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ECONOMIC CRIMES IN THE SHORTAGE ECONOMY

Abstract:

Rational agents react on the incentives in the market economy as well as in the centrally planned economy. Economic laws are persistent regardless the economic system. Legislative system changes the outcome of the game between economic agents and managers. Base on the original survey among former managers as well as on the legislative sources from the 1970's and 1980's the taxonomy of economic reactions on the shortage economy was made. We distinguish plan manipulation in order to ensure payment bonuses; bribery in order to gain the short-supplied inputs and reserves' creation for the purpose of the fulfilling the plan. It was shown, that if the rational agent wanted to obey the higher law, he was forced to ignore lower legislation.

Keywords:

Economic Crimes, Legal Cases, Shortage Economy, Socialist Enterprises, State Development Plan

JEL Classification: K22, P21, P37

1 Introduction

No later than 1989 it seemed to be apparent that the central planning economic system – the greatest socioeconomic experiment of the 20th century (Gregory and Stuart 2014: 385) – had failed and the market economy took the lead. However, three decades later, the certain sympathy to the central planning persists and is constantly appearing again. Centrally planned companies under communist regime had some common features with the international companies' management (compare Varoufakis 2016). Discussion on the Big Data again opens the provocative question of central planning in the environment with complete information (e.g. Eyrachi and Stucke 2016:213).

The Czech economy experienced four decades of the central planning. Firstly, the Protectorate of Bohemia and Moravia became part of the centrally administrated Nazi Economic system connected with rationalization and full control of production as well as the consumption (compare Eucken 1948). Nevertheless, the structure and character of the Czech economy was changed predominantly by the centrally planned economy of the Soviet type after the Communist coup d'état in February 1948. Its character and main features had undergone significant changes since 1948 to 1989, especially after the partial (and unfinished) reforms of the economic policy in the 1960'.

Central planning in the 1970's and 1980's created Soviet-type economy (Šulc 2004). It is crucial to understand, that the economic laws work in the very same way in all types of the economic systems. Economic agents in the Soviet-type economy responded to incentives in the same way as any other rational agents in the market economy. What makes different is the playground defined by the legal framework.

The aim of this paper is to show, how rational agents react to legislative incentives in the Soviet-type economy. We focus on the case of the Czechoslovak economy in the 1970's and 1980's. The main formal goal of all agents, which was rooted in the Constitution, was to fill the State Development Plan. However, each and every *rational* agent maximized primarily his individual utility function under the condition of the state utility function defined by the State Development Plan.

In this paper we will present, how the effort of fulfilling the main Act (five-years State Development Plan) lead to the violation of other laws, especially the Criminal Code. We use the legislature, court's findings and decisions, reports of the General Prosecutor of the Czechoslovak Socialistic Republic as well as the State's Final Accounts. Furthermore, the results of our original research lead among former socialist managers are used to illustrate the legal dimension of the plan manipulation.

Firstly we briefly introduce the survey and data we used. Than the legal system, which framed the socialist economy, is discussed. In the following part taxonomy of crimes against the economic system is presented. Next chapter is devoted to the brief

description of our unique field survey. Finally, we describe selected cases of the plan manipulation and its motivation according to the contemporary jurisprudence.

This contribution is therefore not merely reflection of the Centrally Planned Economy in the views of managers and economic agents, but also the contribution to the economic analysis of law.

2 Data and Methodology

Our research is based on the unique survey lead among the former executives and authorities. To date, 75 of in-depth interviews have been realized within our research. Each interview took at least 90 minutes and was conducted by one of eight trained interviews in line with the uniform syllabus pre-prepared in the co-operation with the sociologists and political scientists. Every interview covered range of questions on the following fields:

- Relationship between the company and central planners;
- Interrelationships between companies;
- Relationships within the individual company;
- Communist party and the trade unions within the individual company.

The absolute majority of the respondents (97%) were men, just two respondents being women. Most of the respondents (84%) had a tertiary education. Average age of respondents was 68 years. Respondents were former executives from a great variety of disciplines including heavy engineering, construction, transport, energy and steel industry, mining, textile manufacturing or food processing, but also the academic sector, research and development as well as the central planners or bankers.

The job positions of respondents ranged from planners through financial and department managers to executive directors. In general, these people had, therefore, power to make decisions over the planning process and the fulfillment of the objectives established by plan. All interviewed respondents performed these positions during the period under consideration. Most of them held executive positions also after the Velvet Revolution.

Qualitative methods (primarily tagging) were applied in order to collect and analyze the interviews.

Furthermore, the court findings, General Attorney reports as well as the minutes from the Communist Parliament were used.

3 State Development Plan

The utmost goal for managers in the Czechoslovak socialistic economy was in achieving of the plans. This supreme goal was embedded in most of the Communist Party's documents. For example the Central Committee of the Party had in April 1972

emphasised that it is necessary to *“increase managerial responsibility for the timely fulfillment of the established plans and tasks, for the quality of production, for the careful and reasonable handling of the means and material supplies, for the proper use of the equipment and the raw materials, for the proper fulfillment of all contractual obligations within the set deadlines and for observing the technological discipline”* (Czechoslovak National Council 1972).

There was also very close link between the State plan and individual income. For example then dissident Uhl (1985) characterized this link follows:

“The personal income of economic bureaucracy depends primarily on the fulfillment of the plan. Among the main criteria for assessing the business and granting the premium to business managers are still gross production and profit rates, while material cost reductions and labor productivity growth are less important, easily falsifying data. This results in the “production for production” trend, is production at all costs, including the production of unneeded or poor quality products.”

