of published academic studies have offered anecdotal evidence about corruption. The few examples that I was able to locate include Simis (1982), Hillman and Schnytzer (1986), Lambsdorff (1998), Naylor (1998), Gupta, et al. (2001), and Easterly (2001).

A likely reason for the scarce use of anecdotal evidence in academic economic research might be the economists’ general lack of enthusiasm about this type of evidence. There are some well-known exceptions of studies that rely only on anecdotal evidence, however, although most of these studies are more historical. Perhaps the best known is Radford’s (1945) classic paper on prisoners’ of war (P.O.W) camp which offers only narrative anecdotal evidence—although the study has never been criticized for this as far as I know. Radford (1945) offers a fascinating eyewitness account of the economic organization of a P.O.W camp during World War II. According to Radford’s account, at the informal and mostly exchange-based markets that developed at the P.O.W camp, cigarettes have emerged endogenously as playing the role of money and its three functions by serving as a medium of exchange, as a unit of account, and as a store of value.\(^3\)

As another, more recent example, consider Jensen’s (1988) discussion of the efficient-market hypothesis. According to Jensen (1988, p. 320), “…although the evidence is not literally 100% in support of the efficient-market hypothesis, there is no better documented proposition in any of the social sciences.” However, Reiter and Williams (1997, p. 12) argue that “The ‘evidence’ cited by Jensen is from accounting studies showing a lack of market reaction to changes in accounting methods for investment credits and depreciation… Ironically, much of the ‘evidence’ presented in Jensen's Chapter is anecdotal and is taken very seriously. This is an example of the power of elite storytellers.”\(^4\)

Recently the economics discipline has been more open to the possibility that anecdotal evidence may fruitfully supplement more standard and more commonly accepted statistical evidence. That is particularly true in cases where data from standard sources are non-existent. For

\(^{2}\) Recent studies conducted by the IMF and World Bank economists report some quantitative estimates of corruption-related activities in some developing and underdeveloped countries. See, for example, Abed and Gupta (2002) and Reinikka and Svensson (2001).

\(^{3}\) For other examples of historical studies that use narrative anecdotal type evidence, see the collection of readings in Kohler (1968).

\(^{4}\) See, McCloskey (1998) for a critical discussion of rhetoric and storytelling in economics.
example, according to Durlauf (2001, p. 67), “The tendency of economists to treat statistical studies as automatically more informative than narrative studies has no justification in general and is clearly pernicious in contexts . . . where the data are so poor.” Similarly, Romer and Romer (1989, p. 167) suggest that narrative approach “…allows a vast body of information that cannot be employed in conventional statistical tests, to be brought to bear on… question.” McCloskey (1990 and 1998) has also been advocating quite forcefully a wider use of anecdotal evidence in economic research. See also the discussion in Jensen (1988), Jônsson (1993), and Lukka and Kasanen (1995).

In this paper, I offer some direct and quite explicit evidence on various types of corruption in the Republic of Georgia during the years 1960–1971. Several existing studies explore the nature of corruption in the former Soviet Union, and attempt to explain it as well as its consequences. See, for example, Simes (1975), Simis (1977, 1982), Grossman (1977), Bergson (1984), Hillman and Schnytzer (1986), and Levin and Satarov (2000) among others.5

In the paper, I tell the story of my family, how we dealt with the constant shortages and inadequate services the official centrally planned markets of Georgia could offer, and how we participated in Georgia’s corrupt black market economy. As Hillman (2004, p. 1067) notes, “The people who can best describe corruption are those themselves engaged in corruption.” Indeed, the evidence I offer is a first hand-account, based on my and my family’s actual experiences in Georgia.

The paper makes two specific contributions. First, unlike most of the existing studies of corruption, I offer a detailed and fairly rich micro-level narrative account of various types of illegal transactions that were taking place in the corrupt black markets of Georgia as part of routine everyday life. Second, I primarily focus on the price setting and price adjustment mechanisms. The latter is particularly useful because price system is perhaps the single most important institution in a market based economy. The evidence on corruption that I document for the Republic of Georgia, demonstrates once more that in the absence of free markets, wage and price systems do not reflect true relative prices according to the true market conditions. In such environments, rent-seeking behavior of individuals can lead to a development of black markets.

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5 For an analysis of corruption in the post-transition Russian Federation, see Levin and Satarov (2000). Levin and Satarov’s paper also includes an interesting discussion of the institutional pathologies in the Soviet economy prior to the collapse of the USSR, pathologies which have contributed to the persistence of corruption in the republics of the former Soviet Union until recently. For a latest survey of the theoretical literature on corruption, see Aidt (2003), who offers a detailed analysis of the existing theoretical models of corruption, possible causes of corruption, as well as its possible consequences.
where unofficial prices and bribe rates are the ones that respond to changes in market conditions to reflect true relative valuations.

The paper is organized as follows. In section 2, which constitutes the main body of the paper, I provide a narrative account of numerous episodes of corrupt economic transactions in Soviet Georgia. After presenting the evidence, I offer some interpretation of it in section 3 by asking whether the corruption in Georgia was efficient in some sense. In section 4, I discuss existing views on admissibility of anecdotal evidence in economic research, and offer some thoughts about the potential value of such evidence in the study of corruption. I conclude in section 5 by summarizing the paper and offering some caveats.

2. Evidence on Corruption

In this section, I provide direct evidence on the economic corruption of Georgia’s markets and institutions by offering a detailed account of various types of illegal transactions and activities we were engaged in. I begin the discussion by providing some general information about the structure of Georgia’s centrally planned economy in section 2.1. In section 2.2, I describe my family background and offer some information about the city where we lived. In section 2.3, I describe the structure of a typical Georgian black market and discuss the details of its functioning. Next in section 2.4, I describe the process of illegally marking up government set prices, followed in section 2.5 by an account of instantaneous price adjustment processes that were taking place under the table (literally!). In sections 2.6, 2.7, and 2.8 respectively, I describe the process of buying and selling fake merchandise, how we used to create artificial shortages, and how we used to take advantage of human temptations in order to extract rents. In section 2.9, I describe bribe payment schemes that were routinely used in Georgia, which resemble fixed and variable tax payments. In sections 2.10 and 2.11 respectively, I discuss the remarkable purchasing powers of chacha—the Georgian homemade vodka, and I address the issue of barter exchange, which was quite popular in Georgia, by offering additional examples of goods and services we were able to obtain in Georgia by means of bribing the local government and law enforcement officials. In sections 2.12 and 2.13 respectively, I discuss two very particular types of services which only affected the Georgian Jews, and which could be obtained only by means of bribing government officials. One was a permission to attend synagogue services, and the other was a permission to emigrate from the USSR. Finally, in section 2.14, I discuss the centralized rigid labor market structure in Georgia, and explain how Georgians were still able to engage in
productive activities despite the market’s totalitarian constraints and limitations.

