

Martin Kragh, *Exit and Voice Dynamics: An Empirical Study of the Soviet Labour Market, 1940-1960s*, Stockholm: Economic Research Institute, Stockholm School of Economics, 2009, 232 pp.

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Martin Kragh's dissertation, written in the Stockholm School of Economics, was examined in December 2009. It analyses trends in the Soviet market for industrial labour over a thirty-year period from Stalin to Khrushchev. It provides the first detailed analysis of the Soviet labour market that marries modern economic concepts with an evidence base drawn from hundreds of archival documents, as well as a wide range of secondary materials.

Three introductory chapters reflect a solid knowledge and grasp of the economic and historical literature on the Soviet economy. The third chapter gives the dissertation its title: "Exit and Voice Dynamics." Albert Hirschman developed the ideas of exit, voice, and loyalty forty years ago in order to understand how organizations and their members respond to decline.<sup>1</sup> When conditions within a firm deteriorate, its employees may choose to exit, or to stay but give voice to complaints. Voice is more useful to the firm than exit, partly because it carries information that may be corrective. Loyalty decides which will predominate. Employees who feel no loyalty will exit if they can. Loyal employees may stay, but will seek a voice. With more loyal employees, the firm encounters more voice, and has a better chance of reversing decline by exploiting the information that voice carries. This framework has clear applications to the capacity of the Soviet economy to reform itself and avert decline and collapse.

The same chapter introduces the concept of the fair wage. A fair wage is the total package of employment conditions that fulfils some shared norm of reciprocity or gift-exchange between the worker and the employer. A worker who is paid the fair wage will not leave. Thus, the fair wage buys loyalty.

The dissertation applies these concepts to the Soviet industrial workforce. When the employment package of Soviet workers fell below the fair wage, how did they react? Kragh identifies the exit option with the tendency of workers to quit their jobs voluntarily to work elsewhere. Because Soviet workers did not have formal rights to strike or make organized protests, where should we find voice? The dissertation identifies voice with behaviours short of quitting such as absenteeism, shirking, and other misdemeanours. Finally, it identifies loyalty with compliance: a loyal worker fulfilled management directives and did not engage in either voice or exit.

The identification of loyalty with passivity may seem strange (and I will return to it below). The dissertation argues, however, that this was the consistent philosophy of the Soviet authorities. The party leaders defined a loyal worker as one that neither

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<sup>1</sup> Hirschman, Albert O., *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Cambridge, Mass.: Harvard University Press 1970.

quit nor complained. Where there was quitting or disruption, they diagnosed it as indiscipline, which they blamed on the social background of the workers or their low political consciousness. The remedy was to educate the workers and combine re-education with rewards and penalties to adjust behaviour. If this prescription was effective, one would expect indiscipline to have disappeared over a few decades, as second and third generation Soviet educated workers began to predominate. Kragh rightly rejects the official explanation of indiscipline. Instead, he explains it by the permanent excess demand for labour created by the command system of economic mobilization.<sup>2</sup>

In Chapter 4 (“Labour Coercion, 1940-1956”), Kragh looks at the Soviet system at its most tyrannical: from World War II until Stalin’s death. As war approached and fell upon them, the authorities clamped down on both exit and voice. Kragh provides an original rationale for this simultaneous attack. The problem was that for the workers exit and voice were substitutes. If the authorities clamped down on exit alone, voice would increase and they did not want this. Therefore, they restricted both at once. By 1943 the Soviet labour market was the most regimented in the world.

Kragh shows, also, that repression had limits. He shows that those charged with enforcing the law were frequently unable or unwilling to do so. At first sight, contrary evidence is the number of reported violations. During the war years, there were between *one and two million* sentences a year (from a total public sector workforce of around 30 millions in 1940) for quitting and absenteeism. The dissertation shows that this fantastic rate of penalization was illusory. Many defendants were tried in their absence and, although sentenced, were never found in order to be punished. In various regions, between 87 and 95 percent of sentences were not enforced. This is an important discovery.