Respectively, there were methods how to deal with the superior stage in the planned hierarchy to set an achievable plan (see for example Mičoch 1990) but once it was set, it was supposed to be the ultimate goal to achieve. And in most of the cases the plan was (at minimum formally) really achieved.

3.1 State plan as the supreme law

The achievement could be the result of *soft plan*. For example in the Programme Statement of the Government in 1988 then prime minister pointed out, that individual plans of companies are based on low technical and economical parameters and are not compared with the level of foreign production and technologies (Štrougal 1988). If the plan was not achieved then the common punishment was in non-payment of bonuses for the managers as well as for employees. In several cases harsher punishments (liked moving to different position) were applied only rarely.

Generally the managers of the companies were highly motivated to achieve planned results. It was complicated task in the socialist economy because of the very core settings of the system. One of the main characteristics of the functioning was omnipresent scarcity (for example Nuti 1981 or Adam 1995). The reasons for scarcity were miscellaneous. The phenomenon was possibly caused by mistakes in planning, overestimation of the production abilities or by missing a middle-part in the production chain. In Verdery’s view was scarcity foremost direct consequence of the managers’ hoarding (Verdery, 1996). However, the reasons can be seen just the opposite way - the managers were de facto forced to hoarding due to unstable delivery of raw materials or semi-manufactured good for their own production (for example Mičoch, 1990, Soulsby & Clark 1996 or Křížek 1983). They behaved just in a very natural way and tried to create reserves of inputs (including labour force) to be able to achieve their planned goals (for

example Malý, Herc 1988). The centre was not able to reveal hidden reserves of the companies due to dispersed information in the system. This is well known from the economic theory (Hayek 1945) and that time economists realized it in practice (Malý, Herc 1988).

3.2 Crimes against economic system

The managers intended to achieve the planned goal for nearly “any price” up to criminal activities. These crimes, connected with the planning, were legally specified as crimes against the economic system. Analysing them, we should not forget that the overall legal system was set to be subordinated to the needs of the Communist party (and in this specific area to the needs of the planners or generally the centrally planned system). That time crimes against the economic system thus would not be in most of the cases considered as crimes in market economy. At the same time, we should remind, that not only the legal system but the execution of law was distorted as well. The goal of the judges and prosecutors was to protect the socialist state and the socialist establishment. The prosecutors and judges were, and in fact had to be, supporters of the communist regime.^[1] Schönfelder (2016) describes the functioning of the judiciary in socialist countries. He writes that politics and judiciary were not separated and the sentences were in fact expressing politics. In practice the verdicts were dictated by the communist party. He describes “telephone law” meaning that the decision of the court was determined by a telephone call. This state of execution of judiciary had with high probability impact on the penalties in the criminal area of cases against the economic system as well.

The specific illegal behaving in the system appeared in different forms. One of them was above mentioned hoarding in most of the cases as consequence of scarcity. Such behaviour was formally illegal in the centrally planned system even though it was extremely common. The managers had to hoard the inputs just to maximise their chances on achieving the planned results. Unlike the market economies which had been implementing e.g. Just-In-Time system since 1960' (Yui 1997), the Czechoslovak socialist economy suffered from the frequent delays in subcontracting. Šulc (2004:241) mentioned that delivery time in central planned economy (in the 1970's about 130 days in comparison to 70 days in the market economy) is substantially longer than terms for compiling a plan. This forces managers to hoard the inputs as kind of inner insurance. Similarly Šik in his breakthrough article which preceded the economic melting in the early 1960' wrote that the Czechoslovak economy suffers from the hoardings of necessary productive factors as well as from delays due to the lack of material (1965:310). This negative feature persisted even to the 1980's as Uhl (1985:42) showed:

"In case of a longer delay behind demand that has in the meantime fallen, unnecessary goods for the warehouse are produced. The buyer cannot rely on the supplier that he delivers on time or in the required quality (sometimes the goods is not delivered at all), so

it is better if the customer relies on himself. The stocks are being hoarded – and they are than missing elsewhere. In particular, customers accumulate narrow-profile materials, even if they do not need them. On the contrary, the supplier manufactures only what suits him to easily fulfill the plan. That explains, why the Czechoslovak economy is in a paradoxical situation in terms of Stockholding: total inventories are excessive, but in unnecessary assortment. Necessary supplies are missing, while there is surplus of the unnecessary supplies.”

Socialist managers had therefore just two options. Either were they forced to hoard the inputs in spite of the fact that it was costly, connected to the high risk of wasting, or they had to choose not completely legal way of filling the plan. It was possible to use informal net of little services and counter-services to connect the companies with unnecessary hoardings with deficit companies. Or it was possible – as everywhere and in every system – to take a risk and break the existing law. Císařovská and Prečan (1977–1983:281) claimed that:

"An enterprise that wants to succeed, that is, to fulfill a plan, must often violate rigid regulations, but at the same time ensures that everything is all right in theory. Thus, the actual amount of inventory is obscured by fictitious consumption and non-existent performance is being invoiced."