2.1. **Georgia’s Centralized Command Market System**

Georgia, like the rest of the 14 republics in the former Soviet Union, did not have a free market economy. Rather, the Georgian economy was a centrally planned command economy. That is, government officials and bureaucrats and the members of the communist party apparatus functionaries were the ones that made the decisions of what will be produced, how much will be produced, and for whom will be produced. In western style free market economies, in contrast, market forces along with the flexible price system are the mechanisms that determine the answers to these key questions.

Given that market forces in Georgia were not allowed to function freely, decision-makers such as firms, families, and individuals, had to find ways around the restrictions imposed by the centrally planned totalitarian economic structure, and its inefficient price system. As demonstrated below, if the price and wage systems are not flexible enough to reflect the dynamics of open market forces by adjusting to changes in market conditions, then market participants will have powerful incentives to find alternative mechanisms to overcome the problems caused by these price and wage system inflexibilities.

In the republics of the former Soviet Union, the wage rate was set in such a way that it was equal for everyone in an organization, and this despite the fact that not everyone was equally productive. Moreover, these wages were set at a very low level. The wages, which at the time were in the range of 30–60 Rubles, could theoretically be sufficient if all goods and services were indeed priced at the official rate. That was not the case, however; 30 Rubles would not cover even one week’s expenses on minimal necessities for an average family.

For example, the medical services were supposed to be free. However, to get satisfactory medical care, bribes and other types of under-the-table payments in cash or in kind were necessary. Similarly, in order to enter an institute of higher education, payments to the “right people” were absolutely necessary, even though education in the former Soviet Union was supposed to be a public good provided for free.

In short, to get anything done or accomplished, bribing and making side-payments to the right government bureaucrats and functionaries, and quite often even to the local police officers, was a must. Therefore, in the Republic of Georgia, the problems created by central planning were resolved, at least in part, by developing a black market, a parallel market where many goods and
services were traded outside the official markets at the black market prices which typically included bribe premiums that reflected the true relative valuations of these goods and services.

2.2. Background Information

I was born and raised in Tskhakaya (since regaining its independence from Russia after the collapse of the former Soviet Union, the name of the city has been changed to Senaki), a small city in the western part of Georgia, close to Kutaisi—the regional capital. Three of my brothers worked at government-owned stores, selling various types of clothing, shoes, fabrics, etc. The stores were all located in the local market, called “bazari” in Georgian. The bazari was physically set up as a big circle. In the center of bazari was the fruits and vegetables market, where local farmers from the outskirts of Tskhakaya would sell their wares. Around the circle, along the bazari’s walls were scattered various kinds of shops and stores, such as hardware stores, clothing stores, barber shops, etc., as well as a few restaurants. In addition, there were designated areas for selling various types of milk products, flour and related products, chicken and other meat products, etc.

The stores all operated in a similar fashion. They were all government-owned and operated. No private ownership was allowed or recognized. All goods and services were produced by government owned factories and manufacturing plants, or alternatively they were produced in other countries and imported to Georgia by government import agencies. The prices of the goods and services the stores were selling were all set by government officials. For example, the prices the barbers charged were set by government directives. Similarly, the prices of all the merchandise such as shirts, trousers, shoes, and other goods sold at these stores were also set by government officials. The proceeds from sales had to go to the store manager who forwarded it to the government office. All the employees of the shops and stores were paid monthly by the local government salary payment offices.

2.3. Black Markets

One main problem with the existing system was the inadequate level of the salaries. Because nobody really could survive on a government-paid salary, everybody had to find some way or some source of increasing their income. And everyone found some way of doing it. For example, the Kolkhoz farmers would take some part of their produce and sell it at the bazari at the “free market” price, rather than sending it all to government storage facilities, who paid them
a low fixed price, regardless of the amount they worked, regardless of the quality of the produce, etc. The market price typically was much higher than the government regulators have assessed. Therefore, the farmers who sold their produce at the bazari would pocket very nice profits to supplement their ridiculously low and insufficient government-paid salaries.\(^6\)

The Georgian authorities usually were willing to tolerate this practice as long as some of those in the authority were properly compensated for “looking the other way.” In other words, many Georgian farmers could be engaged in such an open black market transactions if they bribed the bazari officials. The bribe payments could take various forms. Typically, they would have to make some side-payment (in addition to the official nominal fee) to the person in charge of the main gate at the entrance to the market, who exerted a lot of power because he could deny entrance to the merchants or he could report them to the police. In addition, various controllers and policemen would personally go around the merchant tables scattered in the bazari and collect their payments in kind.

The government-owned and operated store and shop employees used to employ other methods to supplement their miserable government-paid salaries. They would mark up the prices of everything they were selling, often by as much as 200–300 percent (and sometimes even more) above the official government set price. However, they could not pocket all these “profits.” Instead they would take the profits and share them with the store manager. The store manager would in turn share it with his supervisor, who in turn, shared it with the local police station staff. This way, everybody in the “food chain” received his/her share and thus, everybody had incentive to play this game according to the implicit understanding that as long as others played according to the rules, there was no reason to complain and disrupt this remarkably efficient and fair method of income distribution.\(^7\)

There are plenty of such examples. For instance, the medical services were supposed to be free. However, to get satisfactory medical care, bribes and other types of under-the-table payments in cash or in kind were necessary. For example, when I was about 11 years old, my older brother and I were sent to Tbilisi, the capital city of Georgia, to undergo a tonsillectomy, a surgical procedure that was routinely done in those days to every kid, regardless of whether his/her tonsils were infected or not. When we visited the doctor’s office at the designated Tbilisi

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\(^6\) Hillman and Schnytzer (1986) and Grossman (1977) also note this phenomenon. For example, according to Hillman and Schnytzer, peasants in the former Soviet Union often sold their fruits and vegetables on a “black” market at a price far higher than the official government regulated price.

\(^7\) See Hillman and Katz (1987) for a theoretical study of such a hierarchically structured corrupt economy.
hospital, the first thing my brother did was to shake the doctor’s hand, tell him that we came to have tonsillectomy done, and discreetly hand him an envelope which was sent by our parents, saying, “This is a gift for you, our parents have asked us to give it to you.” The envelope contained 300 Rubles. Georgian doctors never refused to accept these kinds of gifts.