Chapter 5 (“Khrushchev’s Reforms and the Soviet Enterprise”) shows that under Khrushchev the regulation of the workforce became more relaxed. The repressive laws enacted between 1940 and 1943 were repealed or relaxed. Exit and voice became legal again, and were resumed openly. Kragh shows that enterprises used their problems with retaining and motivating labour to lobby for more resources to improve wages and conditions. An important finding is that, contrary to earlier work by David Granick, budget constraints on enterprise wage funds were soft, not hard.<sup>3</sup> As Kragh points out, the strategy of bidding for larger wage funds could solve labour problems in individual cases, but not in the aggregate: if all bids succeeded, given limited resources, the overall level of shortage would increase.

In Chapter 6 (“Exit”), Kragh finds a sharp increase in voluntary turnover after the war as the laws of 1940 to 1943 were relaxed. Total turnover did not rise, so most likely

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<sup>2</sup> Kornai, Janos, *Economics of Shortage*. Amsterdam: North-Holland 1980.

<sup>3</sup> Granick, David, *Job Rights in the Soviet Union: Their Consequences*. Cambridge, England: Cambridge University Press 1987.

managers were reclassifying job changing that they had previously authorized. Kragh shows that, in international comparison, Soviet turnover was not high, and possibly should have been higher for efficient reallocation. The Soviet authorities, however, regarded turnover as a symptom of disloyalty. Consequently, as Kragh shows, they never stopped trying to control and reduce it, although no longer by crude prohibition.

Chapter 7 (“Voice”), examines various indicators of worker dissatisfaction, in order to assess the extent to which they could have had a negative influence on Soviet industrial productivity. In the end, however, this chapter takes the view that the main postwar restrictions on efficiency were structural rather than arising from demotivation of the industrial workers.

Some problems deserve further attention. First, how can we evaluate long term trends in the fair wage? The story begins with the comprehensive violation of the industrial workers’ fair wage constraint in the war, compensated by the strictest labour regimentation in the history of modern economies. Over the following quarter century, Stalin’s labour laws were relaxed. At the same time the general trend in almost all statistical indicators of voice and exit was positive. This would seem to provide real evidence that in the 1960s Soviet workers were generally much more satisfied with their total employment package than in the 1940s. The real wage alone was at least 50 per cent above the prewar level by the mid-1950s.<sup>4</sup> This is not really recognized in the dissertation.

A second issue that would benefit from further consideration is how to adapt the concept of voice to the Soviet context. In Hirschman’s original, voice is the inside option of political action, whereas exit is the outside market option. As Kragh points out, in the Soviet context political action was highly restricted, so he reinterprets voice as those inside options that were relatively silent: absenteeism and idling on the job. Does this truly exhaust the category of voice? Even in the Soviet police state, the ruling party created numerous opportunities for voice to be heard in workplace meetings sponsored by the party and trade unions. In normal times participation might be perfunctory; not so in times of crisis. Thus, it is not certain that loyalty was always passive. The dissertation makes many references to the party and trade unions, but these tend to be incidental; they say little or nothing about the party and trade unions as institutions in their own right. Taking them into account as channels of communication to the leadership should enrich the concept of voice in the Soviet economy, while at the same time shedding further light on its ineffectiveness.

This excellent dissertation provides a thought-provoking contrast between different economic systems in the management of decline and discontent. In the market

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<sup>4</sup> Bergson, Abram, *The Real National Income of Soviet Russia Since 1928*. Cambridge, Mass.: Harvard University Press 1961.

system that Hirschman described, an organization in decline had a chance of renewal if it could call on loyalty and exploit the information from voice. According to Kragh, Soviet leaders consistently discounted both exit and voice as evidence of faulty human materials and motivations. The Soviet Union lost the chance of redemption. While aspects of the message may be simplified, as a whole it is well documented and powerfully analyzed.

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