3.3 Fulfilling the plan in practice

Vilímek (2012) stays, that by 1980's at least in crucial Czechoslovak producer and exporter *Automobilové závody, národní podnik* (nowadays Skoda Volkswagen) it was really hard to achieve the goals settled by the plan. The really bad and inefficient customer-supplier relations led the company to insolvency and to the inability to fulfil the plan. The company registered a loss in profits of almost one billions of crowns. The lack of components and material was confirmed by interviewees from many other companies who stated that this was the *main obstacle in achieving the plan objectives, for example in arm industry, mechanical engineering or in construction.*

This problem was even harder in the decline of the socialist regime, as was corroborated by the assistant of the director from the engineering company or by the supervisor from arm industry who said:

"Then, well, those last six years it was big problem [to get the components for production]. It was mainly about finding the screws. Well, it was a problem to get anything. Whatever it was necessary to make somewhere, the manufacturer could not be found. [If] we wanted to bring something up, there was not a construction firm. It was a huge problem to look for. "

This general lack of material and components is one of the reasons behind Czechoslovakia's lag behind Western economies. Jan Vrba (2017) compares his experience with socialist businesses with his work in the United Kingdom, where he had

an exact number of bolts and nuts to keep production going smoothly. If workers needed additional parts, they had to reason why it was. *“At every step, the pressure on economy and the use of working time was known. Performance and quality were the key criteria for job evaluation”*, he adds.

Moreover, at the end of the decade, the Czechoslovak political centre increased the requirements on the key national enterprises, as the economy was drowning in serious problems. In some cases, it resulted in completely unrealistic plan objectives. One of our respondents, who worked in engineering company as the assistant of the directory admitted:

“Everyone knew that the plan, as it was built, that it is unrealistic, that there is somewhere just 15% of something that will not be made.”

Hence, in general it was more complicated to achieve the goals outlined by the plan.

On the other hand, the same respondent said that this increasing failure to meet the plan had many other causes. The first one was the system of daily depreciation of the work performed, i. e., of the finished items. Due to this fact, it was easier for inspectors to uncover problems with the plan performance. An important role played also the increasing denunciations of some of the workers to the political police, which, aware of the problems of the drowning economy, followed closely the performance of the most important companies in the country. Indeed, it was also the case of the AZNP (Vilímek 2012).

State Development Plan therefore settled the conditions, which could not be easily meet by individual companies because of the exogenous obstacles. On the other hand, these companies were highly motivated to overcome there, as the well-being of managers (as well as of many employees) was directly determined by fulfilling the plan.

Rest of this paper deals with the gap between ideal theory of central planning and the real-life solutions which are on the very edge of the law – or even beyond it.

4 Law and Economics in the Shortage Economy

As the incentives intentionally and in the spirit of the official political-economic doctrine distorted and suppressed market forces, economic agents had to implement them to their utility functions as well. As Kornai (2013:131) remarked, buyers in a shortage economy (which is typical state for the centrally planned economic system) try to influence seller even by corruption. On the other hand, in the market economy (economy of surplus) it is the seller who tries to corrupt the buyers by set of benefits, special gifts etc. Buyers and sellers in the both system are rational agents who maximize their utility functions (economic laws are the same), but the different legal frames add different constraints which leads to different outcomes.

Informal networks emerged in the communist society, persisted and effect the decision making of the recent economic agents. For example Frič (2008) describes five types of networks that were created in the communist society and exist even in the post-communist society:

- i. predatory,
- ii. redistributory,
- iii. helping,
- iv. operating,
- v. participative.

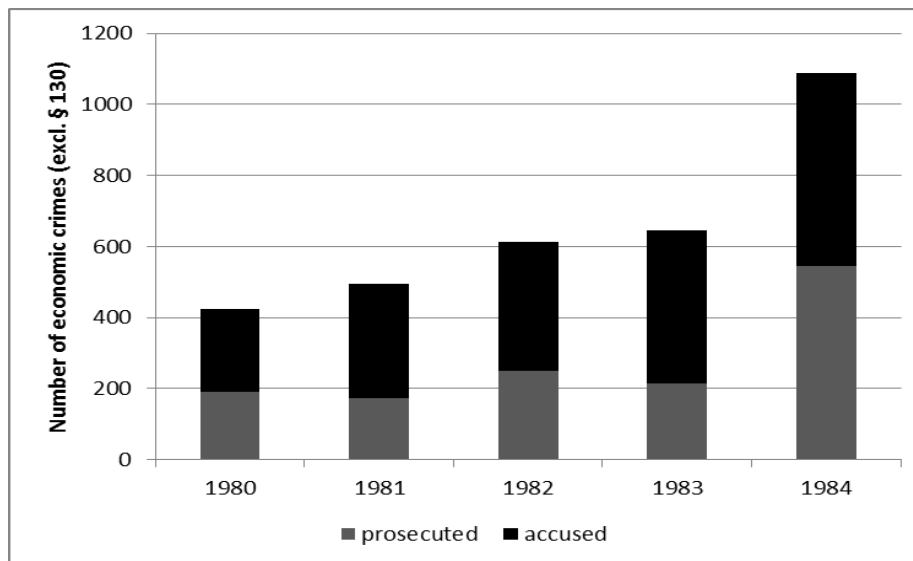
All organizations and all citizens who have any task in fulfilling the national economy development plan were obliged to make the greatest effort and to make the greatest possible effort to fulfill the task (Law no. 100/1960 Coll. Constitution of the Czechoslovak Socialist Republic, Art. 13(1)). Fulfillment – or non-fulfillment – of the State Development Plan affected not only the macroeconomic condition of the Czechoslovak economy, but also the microeconomic well-being of the individuals. Part of the income, and so on the well-being, were directly linked to the plan.

However, hardly any individual agent could influence key plan indicators only by his effort. In the Soviet-type economy the results depended on the collective effort as well as on the exogenous conditions, which could not be affected by the individual nor the company (e.g. the engineering firm could not meet the plan, if the subcontractor failed to deliver crucial components). This gap between ideal State Development Plan on the one hand, and the daily routine on the other hand, created space for the creative attitudes to the reporting of results as well as to the economic criminal crimes.