Similarly, in order to enter an institute of higher education, payments to the “right people” were absolutely necessary, even though education in the former Soviet Union was supposed to be a public good provided for free. Bribing teachers was also common even after entering the university. For example, students taking written exams, would often put in their examination notebooks some amount (20–30 Rubles perhaps), and then hand in their exam notebooks. One of my brothers was able to receive better grades in his high school diploma after haggling (literally!) with his teacher on the price. It turns out that the teacher was asking for 4 Rubles for each extra point while my brother was only offering 2 Rubles. In the end, they have settled on 3 Rubles per point. Thus, for example, “marking up” a grade from 3 points to 5 points on a scale of 2 (“fail”)–5 (“excellent”), the scale used in the former USSR, which is equivalent to moving from 60 to 100 on the US scale, cost my brother 6 Rubles.8

2.4. Marking up the Official Prices

Under-reporting and pocketing the extra income was the standard as well as the norm amongst the store and shop managers and employees in Georgia’s black markets. The way it was implemented in practice varied from setting to setting. In case of my brothers, who were the employees of a government-owned clothing store, the mode of operation was as follows.

A lot of the merchandise these stores were selling were produced by Georgian or Russian government manufacturing plants, although some proportion of the merchandise was often imported, typically from Poland, Czechoslovakia, Romania, Bulgaria, and other east European countries, countries that typically would not be considered in the west a designer clothing powerhouses. The economists, the accountants, and other bureaucrats (who typically were directly appointed by the local or the regional Central Committees of the Soviet Communist Party) of these production or importation facilities were in charge of setting the prices of the merchandise. They would set the prices without having any clue about the actual demand.
conditions in the market or about the true costs of purchase, manufacturing, and transportation. In fact, the merchandise was almost always under-priced giving the employees of the stores powerful incentives to mark up the official prices and pocket the excess profits.

My siblings faced these kinds of tempting situations on a regular basis. For example, a line of simple working-man’s shirts would arrive to the store with the price tags attached to the shirt buttons. In addition to the price information, these price tags would also contain information on the manufacturing plant, manufacturing date, manufacturing place, as well as information about the types of fabric used in the production, and washing, drying and ironing instructions. Now, with a price tag of 4 Rubles per shirt, these shirts were grossly under-priced even though they would not really be considered high quality shirts by any sensible western standards. Therefore, my brothers would order new price tags from a local government printing shop, which would be identical to the original price tags, with only one difference: instead of 4 Rubles, the price tags would indicate a price of 10 Rubles or even 12 Rubles. Then I, along with my younger brother, Joseph, would sit in the kitchen and replace the price tags on these shirts by simply removing the original tags and replacing them with the new price tags. We used to mark up this way the official government-set prices dozens of times each year, with the delivery of almost every new shipment of the merchandise.

Now, formally the government printing presses were prohibited from printing any non-official government document, and certainly from printing fake price tags for illegally selling government manufactured products at government owned stores at artificially marked up prices. Naturally, my brothers had to bribe the printing press managers and employees, and especially their head/director, to secure their full cooperation.

Usually, the size of the bribe that was needed for obtaining a given good or service was not negotiated. Instead, it seemed that both parties somehow knew what the “right price,” i.e., the equilibrium market price, was approximately. This knowledge appeared to be a result of the learning process that took place through recurring interactions between the parties, or simply through the process of accumulation of information over time about the relative black market prices of various goods and services, and thus, about the relative sizes of the bribes.\(^9\)

\(^9\) A similar phenomenon seems to be taking place in today’s Iraq with the help of Iraqi media. According to the April 7, 2006 issue (Section B, p. 9) of the Israeli daily newspaper *Haaretz*, Halad Zachi, an Iraqi columnist, published in the Iraqi Arabic daily newspaper *Nahrein* a list of ongoing black market prices and bribe rates, for various illegal goods and services, warning its readers, not to pay more than the listed prices. According to *Haaretz*’s translation from Arabic to Hebrew (which I further translated from Hebrew to English), Zachi stated in his article: “Because of the recent increase in cheating and scams, and because
The method of illegally obtaining goods and services in exchange for bribes worked because everybody that was a part of the group or the circle, got his share of the profits. Following these rules, my brothers would share the 200–300 percent “excess profits” with all “club members.” For example, if on a 4 Ruble shirt my brother made 8 Rubles profit, then he would keep one Ruble for himself (a nice 25 percent profit), and give 7 Rubles to the store manager. The store manager would pocket one Ruble, and 6 Rubles would go to the director of the bazari. The director and his office employees would keep 2–3 Rubles, and the rest would go to the local police station chief, who would take the money and share it with his fellow policemen as well as with his supervisors at the central police station in the regional capital. The profit sharing mechanism was designed in such a way that all participants had incentive to play the game according to these rules. It worked precisely because everybody benefited from it and thus nobody had incentive to disrupt its smooth functioning. Thus, these and other similar transactions were all driven by rent-seeking motives.

2.5. *Price Adjustment “under the Table”*

Often, the decision by how much to mark the price above the official price was left for the last moment right before selling the merchandise, and I took very active role in this kind of instantaneous price adjustments, which was done under the table, literally. I was about 7–8 years old at the time. On Sundays, which was the busiest market day in bazari, I would go to help my

of the appearance of numerous organized gangs who claim to have contacts with the right Iraqi government officials and with the right US military personnel, but who demand outrageously high bribe rates, here we are publishing the official ongoing bribe rates for various goods and services.” The article then lists the bribe rates in three columns. Column 1 identifies the government office or the ministry, i.e., the service provider, column 2 lists the type of service, and column 3 lists the bribe rate. For example, “To purchase a position of first lieutenant or of a captain at the Iraqi police force, one needs to pay the Iraqi interior ministry operatives a sum of $500 to $1,000. The position comes with two certificates, one indicating that the certificate holder has served in Saddam Hussein's army, and the second indicating that the certificate holder was active in groups opposed to Saddam. This is a worthwhile investment because it guarantees a nice salary, it comes with a private machine gun, and [perhaps the best privilege of all,] it authorizes the position holder to accept bribes from others. A prisoner's release from the Ministry of Interior costs in the range of $5,000 to $20,000, depending on the severity of the offense… Importing a 2004 year model car requires about $1,000 in bribe to tax authorities. The popular Kalachnikov machine gun (AK-47) with a pouch that holds 30 bullets will cost $100–$150. A travel visa for a member of an armed militia from Jordan or Syria to Iraq costs only $50, or a percentage of the ransom payment collected if they highjack someone. A Ph.D. degree certificate carrying authentic signatures and official authentic seals costs $600, a similar authentic MA degree certificate costs $400, while a BA degree certificate, $300. We plan to monitor the market conditions and periodically revise the bribe rates according to the market information we obtain.” Thus, it seems that the Iraqi press is trying to help the Iraqi public in resolving the problem of incomplete information that exists in markets, where illegal transactions are made via the use of bribes and other black market mechanisms. The potential bribe-givers do not know what are the ongoing or “equilibrium” bribe rates for common goods and services, and the press seem to use a form of “posted-price” information dissemination mechanism to inform the public about the “equilibrium” black market prices and bribe rates. Given the chaotic situation in today’s Iraq, this “posted price” mechanism can be beneficial for eliminating “unjust” discriminatory practices of potential bribe takers and other corrupt officials.

10 Marjit, et al. (2000) suggest that existence of such strategic interactions between law enforcement agents on the one hand and the criminals on the other make standard anti-corruption policy prescriptions quite ineffective. See also Klitgaard (1988).
brothers because the market was completely full with shoppers, many of them from the suburbs and from the numerous villages scattered around Tskhakaya, because there was no school on Sundays, and families came with their children to shop.

My brothers worked outside their stores, where they had big table counters. These tables—perhaps about 3.5 meters long and 1.5 meters wide, were enclosed from around and thus were used to store the merchandise. The tops of these tables were covered with merchandise for sale: piles of shirts, pants, underwear, socks, etc. Various kinds of shoes would be scattered between these piles. Many types of clothing were displayed on cloth hangers above the tables as well.

My job was to sit inside these tables and help my brothers make on-the-spot instantaneous adjustments of shoe prices to ensure that quantity supplied matched the quantity demanded. Sitting inside these tables was not particularly difficult for me because physically I was skinny and small. I was equipped with a simple metallic device with rotating sharp heads with numeric stamps which I could use to mark any price on the bottom of the shoe simply by pressing these metallic heads against the shoe bottoms. The device was very simple to operate, even for a 7-year old boy.

The instantaneous price adjustment mechanism worked as follows. A customer would come and look at the shoes displayed on the table, which typically would be really large or really small in size, and which would have no price on it. The customer would ask if we had the shoes in size 43 (equivalent to about 9 ½ in the US), for example. My brother would at first say: “No, we are out of them.” Given the constant shortage of goods and services Georgians were used to, this kind of answer would not be surprising.

However, most of the customers would also know that at this point, if you really want the merchandise, you must insist that the seller re-check his inventory, perhaps there is “one last pair” of size 43 shoes left. Based on how strong and how persistent the customer was in his/her request my brother would assess the approximate price the customer would be willing to pay for the shoes. Finally, my brother would bend and “start looking” for the right size shoes inside the table. I already had the shoes ready as I could hear the entire conversation, and my brother would whisper to me the price he wanted me to mark on the shoes, and within few seconds, “he would be done searching for the shoes,” and luckily, “he would find one last pair of shoes” of the requested size. This simple method always worked remarkably well, except during police raids,
as discussed in section 2.9 below.\textsuperscript{11}

These and other types of black market activities we were engaged in were possible because at the official government set prices there was an excess demand for almost everything, which gave us the incentive to adjust the prices endogenously to clear the market.

### 2.6. *Fake Merchandise*

One of the most profitable operations according to my brothers was buying and selling of fake merchandise. The merchandise would be illegally produced by the same government owned production facilities that produce the “official” merchandise. Their quality was identical as well. Therefore, for practical purposes the officially manufactured merchandise and the fake merchandise were identical. The only difference was that the fake merchandise’s production would never be reported and thus, as far as government officials were concerned, they “had no knowledge” of its production.

My brothers would purchase the merchandise from the manufacturing plant employees at a very low cost. For example, an exact duplicate of “officially produced” shirts with an official consumer price tag of 3 Rubles could be purchased illegally for 0.50–1.50 Rubles, depending on the quantity purchased, and could be sold for as much as 8–10 Rubles. For the manufacturing plant employees, these were wonderful transactions as they pocketed all the revenue they obtained from these transactions, but incurred no direct production cost, essentially stealing from the government owned factories. Obviously, they had to incur the overhead cost of bribing the right higher-level management and government officials.

Thus, my brothers’ store would receive an official delivery of 50 shirts, for example. If these shirts were popular, then my brothers would purchase and sell as many as 500–1,500 fake copies of these shirts within 2–3 weeks, while the officially delivered merchandise would remain on store shelves, most of it unsold.

\textsuperscript{11} This story is quite ironic when I consider my current work. I am currently an Economics Professor and my main research area is studying pricing and price-setting within the New Keynesian framework. The specific themes I study include price rigidity and flexibility, size and frequency of price adjustment, cost of price adjustment, menu costs, etc. For example, last few years, I have been conducting academic research about how much it costs to change and update the prices at large US supermarket chains or at large US manufacturing firms. See, for example, Levy, et al. (1997, 1998, and 2002), Dutta, et al. (1999 and 2002), Levy and Young (2004), and Zbaracki, et al. (2004). It is ironic when I think what I was doing as a 7-year old boy in the Republic of Georgia: I was involved in adjusting and updating prices of various consumer goods and at least once, even incurring a real cost of price adjustment (real menu cost): I was arrested by the local police. My crime: illegally marking up the government set prices. My punishment: few hours of jail-time, until my father came to the police station, paid 150 Rubles and 2 liters of home made *chacha* to the local police chief.
2.7. Artificial Shortages

Another method my brothers used in order to mark up prices was creating artificial shortages. They used the method particularly successfully for selling items that were especially popular, which would include all the imported products (regardless of where they were imported from, and regardless of their quality) and some domestically produced products that were in constant shortage despite the fact that they were in high demand. Examples of imported products that were incredibly popular in Georgia include Bulgarian made shirts, Romanian made pants, Polish made shoes, etc. I suspect that not many readers of this paper will identify Bulgaria, Romania, Poland, or any other eastern European country as a leading designer clothing manufacturing center. I shall remind the reader, however, that in Georgia, any product would sell at a premium price regardless of its quality, as long as it had anything inscribed on it in any foreign language, i.e., in any language other than Georgian or Russian. Thus, Bulgarian made shirts, Romanian made pants, and Polish made shoes were Georgia’s equivalent of brand name designer clothing and shoes such as Gucci, Armani, and Boss. In short, imported goods were amongst the most demanded products.

Galoshes are a good example of a domestically produced product for which demand was always high yet it was constantly in a short supply. Galoshes are overshoes made out of rubber and they were popular in Georgia during rainy winter days, especially amongst the low-income peasants and villagers from outside the town, who would often use them as ordinary shoes for working in the field or for walking on the unpaved roads of their villages, because they were unable to afford real shoes.

Supplies of galoshes would arrive to the store two or three times a year, and there was always a huge demand for them. People would hurry to stores as soon as the word got out that galoshes are on sale. They would come asking for galoshes but on my brothers’ store tables they would find only a single left shoe or only a single right shoe, and when they would ask whether there are galoshes of size 3 or 4 or 5, etc., they would receive a very typical answer: “No, we are out of them.”