As Supreme Court of the CSSR mentioned (Plsf 4/82), the punishment of the economic crimes offenders was relatively low. For example in 1981 there were 77 054 persons sentenced for the criminal offenses in Czechoslovakia, however 757 persons (nearly 1 %) was sentenced for the economic crimes (ibidem). The same report claims that the similar proportion of the punished economic crimes was noted in the whole period from 1977 to 1981.

Yet, in the 80's the frequency of the plan manipulation increased substantially. For example Treasury minister of the Czech Socialistic Republic Jiří Nikodým admitted in his report that in 1986 imposed the Financial Administration ten times more financial sanctions for violating the accounting norms than in 1985 (Czech National Council 1987, see figure 1).

Fig. 1 Number of people prosecuted and accused from the economic crimes (excluding § 130) in 1980 – 1984



Source: Federal Assembly 1985. Depicted by authors.

5 Crimes against the Economic System

In 1960 the Czechoslovak Communist Party introduced the new constitution which supplemented the original constitution of 9th May 1948. According to the *Constitutional Law No. 100/1960 Coll. Constitution of the Czechoslovak Socialist Republic*, Czechoslovak became the socialist state heading to the state of communism (e.g. Gordon Skilling 1962: 143). According to the Article 12, the economic policy of the Czechoslovak was managed by the state development plan. Approval of the socialist Constitution initiated the new wave of codification which brought also adoption of the new Law No. 140/1961 Coll. Criminal Code (Gřivna 2009: 567).

For the aim of our research the crucial part of Criminal Code is the Catch II of the Special Section of the Code called 'Economic Crimes'. This catch was divided into five sections:

- First section (§ 116– § 124): Crimes against the Economic System.
- Second section (§ 125 – § 131): Crimes against economic discipline.
- Third section (§ 132 – § 139): Crimes against socialist property.
- Fourth section (§ 140 – § 148): Crimes against currency and tax crimes.
- Fifth section (§ 149 – § 152): Crimes against the rules of unfair competition, trademarks, designs and inventions and against copyright.

According to the Explanatory Memorandum to the Act No. 140/1961 Coll., the Catch II recognized the most important changes in comparison to the previous Criminal Code (Act No. 86/1950 Coll.) In terms of state plane manipulation, the most substantial is the

second section. As Explanatory Memorandum mentions, the aim of this section is to manage orderly and unimpeded functioning of the national economy.

5.1 Disrupting management, planning and control of the national economy

First part (§ 125 and § 126) is devoted to the *'Disrupting management, planning and control of the national economy'*. Subject to this adjustment is serious misrepresentation or falsity of data reported in the statements or reports serving to the management, planning and control of the national economy in order to gaining *undue advantage*. Such statements are, according to the Supreme Court of the Czechoslovak Socialistic Republic (Plsf 4/82), especially statements and reports on implementation of the economic plane for all indicators such as:

- monthly reports on the performance of the production plan (e.g. data on the tonne-kilometres reported in the daily records of vehicle performance);
- inventory lists (e.g. custom procedure proposals);
- statistical data on the state farm's livestock production (e.g. list of works undertaken by the unified agriculture cooperative);
- reports on the state of the investment funds (e.g. statement on implementation of the plan revenues);
- materials for the reports on the plan performance.

The *undue advantage* was not defined in the Criminal Code, but the courts understood it as the *"advantage, which could not be gained by the socialist organisation while maintaining economic discipline"* (Supreme Court of the Czechoslovak Socialistic Republic, Tpjf 60/72 and Plsf 4/82, Federal Assembly 1987 and 1988). According to the Supreme Court (1973 and 1982), the undue advantage could take form of

- preferential acquisition of the short-supply material or spare parts at the expense of another socialistic organization;
- using the financial funds of the organization to purchase the material in the retail and in retail prices;
- time discrepancy between invoicing the goods and real supplying of the goods;
- invoicing of the unexecuted works;
- fictive reducing of the inventory;
- overestimation of the revenues;
- incorrect accruals of revenues and expenses;
- falsifying sold-meal diary to improve economic performance;

- make impossible the regular monitoring of the sales to hide the existing shortcoming (deficit);
- reporting higher livestock and higher animal gains.

5.2 Breaking of obligations when managing financial and material resources

Second part (§ 127) deals with '*Breaking of obligations when managing financial and material resources*'. The essence of this rule violation lies in the gaining the undue advantage by creating the financial funds and reserves (so called *black funds*). Such *black funds* were created from the illegally gained financial resources and served for the financing of the black wages for the workers who worked in the short-supplied branches, providing bribes in supply-customer relationships, paying costs of the exaggerated representation or providing resources to sport organisations (Federal Assembly 1985). Other way of breaking § 127 was unjustified payment of bonuses or ignoring the rules on payroll tax (Federal Assembly 1973). Attorney General of the CSSR also listed in his report 1973 following motives for the § 127 violation (Federal Assembly 1973: 9):

- Effort to succeed in the competition on the labour market with the other organisations and especially to make workers from other organisations to fluctuate due to the higher wages.
- Effort to keep own employees especially in the short-supply professions to face the competition from other organizations.
- Attempt to circumvent the rules on the recruitment regulation to avoid the technical, organizational and efficiency measures.
- Disagreement with the wage rules.

Next part (§ 128) deals with the quality of the production as well as completed work. According to this section, the undue advantage is illegally gained even if the responsible economic worker delivers products with concealing their substantial defects, which are known to him, or products, which could not be used by the customer to fulfil his tasks.

The last section (§ 129 – § 130) covers responsibility in the operation of socialist organisations, especially intentional as well as negligent infliction of economic activity disorder.