If they insisted, however, then my brother would give them a hint: “Well, I do not have any galoshes left, but I can send my little brother to another store, and he might be able to obtain a pair of galoshes of the size you want, but the price will probably be 8–10 Rubles. Also, you will have to give the boy 2–3 Rubles as a gift.” They would always agree to the terms of this deal.
And of course, I would always manage to obtain for them the right size galoshes in 5 minutes, often with a profit of as much as 400 to 500 percent.

2.8. Human Temptations

One simple method my brothers used for selling cheap pocket wallets in their store in bazari was to take advantage of human temptations. Here is how one of my brothers implemented the method. The store would order and receive a delivery of cheap wallets made out of plastic. My brother would put just one wallet at the edge of his merchandise table, on a pile of some clothing, making it appear as if it was left there by accident by one of the shoppers.

Customers approaching the table to look at the merchandise would notice the wallet, and they would indeed assume that it was left there by accident. My brother would pretend that he has not noticed the wallet. Many customers would pretend that they are looking at the merchandise, and quietly would pick up the wallet and put it in a purse or a pocket. At that point my brother would look at the customers and would politely tell them: “Sir/Madam, the wallet you just took costs 6 Rubles.” Most of the customers would pretend that they intended to buy it, and pay the outrageously high price, as otherwise they would be admitting that they were thieves.

2.9. Fixed versus Variable Tax

The informal but quite reliable profit-sharing arrangement my brothers had with the corrupt government authorities was in some sense a form of tax payment arrangement, where they paid tax on a regular basis on the profits earned on every item sold at a marked up price.¹² This was a variable tax, variable in the sense that the tax payments were linked to the quantity sold: the more quantity were sold at the marked up price, the higher were tax payments.

There was another taxation mechanism that was quite popular in Tskhakaya, which was more like a fixed tax. The “tax collection mechanism” was implemented by the local police force in the form of periodic raids they would conduct on shops, stores, and other businesses. The police would come and given their knowledge of the illegal activities the store managers and employees were engaged in, they would look for a “smoking gun.” For example, they would go through merchandise and look for items with marked up prices, which were not hard to find.

¹² These payments do not constitute an ordinary tax, however, as they would never end at the government's tax revenue office. Instead, they went to individual upper level management and police and government officials for their private use and benefit, rather than for the benefit of the general public. Hillman and Schnytzer (1986) refer to these types of payments as “overhead expenditures” or “overhead costs.”
When these raids occurred, the store manager would quickly get together with the store employees and they would instantly collect money to bribe the visiting police officers. The sums would range between 600–800 Rubles.

There was another, somewhat different mechanism that was often used with the same goal in mind. A policeman would pick a customer whom my brothers would not suspect. The customer would be send to my brother’s “ducani” (a store in Georgian) to purchase some product for which price was marked up. The unsuspected customer would come and buy such a product and leave, but later he/she would return with the purchased merchandise while accompanied by a policeman. On one such occasion, one of my brothers saw his customer was approaching him holding the blouse she has purchased just few minutes ago, and she was escorted by a policeman. Instinctively, he run away, and managed to get out of the bazari’s grounds despite the police’s attempts to quickly seal the market and capture him. It turns out that this particular policeman was an honest policeman, a true communist, a non-corruptible policeman (an oxymoron in Georgia). My brother, therefore, had to go in hiding for several weeks while the police was searching for him. In parallel, my father was trying to get to this policeman’s heart through other (corrupt) police officers. These policemen were paid 1,500 Rubles (which was considered very high price) to convince their fellow police officer to stop chasing my brother.

A raid of similar type took place at an illegal shoe manufacturing facility where one of my brothers was working. The business was located in a residential neighborhood and it was producing men’s and women’s shoes. The shoe materials were pre-cut somewhere else and at this facility the shoes were manually assembled by about dozen workers. This was an illegal operation because in the former Soviet Union nobody was allowed to engage in any sort of private production.

In 1966, when my brother was 23 years old, the shop was raided by the city’s chief investigative policeman. The policeman came to the shop with a large truck and loaded it with all the materials and merchandise that he found in the shop. However, my brother as well as several other employees managed to escape as they were loading the truck. He went to a friend’s house and from there to the train station and there he took a train to my aunt who lived in Suhumi, the capital of the Abkhazia region. There he stayed for 3 days, until he learned that it was safe to return home which meant that bribes were paid to the right people, in this case to the chief investigative policeman. Upon his return, my brother learned that the raid was the chief
policeman’s personal initiative, a part of his annual “tax collection tour” for the welfare and well-being of his family.

These and similar periodic raids would take place once every 6–12 months, and the payments we were expected to make served as a form of periodic “fixed tax” payments. As always, the payments that my brothers made to the local police force would also reach the functionaries and the bureaucrats of other local (and usually higher) government authorities, as their fair share of the “tax proceeds.”

There were also annual visits from kantora, the government office that was in charge of monitoring the financial and accounting affairs of government owned businesses and operations. The goal of these visits was to audit the inventory and the accounting balances of these establishments, to ensure that no merchandise or money was missing. In addition to these pre-announced visits, there were also surprise visits from the kantora, which were particularly dangerous because stores could be easily caught with fake merchandise or with merchandise with fake marked up price tags, etc. During such visits, the store would be closed for a day or two, depending on the store size, while the kantora’s employees counted the merchandise and the sales proceeds and records, and compared them to the information they had in their records.

These types of visits gave the kantora officials wonderful opportunities to obtain their share of the pie. Although the visits were made only once or twice a year, when they came to town, they would stay for 2–3 weeks and audit perhaps as many as a dozen different stores. The practical aspects of the bribing mechanisms that were typically employed in these settings were quite efficient. After all, the entire process was corrupt, and nobody had interest in devoting too much time to haggling about what would be the right and fair bribe rate for each individual store. Such haggling could compromise the discretion of the entire process.

The kantora officials, therefore, did not negotiate individual store bribe rates. Instead, the management of the stores that were raided/visited, would quickly get together, collect a large sum of money, perhaps as much as 5,000–10,000 Rubles in total (about 1,000 Rubles per store), and a designated person—typically someone who personally knew one of the kantora officials, would take the money to his friend at the hotel where he stayed as a “gift and a token of appreciation from the local business community.” The process of jointly bribing the kantora’s officials was far more efficient than each individual store manager making individual store bribe payments. That is, the bribe payments were all collected and channeled together to the kantora’s officials similar
to the way that banks channel individual savers’ funds to investors, substantially reducing the transaction cost. After such payments were made, any discrepancies and problems that were found during the audit of the stores were suppressed and never included in the final report. That is, if based on the audit it was determined that there was money missing, then obviously the store management had to resolve it. However, other types of problems such as over-priced merchandise, fake merchandise, etc. would be completely overlooked.