The economic crimes according to the second section (§ 125 – § 131) were specific not only by the offenders, but also by the main motive. The offenders of economic crimes could be just the

- responsible economic workers
- responsible workers, which could be identified with nowadays managers.

The responsible (economic) workers were not defined in the Crime Code, however the Supreme Court (1973) based on the survey of judgements understand responsible (economic) worker as accountant, zoo-technician, head of the socialist organization (e. g. company, factory or workshop), warehouseman, store manager, site manager, chairman or secretary of municipal national committee, headmaster or head planner.

Centrally planned economy in the Czechoslovak Socialist Republic was based on the privileged role of the State Plan to which the whole economy should be – in theory – subordinated. For example communist's Member of Parliament Mrázek had in his speech on the State final account emphasized, that plan has the central role in the improvement of the management (Czech National Council 1986). However, even in the central planned economy the microeconomic principles of the utility maximization worked. The decision making of the responsible workers was influenced not only by the superior interest of the plan fulfilment, but also by the microeconomic interest of the particular production unit which he or she managed and by his or her own personal interest.

The main motive of the economic crimes was therefore often the mixture of personal interest of the responsible worker and their effort to fulfil the plan. Both goals were in fact closely related because of the § 10 (4) Decree of the Federal Ministry of Labour and Social Affairs No. 157/1975 Coll. on the Regimentation of the wage development and the jobs rewarding. According to this rule, the amount of funding in so called benefit fund was curtailed if the organisation did not fulfil the plan. Gřivna (2009: 726) claims that the economic law of the central-planned economy was subordinated to the principle "On behalf of the plan". This made responsible workers to connect so called larceny of the socialist property with the effort of ensuring the company functioning.

6 Economic crimes – general statistics

Crimes against the economist system were considered to be one of the most painful problems of the Czechoslovak communist society. By model of the Criminal Code of the Russian Soviet Republic from 1922, there were close ties of the economic law to the criminal law (Baňouch 2009). This is indeed characteristic for the very essence of the commanded economy (ibidem).

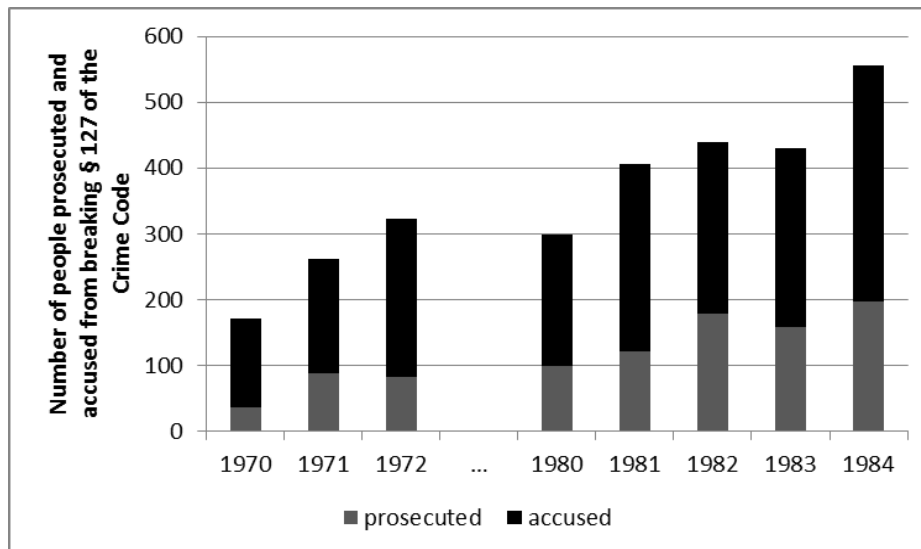
In the late 80's, under the direct influence of perestroika, the system of justice undertook substantial changes as well. For example Chairman of the Supreme Court in the Czechoslovak Socialist Republic J. Ondřej mentioned in line with the Central Committee of the Communistic Party that even the judiciary had to be object of perestroika. Reconstruction of justice should have focused on the higher quality as well as shorter delays (Ondřej 1987). At the same time there was high increase of the criminal activity in the 1970's and 1980's.

Attorney General J. Pješčak stressed, the index of prosecuted and accused people was in the Czechoslovak Socialistic Republic higher than other countries, including the West

(1988). Especially corruption and bribery connected to the managers were seen as the most serious features of the 1980's (Ibidem). There was rapid growth of the number of economic crimes between 1980–1984 (see fig. 1), which was fuelled by the intentional higher activity of socialistic judiciary.

The most common was the violation of § 127 Civic Code (*Breaking of obligations when managing financial and material resources*, see subchapter 2.2), which was broken by the *responsible economic workers* (Federal Assembly 1973 and 1985, see figure 2).

Fig. 2 Number of people prosecuted and accused from breaking § 127 of the Crime Code



Source: Federal Assembly 1973 and 1985. Depicted by authors. (Data for 1973–1979 were not available to authors).

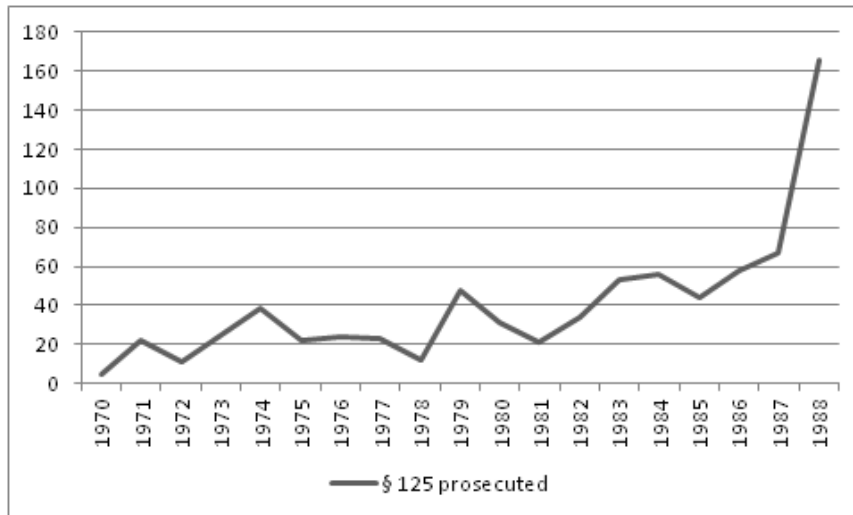
The rapid increase was explained by the '*decrease of the dark field*' which means more rigorous and more successful work of the inspection as well as the courts (Federal Assembly 1985: 7). This trend is depicted in figure 3, which deals with breaking § 125 (*Disrupting management, planning and control of the national economy*). Breaks in early 1980's were – according to the Supreme court – caused by the presidential amnesty, which was announced by president Husák on the 8th Mai 1980¹ and on the 8th Mai 1985² in occasion of 35, respectively 40, years anniversary of the end of World War II.³

¹ Decision of the President of Republic, No. 38/1980 Sb.

² Decision of the President of Republic, No. 38/1985 Sb.

³ Amnesties were used in the 1970's and 1980's much more often than nowadays. Both President Svoboda and President Husák announced four amnesties. Last Husák's amnesty came just two days before his abdication.

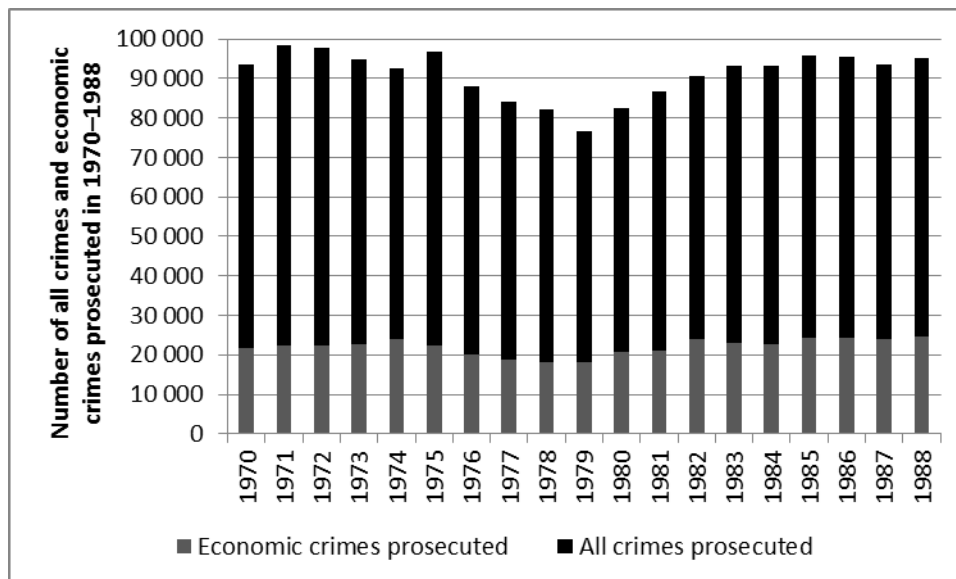
Fig. 3 Number of people prosecuted from breaking § 125 of the Crime Code



Source: *Statistical Yearbooks of Crime*. Cited by Chupík (2009: 74). Depicted by authors.

As figure 4 clearly depicts, the economic crimes in wider meaning (§ 116–§ 152) stayed for the whole period for approximately one quarter (23%–26%) of the all prosecuted crimes (e. g. criminal statistics as listed in Chupík 2009).

Fig. 4 Number of all crimes and economic crimes prosecuted in 1970–1988



Source: *Statistical Yearbooks of Crime*. Cited by Chupík (2009: 74). Depicted by authors.

That time statistics show that because of the in-house inspections the most consistently prosecuted were the economic crimes violating § 130 (Supreme Court 1973 and Supreme Court 1982), which very often covered consequences of alcoholism. On the other hand, violating § 128 on the quality of production and work was in the whole period very rare. According to the same records, the economic criminality was evenly distributed across the country, regardless industrial the regions were.

In the late 1980's the Czechoslovak justice struggled with lack of the judges and overflow of the defendants. Simultaneously, it was under consistent pressure by the Communist party to deal with the economic criminality that was result of the non-functioning economic system. Motejl (2009) mentioned that after the beginning of so called normalisation in the late 1960's and early 1970's, many of the judges did not pass the reviews. There were even some pressures to restore the tradition of flash courses for mass-production of new, ideologically correct and obedient judges. Pješčak (1988) explained the long trials by "necessity to deal with the major cases of widespread criminality, often done by a greater number of people."

7 Selected cases of the plan manipulation

Based on the reports of the Czech National Council (1986 and 1987), reports in the Federal Assembly (1973, 1985, 1987 and 1988) as well as the findings of Supreme Court of the Czechoslovak Socialistic Republic (1973 and 1982) we can identify three frequent types of economic crimes (according to the sections (§ 125 – § 131) connected to the plan manipulation.

- plan manipulation in order to ensure payment bonuses;
- bribery in order to gain the short-supplied inputs;
- creation of the reserves for the purpose of the smoothing fluctuations of the fulfilling the plan.