2.10. The Power of Chacha

One of the most remarkable things about Russia, and perhaps about the rest of the former Soviet Union, was the unusually high purchasing power of homemade vodka, or *chacha* in Georgian. My father, like other Georgians, used to make *chacha* from the remains of grapes, after making wine from them. Now, the quality of *chacha* was determined by pouring it on a plate and throwing in a burning match. If it caught fire, then it was of a high quality. In other words, it was a… pure alcohol, no different than… after-shave.

Now, with such home made vodka, one could obtain in Russia everything and anything, from domestically grown produce to imported consumer goods to machine guns, etc.\(^\text{13}\) We discovered that with home made vodka we could accomplish a lot even in Georgia. One of my brothers, for example, paid two bottles of *chacha* to his school teacher to get his high school diploma grades “marked up.” My father used 4 liters of homemade *chacha* along with 400 Rubles to get our home connected to the town’s electric grid, which by the way, was supposed to be done for free.

To have one of my brothers accepted to an evening school, all my father had to do was to pay a late night visit to the school director’s home and bring along 2 liters of home made *chacha*. We sometimes went to a doctor’s office with a bottle of home made wine, although wine was not as popular as *chacha* as a means for making bribe payments, and thus its purchasing power was far lower. However, my father’s homemade wine was considered pure (he never used any\(^\text{13}\) A common perception in Georgia was that *chacha*’s purchasing power in Russia was far greater than in Georgia. We discovered in 1971 that this was indeed the case when we were leaving Soviet Union on our way to Israel. On the way from Georgia to Tel-Aviv, we passed through Moscow and later through Brest, and we discovered that we could accomplish so much more in these two cities by using *chacha*, substantially more than in Georgia. For example, various types of bribes that we had to make in “*chacha units*” in Russia were much lower than in Georgia for obtaining similar kinds of goods or services. The main reason for this discrepancy in the vodka’s purchasing power was the Russians’ love for vodka. They valued it far more than Georgians, and they still do. For Georgians, wine always ranked first. The purchasing power of vodka, therefore, was far lower in Georgia than in Russia.

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additives) and of a superb quality, and the entire town knew about it. My father’s homemade wine, therefore, was capable of helping us in many of our economic transactions. In particular, about 5 liters of it, along with a payment of 1,500 Rubles to the Military Commissariat’s officers, were sufficient for one of my brothers to obtain an exemption from serving in the Soviet military during a peace-time period. During war time, no amount of money, vodka, or wine would help: everybody would be mobilized.

2.11. Barter Exchange

Transactions involving barter exchanges were not limited to chacha and homemade wine. Although chacha and wine were sometimes used in bribing as a form of commodity money, they typically served more as a supplementary side-gift, while monetary payments comprised the main component of a bribe. Barter, however, was quite common in Soviet Georgia. Along with other people in our town, we routinely exchanged goods and services with each other. These exchanges were illegal, as they took place outside the official markets, typically involving goods and services that were produced outside the official production plans and facilities. Also, the transaction prices differed from the official prices, as they varied from transaction to transaction, which obviously was against the ideas of “equality to all.”

For example, my father and one of my brothers (as well as one of my uncles) worked as glazers, which meant that they would install glass (or replace them if they were broken) in windows, picture frames, etc. Sometimes people came to our house with a picture frame or with a window frame and my father or my brother would cut glass and install it in these frames. But most often, they would go around in the streets of our town as well as the surrounding villages and towns, carrying several quite heavy and large pieces of glass, often as large a 1.5m by 0.80m each, on their shoulders (they had no car), and offering their services to people. In exchange for their service, my father and brother would be often offered their payment in kind. These would include homemade cheese, various types of fruits and vegetables, dry beans, dry fish, etc. Other

14 We used to make the wine at home, in giant deep pots. The men of the house would wash their feet, while the women would wash the grapes. And then, the men and the boys would jump into giant pots and trump the grapes. The resulting grape juice would be kept in jars for 4–5 years, while passing it through a periodic filtering process. After 5 years, the wine would be ready. The funny thing is that, during a recent visit to Tel-Aviv’s Museum Haaretz, the tour guide explained how Byzantines have used to make wine in Georgia “the Byzantine way” as recently as 35 years ago.
15 Thus, although chacha did serve in Georgia at times as a commodity money, it did not attain the same degree of universal acceptance as cigarettes did at the P.O.W camp according to Radford’s (1945) account, or as red Mexican dry beans did in barter exchange market simulations according to Levy and Bergen’s (1993) and Fried and Levy’s (1995) account.
barter transactions would include dental services, carpentry projects, clothing, medicine, etc.

According to Demetriou (2002), during the recent transition period, grenades, machine guns, and other types of small arms have serves as a medium of exchange. Demetriou (2002, p. 16) reports that “According to several sources, weapons during the conflict and the early post-conflict period in effect served as a form of currency in a barter-dominated economy. Hyperinflation in Russia during that time meant that Russian rubles (Georgia’s currency until 1995) were an unstable medium of exchange. Because they [the weapons] were available in large (and constant) quantities and not sensitive to fluctuations in the currency market, weapons thus substituted for the ruble to a certain degree. One teacher of English in Tbilisi, for instance, recollected having been paid in grenades for lessons he had provided to an elderly woman. Similarly, the Mkhedrioni [a paramilitary group and political organisation outlawed since 1995 but subsequently reconstituted as the Union of Patriots political party] were able to acquire significant influence in criminal and political clientalistic networks through the distribution of weapons as “gifts” to powerful underground figures, economic directors, and political patrons.”

2.12. Cost of Praying

Religious practice was officially outlawed in the former Soviet Union. Instead, in Georgia as in much of the former USSR, Lenin, Marx, and Engels were the gods and their teachings (e.g., the *Communist Manifesto*) were the bible. Nevertheless, the city Jews somehow found a way to get the authorities to agree to allow the local Jewish community to build a synagogue. It was quite strange, however: there was a synagogue there, but the signs at the entrance indicated that it was prohibited to pray there. It was supposed to be a place for social gathering only.

We, however, practiced our religion and were able to hold regular daily prayer services at the synagogue because the local congregation collected money on a regular basis and arranged generous bribe payments to the local city authorities as well as to the local police chief. Thus, we were able to practice our religion by means of bribing the government officials. Thanks to small extra payments, they even permitted the families to bring along their kids to the Sabbath services.