All three types of typical economic crimes were closely connected to the plan and plan manipulation. Each of this economic crime can be illustrated by real-life cases based on the interviews with the managers of socialistic companies. The following sections illustrate these crimes with case studies and describe the relationship to the plan in detail.

7.1 Payment bonuses

For the responsible worker it was important (both personally as well as from the communistic point of view) to fulfil the plan. However, to fulfilling the plan, the sufficient amount of the labour (as an input) was necessary. In an environment, in which the permanent lack of manpower occurred (e. g. Židek 2006:3), it was sometimes very difficult. In that case the responsible workers needed either retain existing stuff or attract the workers from the other ("competitive" in the environment without competition) companies. In both cases the main motivating factor was the higher wage, and as the communist economy was based on the principle of the wage levelling, it could be ensured only by the wage bonuses. The previous allegation can be substantiated by the excerpt from the interview with the head of department in a company operating in engineering and his colleague:

Interviewer: "You've already said that it was possible to change that plan when they were some simple objective difficulties in fulfilling it, but there certainly had to be some interest

in simply accomplishing this plan. What were the results of the not fulfilling the plan for the employees?"

Interviewee: "Well, of course, material involvement was tied to meeting that, especially the benefits? I think, well, certainly it was quite important part of the earnings."

The fact, that meeting the plan was a key condition for the payment of bonuses was corroborated by the developer from another engineering company, who stated directly that *"To get the benefits, we had to meet the plan, didn't we?"*

In many cases, this made the responsible worker to juggle with the plan indicators: *"so when there was the closing of accounts, there was a bit of magic in it"* and therefore to commit the economic crime. However, the courts consequently tend to perceive such crimes leniently, recognizing the good will of the responsible workers.

Following case shows one payment-related crime which was judged by the Supreme Court. Manager of the *Severomoravské cihelny* in Nový Jičín gave instructions to his subordinate staff to report higher than the actual production of the earthenware. It led to overestimation of the annual production by 1 327 612 CSK and therefore to undue payment of total bonuses 122 590 CSK. This crime was motivated by his effort to prevent the turnover of workers by paying higher bonuses (Supreme Court 1973 and 1982).

On the other hand, according to our interviews, not fulfilling the plan and therefore not to assure bonuses was reason for the dismissal of management (assistant of the director in engineering, sales officer in international trade; a head of Human Resources in textile machinery company). Executives were therefore motivated to fulfil the plan at any price. Nevertheless, in some cases, it was really difficult for them to meet the plan objectives, as they had to face serious production problems due to the mentioned bad customer-suppliers relationships. Poor delivery often made it impossible to continue production. Lack of material or poor quality of the components provided by the subcontractors could lead managers to bribe their suppliers in order to assure a better position for their companies. Those cases will be analysed in the next section.

7.2 Bribery in order to gain the short-supplied inputs

As has been previously stated, difficulties with short-supplied inputs were connected not only with the lack of the manpower, but also with the lack of material. If the concern did not have sufficient amount of material (inputs) it could hardly fulfil the plan. Almost all of the managers interviewed during our research answered that the lack of material or the problems with the subcontractors were the most frequent obstacles in meeting the plan objectives, especially in at the end of socialism: One of the executives in engineering stated:

"The last six years [before the revolution]...it was mainly about finding the screws. Well, it was a problem to get anything. Whatever it was necessary to make somewhere, the manufacturer could not be found. We wanted to bring something up, it was not

a construction firm. Everything was a huge problem to find (...) That was the hardest time then. It was terrible. When there was one piece of components missing, you had there the standing production line with matrons who could not do their business.”

For example in AZNP, the situation in 1989 was so serious, that there were around 2000 almost finished cars that could not be dispatched due to some lacking component. On the other hand, the considerable idle times also caused by the shortage of material and components resulted in many overtimes which together with the fear of losing rewards led to the sagging working moral and consequently in a really high wastage rate (Vilímek 2012). Such a situation may inevitably result in failure to meet the plan and therefore it constitutes a strong motivator for the executives to bribe.

Indeed, in some cases, it really led the responsible workers to bribe their supplier to supply them by the higher than official amount of material. For example the District Court in Dolní Kubín judged the bribery case in which the accused pleaded that giving the bribes to ensure the material was a common thing in the Czechoslovak communist economy (Supreme Court 1982). Similarly in different case the accused explained, that if he did not give bribes, the concern had only 32% of spare parts it needed for production (ibidem). Typical is also the case of the Unified Agriculture Cooperative chairman who bribed the warehouseman of the Agriculture Purchasing and Supplying Enterprise in order to price the barley bought from the UAC by higher prices than that corresponded to the real price category (ibidem).

The most common way how to bribe somebody was via small presents. One of our interviewees, director of the business department in the investment engineering, mentioned: *“As for some bribery, it was more like a bottle [laugh] or a box of chocolates or something like that.”*

However, according to Vilímek (2012), the political police monitored also the handing down of envelopes in cars or restaurants. The author informs that most of the managers used a wide range of unconventional methods to acquire the desired resources.

7.3 Creation of reserves

Important requirement of the centrally planned economy was permanent fulfilment of the plan. However, even in the communist economy there were seasonal fluctuations as well as temporarily fluctuations in inventory (e. g. Polidar 1983). Findings of Supreme Court (1982) admit, that the economic crimes according to the sections § 125 – § 127 were most often committed for the purpose of reporting smooth or proper fulfilment of the plan (in contradiction to the reality). The main aim of such plan manipulation was the creation of reserves which should ensure the steady plan fulfilment. For example manager of the department store *Prior* was prosecuted of retaining daily revenues up to 183 693 CSK using these funds to replenish the (lower) revenues in the following months (Supreme Court 1982).