2.13. Cost of Exit Visa

In 1971 my family left the Republic of Georgia for good and immigrated to Israel. The process of obtaining the exit visa was full of hurdles and obstacles which without side-payments would be impossible to overcome. It began with the “invitation” which we received from the
Government of the State of Israel. The Israeli invitation was necessary for requesting an 
emigration permit from Georgian authorities. The invitation was arranged through other 
emigrants who had left Georgia before us.

When the invitation arrived at the local post office, the post office director saw an 
arbitrage opportunity. This was the standard practice: every time a letter came from overseas, 
usually from a family in Israel, the postman would come to our house, and tell my parents quite 
directly and explicitly: “I got a letter for you from Israel, from Moshe Leviashvili. How much are 
you willing to pay for it?” Typically, one or two shots of chacha along with 50.00 Rubles would 
be sufficient.

The value of an invitation from the government of Israel, however, was much higher than 
a single family letter. The post office director recognized this and took advantage of this profit 
opportunity fully. In the end, it cost the family close to 600.00 Rubles to get the document from 
the post office. This, however, was only the beginning. The employees of the local government 
office that issued birth certificates have informed us that our family members’ birth certificates 
were lost. However, a payment of 150.00 Rubles for each birth certificate “helped them locate” 
the lost birth certificates.

Then there was an office in Tbilisi, the Capital of Georgia, which issued the passports. 
There we were sure that we would be expected to make a substantial contribution towards the 
happiness and welfare of the passport office head and his family. It turns out, however, that the 
person in charge of the office was originally from Tskhakaya and a former star in the city’s 
soccer team. He recognized my father and my brothers when they went to the passport office in 
Tbilisi, and told them that he is not going to take any money from “his old comrades.” That was a 
huge saving for the family.

The last encounter we had with Soviet authorities was in the city of Brest, on the border 
between Belarus and Poland. This was our point of departure from Soviet Union to Israel. The 
Soviets did not allow emigrants to take with them many of their possessions. The border police in 
Brest, however, were more than willing to allow us to stuff the boxes we wanted to ship with 
anything we wanted, all in exchange for just one bottle of chacha per policeman.

2.14. Labor Markets

The structure of the labor market in Georgia like in the rest of the former Soviet Union 
was set in such a way that a person could only be employed by government. No private enterprise
was allowed in Georgia, which means that even if one had a job that in the west would be
described as self-employment, in Georgia he/she had to be registered at a government office,
called arteli, who was considered his/her official employer.

For example, my father and one of my brothers were registered with the local arteli as
glazers. The theoretical implication of this registration was that arteli’s officials, for example,
could tell my dad what to do. For example, they could keep him busy by sending him to all sorts
of government construction projects where glazers were needed. In addition, because arteli was
his official employer, he was supposed to receive his monthly salary from arteli. Officially, he
was not supposed to sell his services to private individuals.

All these rules were in theory, however. That is because like most of the self-employed
people, my dad had also bribed (quite generously) some of the arteli’s key officials, and
therefore, in practice, he was rarely called to government run projects. And in the rare occasions
that he was called, he was rewarded by receiving fairly large quantities of uncut glass for his
private business use. For example, periodically he would be called to some government
construction project to install some window glasses. These sites usually would have large
supplies of glass, and the construction supervisors at these sites would offer him to take some
glass for his private use because they would almost always receive deliveries of construction
materials in excess quantities.

But perhaps more importantly, thanks to the bribe payments, my father was permitted to
sell his glazing services to private individuals quite openly. Moreover, he never reported his
income to the arteli’s officials, despite the strict regulations that required full reporting of all
incomes from all private transactions. In fact, each “self-employed” employee of arteli was
required by the Soviet labor and employment laws to hand in all the income he/she has earned
from private transactions. That would count as his/her contribution to the benefit of the country,
to the benefit of the proletariat. In return, the employed would receive the government prescribed
30–60 Rubles, the monthly salary.

Now, as far as we know, nobody has ever handed in their privately earned income to
arteli. The entire thing was a big joke. Arteli’s apparatus was full of rent-seeking bureaucrats
whose chief goal was to reach as many independent, self-employed individuals as possible to
extract rents. My father, for example, just for the sake of formality, would go to arteli’s offices
towards the end of each month and would report and hand in his 30-Ruble privately earned
income for the previous month. Needless to say that nobody would ever question the accuracy of his reported income, which always was ridiculously low. In exchange, my father would receive his monthly 30 Ruble salary from arteli. Of course, the monthly salary payment from arteli was like peanuts in comparison to the actual income he regularly earned from his private glazing works. By mid 1960s, my father got tired of these games, and with an additional lump-sum bribe payment, he got a permanent exemption from ever reporting to arteli. Later on, he obtained similar exemptions for my brother and my uncle.

3. **Was the Corruption in Georgia Efficient?**

According to one point of view in the existing theoretical literature on corruption, corruption can be efficient under some circumstances. See, for example, Leff (1964), Huntington (1968), Lui (1985), Beck and Maher (1986), and Lien (1986). According to this view, in economies where the economic dominance of government-run monopolies along with bureaucratic rigidities leads to inefficient outcomes (for example, to constant shortages in the available supply of goods and services), corruption can serve as a means for achieving a higher degree of economic efficiency by “greasing the wheels” of government and overcoming cumbersome government bureaucratic regulations.

In Georgia’s centrally planned command economy, the government officials and bureaucrats were the ones that made the decisions of what will be produced, how much will be produced, and for whom will be produced. Thus, in Georgia, like in much of the former Soviet Union, one of the main causes of corruption was state control over the distribution of the basic resources. The control manifested itself in the cumbersome and inefficient state management system, which made it impossible for individuals to obtain any service from the government without paying a visit to dozens of government officials in various offices. The state control on all economic decisions also resulted in constant shortages of goods and services. In the absence of western style free market economy along with its flexible price and wage system, Georgian decision makers had to find ways around the restrictions imposed by the centrally planned totalitarian economic structure, and its inefficient price system. In the Republic of Georgia, therefore, the problems created by central planning were resolved, at least in part, by developing a black market, a parallel market where many goods and services were traded outside the official markets.

Thus, while more data is needed to give a clear answer to the question this section asks, I
suspect that under the assumption that the centralized market structure of the Soviet command economy was exogenously imposed on Georgians (see Aidt, 2003), the corruption allowed the Georgian economy to produce far more output than would be produced otherwise. As in the case of *Food Store Five* discussed by Hillman and Schnytzer (1986), the corrupt rent-seeking activities in Georgia enabled the economy to sustain production. Therefore, to the extent that illegal black market activities allowed greater production and consumption of goods and services, the corruption in Georgia likely was efficiency-enhancing.

4. **Anecdotal Evidence – Potential Benefits**

Although corruption appears to be a widespread phenomenon across the globe, direct data on corruption and its prevalence is scarce because of its illegal nature, which limits the attention that corruption-related problems receive in policy discussions. Given the illegal nature of most forms of corruption, direct evidence or actual hard quantitative data on corruption is unlikely to become available from any official government source such as government statistical agencies on a large scale.

There seems to be plenty of anecdotal evidence about prevalence of corruption. Anecdotal evidence, however, is rarely published in academic studies, perhaps because the economics discipline until recently tended to be in general quite skeptic about the scientific value of anecdotal evidence of any sort. There are several possible reasons for this. One reason is that because of its informal nature, anecdotal evidence is difficult to verify. Second, various forms of potential cognitive biases may affect the recollection or the presentation of such evidence. Also, some might consider anecdotal evidence statistically less reliable than other types of evidence because they do not necessarily represent a typical or an average behavior. Finally, the virtual impossibility of falsification of anecdotal evidence can make such evidence doubtful.

As mentioned above, however, increasing number of scholars seem to recognize the value of anecdotal evidence as an useful supplement of more standard and more commonly accepted statistical evidence. That is certainly true in cases where data from regular sources are non-existent. Corruption is one such case. Anecdotal evidence, in such circumstance, can offer information on the extent and frequency of corruption, which could shed light on the nature, causes, as well as consequences of corruption, even if such data could not be employed in conventional statistical tests. In addition, anecdotal evidence, if collected in substantial quantities and across many countries, can be fruitfully used as an input in the construction of various
corruption indexes, such as the ICRGI, IMDI, and CPI.

5. **Conclusion and Caveats**

The former Soviet Union was based on a centrally planned economy, where government officials made all the decisions for the people, decisions that in market economies are usually left to private individuals and to free markets that rely on a flexible wage and price system. The examples discussed in this essay are based on first-hand accounts and suggest that individuals that operate in inefficient constrained environments have powerful incentives to find ways around the constraints, even if that means taking certain risks. This underscores the power of incentives.

In this paper, I offer some direct evidence on various types of corruption in the Republic of Georgia during the years 1960–1971. The evidence I offer is based on my and my family members’ personal experiences in Georgia. The specific cases and events I described, are consistent with similar, although not as detailed, accounts offered by Simes (1975), Simis (1977, 1982), Grossman (1977), Bergson (1984), and Hillman and Schnytzer (1986). For example, according to Simis’ (1982, pp. 155–156) account, in order to have his business survive in Georgia, one Food Store Five’s manager had to “…take money from the sales clerks, to sell goods at inflated prices, to cheat the customers, and, of course, to bribe the top people in the municipal administration, and all the store’s suppliers.” This suggests that the events I described above were not unique to my family. Indeed, the ways my family used to deal with the restrictions and inefficiencies of Georgian economy were not unique in the sense that many of our neighbors and friends had to adopt similar methods and techniques to survive. The anecdotal evidence I offer, therefore, is quite typical and general.

Although the period described in this study covers the years 1960–1971, the market structure and the social organization of the illegal economic activities that I describe below existed in Georgia under the communist regime well before 1960s, as well as after 1971. While there were some attempts to confront corruption, it turns out that many of these attempts were not real: they were what Hillman and Schnytzer (1986, p. 96) call “… purges… [that end with] successful rent-seeking endeavor. The illegal activities underlying the rents continued with a newly specified property rights designation.”

A reader might wonder why we really did these kinds of unethical things. Where was our sense of guilt or shame? Well, the answer to this hard question is actually quite simple and twofold. First, we had no choice. There was no other way a family could really live and survive
in Georgia without being engaged any these types of illegal activities.

Second, and perhaps not less important, it was the norm. Everybody was doing it without feeling any guilt or embarrassment about it. The society saw this as a necessary evil, and usually blamed the regime for it. Therefore from the point of view of ethics, bribing, mark-up pricing, side-payments in cash and in kind, etc., all these kinds of black market activities were not considered immoral. To the contrary, it was considered perfectly normal, and a part of the everyday life in the former Soviet Union. Indeed, according to a recent interview with Elina Fuhrman of the National Public Radio, the current President of Georgia, Mikhail Saakashvili said: “Georgia was a very corrupt country. Sometimes people don’t believe that it was corrupt because it was part of culture” (my emphasis).16

Thus, the system, the police, the government officials; all were corrupt. My family was responding to market incentives, as the standard economic model of rent-seeking behavior would predict. Of course, the strange situation was that these black markets were illegal. Thus, we were breaking the law by illegally taking advantage of the black market price system to earn extra income by clearing the markets and equating the supply and demand.

The corruption and the black market mechanisms emerged endogenously in Georgia because the Soviets did not allow free markets to operate. In parallel to the official market, therefore, well-functioning black markets developed. Many Georgians believed that Georgia itself was one big black market. Indeed, Georgian economy had prospered and Georgians were enjoying a relatively high standard of living in comparison to the rest of the republics of the former Soviet Union, at least in part, thanks to the “free market institutions” Georgians were able to establish and promote.

Georgia was a very corrupt country. It was corrupt at all levels of government, beginning with the highest ranking communist party members in Tbilisi, all the way to the low-level office workers in small towns and cities. To get anything done or accomplished, bribing and making side-payments to the right government bureaucrats and functionaries, and quite often even to the local police officers, was a must. Various types of profit sharing mechanisms the Georgians have developed were designed in such a way that all participants had incentive to play the game according to these rules. It worked precisely because everybody benefited from it and thus

nobody had incentive to disrupt its smooth functioning. Thus, these and other similar transactions were all driven by rent-seeking motives. That is what gave the Georgians incentives to engage in productive activities despite the Georgia’s centralized market’s totalitarian constraints and limitations.

The corruption continued to exist in Georgia even after the collapse of the Soviet Union, and the Georgian government did not begin taking serious anti-corruption measures until President Saakashvili rose to power in 2003. Indeed, according to the Transparency International’s CPI, as lately as in 2003, Georgia still was one of the most corrupt nations in the world—on a par with Tajikistan and Azerbaijan and outranked only by countries such as Myanmar, Haiti, and Paraguay.

Was the corruption of Georgia’s economy efficient? The corruption allowed the Georgian economy to produce far more output than would be produced otherwise. The corrupt rent-seeking activities of the Georgians have enabled the Georgian economy to avoid the stagnation of its economy and the impoverishment of its citizens. In this sense, corruption could have been efficiency-enhancing. According to Ron Shapira, a Bar-Ilan University Law Professor, “If there is anything that is worse than a bureaucratic corrupt country, it is a bureaucratic honest country.”17 This may have been the case with Georgia.

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