Other symptomatic plan manipulation using reserves were performed by invoicing higher than actual material consumption in order to form the material stock (reserves). According to the respondent from engineering company, at least in construction industry, there were easy ways how to drown costs and subsequently how to justify higher material requirements:

I knew colleagues who had been studying the faculty of civil engineering. They were always saying: Guys, you know, building, that's the basis. What you drown at the foundations, you drown. Nobody checks it anymore. Yeah? Because when they dug a hole...the builders were reevaluated according to how much they brought the concrete there. Well, when there were just 20 mixers in there, 20 mixers were needed on the base, no.

In general companies tried to bad the supplies like a hamsters. It must inevitably lead to more than the allowed inventory in stock. In this sense spoke for example the planner from an arm industry company who said: *"We could have let's say 250 million in stock, but we had still, I don't know, 270, 280 and so on."*

Similarly, there were faked reductions of car parts to obtain additional funds to purchase new material. Presumably the most characteristic was the case of the responsible worker who ordered the store managers to retain part of the revenues (3 million CSK) earned in December 1979. These funds should have been reported just in 1980 to ensure the fulfilment of the retail sales plan. Moreover, this responsible worker also personally falsified reports on the plan fulfilment to match the funds manipulation (Supreme Court 1982). However, this was not an isolated case of plan results manipulation. Indeed, it was a common practice at that time. For example, the respondent from engineering company (assistant of the director) mentioned that the plan was in many cases only fulfilled on the paper. In fact the machines that were recorded for accounting purposes as done in November or December were not finished till January or February.

Everything that we have mentioned was a consequence of the poor knowledge of the political centre about the real possibilities of the companies. The omniscient planner claimed a right to decide everything to be produced in the economy. However administrative in the center had no real motivation to set the plan goals in accordance with the real possibilities of the companies.

The respondent from knitwear industry (Chief Executive Officer) said:

"Well, let's imagine, there were time series here, everything came up in some years and it gradually improved, so they had some time series, and that was one side of the thing. Now, the planner has been given the demands of the store, and besides, what did he do? I, when I was a year and a half at the Planning Committee, and I stepped up against this nonsense and demagogy, and told them in such a big session that what one played is that when he writes some pieces to someone and knows they do not produce, they do not make and do not make a living, so they do totally anti-state activity. That it was just ...

what it was when it was a coup in six months, but it was just the main problem that the moneyman just took it to the horns and when he wanted the store five million pieces, then he wrote them down the five Million. The fact that they did not work out in his life did not really matter to the clerk.”

This argument was also borne out by the technical director of the construction industry, who also pointed out that the company was almost defenseless and could not do anything to change it:

“He could not do anything at all. Every plan was of course built on high numbers, say, the plan was binding, the company resisted, the classical capacity, the classical shortage of people there. Of course, the party authorities came into this, because on the results of the business the company went to talk about how to the party committee of the party, so, of course, because it was a big business, as well as the industrial department of the regional committee of the party. If there was any disproportion in the plan, because those people in Prague had no idea what the capacities of the business were, that means there might have been a huge amount of some big machines that the company could not produce.

Maybe financially it could be done, yeah, but in a different assortment of machines, yeah. This was helped by the industrial secretary of the district or regional committee, who was not afraid to write a letter to Prague, that this would simply lead to some failure, I do not know, yeah, just a problem in the business. So, the changes were sometimes made, but otherwise, the changes that would have been done in a centrally planned state plan, I do not remember. It was more like that...maybe... when he was preparing the plan, he had been preparing since September, so he might have appeared...he discovered some need to do a single-purpose machine, like a line, just for that defense industry segment, As such. So then some of the plan was thrown out and there was the thing like that. But that was so...but it was not often this time.”

Also the political police, that monitored the performance of the leading companies, was aware of the unrealistic plan requirements that were superior to their production capacities. The consequence of this was in some cases a poor quality of the production (Vilímek 2012), or other difficulties in meeting the plan. Nevertheless, in the vast majority of cases, the plan was almost formally fulfilled. The obligation to comply with its objectives, however, has forced businesses to act on or beyond the limits of legality. The situation continued to deteriorate in the late 1980s, when the system was already facing very serious problems.

8 Conclusions

State Development Plan was the economic goal translated into the supreme law of Czechoslovak Socialistic Republic. Their ultimate goal, to which they were doing everything, was to complete the plan. Not fulfilling the plan for them meant losing

bonuses, or facing other sanctions for its failure. The lack of material and missing subcontracts, made it more difficult to achieve the objectives set in the plan.

They were, therefore forced to choose non-standard procedures like creation of reserves, bribery or accounting manipulation were the most common ways how to avoid problems with the centre and employee dissatisfaction. This was corroborated by both the court decisions from that period, as well as from the interviews that have been realized in the context of research.

The companies, however, acted in a natural way, as they tried to maximize their utility function. The nonstandard behavior of executives was just a reaction to the incentives given to them by the system that has tolerated similar behavior for a long time. In the late 80's, these stimulus, together with the worsening of the supplier-customer relations, created even more pressure on the companies, so they were forced to make much more effort to meet the plan. At the same time, the judicial system, closely linked to the ruling political party, has increased its effectiveness in detecting and condemning economic crimes.

Hierarchy of the incentives can lead to the obscure situation: if the rational agent wants to obey the higher law, he is forced to ignore lower legislation. This was the case of the Czechoslovak Centrally Planned Economy in the 1970's and 1980's.

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