The Political Economy of Stalinism

Evidence from the Soviet Secret Archives

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Contents

Illustrations  page vi
Tables  vii
Preface  ix

1 The Jockey or the Horse?  1
2 Collectivization, Accumulation, and Power  22
3 The Principles of Governance  49
4 Investment, Wages, and Fairness  76
5 Visions and Control Figures  110
6 Planners Versus Producers  126
7 Creating Soviet Industry  153
8 Operational Planning  183
9 Ruble Control: Money, Prices, and Budgets  213
10 The Destruction of the Soviet Administrative-Command Economy  243
11 Conclusions  268

Appendix A: Archival Sources  273
Appendix B: The Structure of the State  275
Bibliography  289
Index  301
The Jockey or the Horse?

The Soviet administrative-command economy was the most important social and economic experiment of the twentieth century. Its failure continues to reverberate throughout those countries in Europe, Asia, and Latin America that adopted it, either forcibly or voluntarily. Its symbolic end dates to December 25, 1991, when the flag of the once-powerful Soviet Union was lowered over the Kremlin and replaced by that of the Russian Federation. The abandonment of the administrative-command economy began in the late 1980s in Central and Southern Europe, spread throughout the fifteen Soviet republics with the collapse of the USSR, and expanded into Asia.\(^1\) The former administrative-command economies have had to confront their pasts as they make their transitions to market economies. Empirical studies show that the heavier the imprint of the administrative-command system, the more difficult has been the transition.\(^2\)

The administrative-command economy was formed without a theoretical blueprint in the 1930s by a small coterie of revolutionaries with little or no economic or administrative experience. Their first experiment,

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\(^1\) China, of course, had begun a major reform of its former administrative-command economy in 1979.

The Political Economy of Stalinism

called War Communism, was motivated by ideology but later blamed on wartime emergency; it caused a severe economic collapse, and a retreat was sounded to the mixed economy of the New Economic Policy (NEP). After resolution of a brutal power struggle over the succession to Lenin’s mantle, the victorious Stalin and his allies embarked in 1929 on a course of rapid industrialization and forced collectivization, which required the creation of a new command system. This “Team Stalin” had fashioned, by the mid-1930s, an economy of full state ownership run by administrative resource allocation. As Stalin consolidated power, the team carried less weight than did Stalin the dictator, but they remained important cogs in the economic administration. Planning was carried out primarily by the State Planning Commission (Gosplan), but production was the responsibility of industrial ministries, which managed state enterprises and collective farms. The Soviet state was a close amalgam of the Politburo of the Communist Party and the Council of People’s Commissars, the highest state body. This “administrative-command system,” to use the pejorative term later coined by Mikhail Gorbachev, remained remarkably unchanged until its final collapse.

Blame the Jockey or the Horse?

Some contend that the Soviet system was doomed from the start. Ludwig von Mises and F. A. Hayek, in their classic critique of planned socialism written in the 1920s and 1940s, outlined the system’s many Achilles’ heels. They contended that socialism would fail in the end. Lacking markets, there could be no rational economic calculation, and no economy can function if it does not know what is abundant and what is scarce. With state ownership, there would be little incentive to use resources rationally, and even dedicated state managers would be left without operating rules. A central planning board, charged with managing an entire economy, would find itself overwhelmed by the complexity of planning. In a word, Hayek and Mises insisted on the inevitable unfeasibility of planned socialism – the first prognosticators of its collapse. At best, the system would operate at low levels of efficiency and would clearly be inferior to market economies. The contemporary literature on the inefficiency of

bureaucratic governance of state enterprises validates Hayek and Mises’s conclusions, especially given that, in the Soviet case, the public sector encompassed the entire economy.  

Contemporary defenders of the administrative-command economy, however, argue that the Soviet system, which transformed Russia from backwardness to industrial power, failed because of inept policies and incompetent administrators, not because of its fundamental flaws. They cite that, up to its end, the Soviet economic system was not unpopular among the citizenry and that most Soviet officials and Western experts felt that the status quo could have been continued, albeit at relatively low rates of growth. Advocates also argue that if only someone other than Stalin had won the power struggle or if policy mistakes had been avoided, the system’s soundness would have been demonstrated.

The worldwide appeal of Marxism, communism, or the Radical Left remains remarkably unaffected by the collapse of communism. Some avoid the implications of the collapse entirely by arguing that the Soviet Union and Eastern Europe were simply “posing as ‘socialist’ or ‘command’ economies” and were “tragic or misunderstood embodiments of good intentions.” Leading leftist intellectuals argue that “the tragic abortive attempt [in the former Soviet Union] proves nothing about the impossibility ... of building socialism.” And “Marxist thought becomes even more relevant after the collapse of communism in the Soviet Union and Eastern Europe than it was before.” Although contemporary socialists focus on the coming crisis of capitalism, they do little to explain how a “new” communist system would work differently. Some advance a pragmatic market socialism, which will avoid dictatorship and use

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6 Currently, there are more than five hundred leftist parties of different persuasions in Europe alone, with the numbers of leftist parties in France and Italy exceeding one hundred each. Argentina and Brazil have nearly fifty leftist parties each, and the number of parties of the left appears to grow each month according to www.broadleft.com.
market forces, but preserve state ownership. The continued appeal of the communist system is easy to understand. It promises fairness and the elimination of the anarchy of the market – business cycles, poverty, unemployment, inflation, and currency crises. To those living in poor countries, this is a powerful message. The Bolshevik leadership promised to create such a fair, prosperous, and orderly system in 1917. They had some sixty years to deliver on this promise. How and why they went wrong cannot be ignored; it is one of the most significant questions of history.

The late Joseph Berliner used an analogy to characterize the debate. Did the administrative-command economy fail because of a bad jockey or a bad horse? If it had been directed by smarter leaders, would it have been a success, or were Mises and Hayek correct that the system’s collapse was inevitable? This book seeks to answer Berliner’s jockey or horse question.

This book describes the first two and a half decades of the world’s first administrative-command economy, under the tutelage of an increasingly brutal dictatorship. The Soviet command system remains the most complex organization ever constructed by mankind. How it really operated was kept from public view by pervasive secrecy. Official Soviet writings emphasized the fable of “scientific planning,” a mythical economy run according to harmonious mathematical balances prepared by omniscient planners and executed by selfless producers. Throughout the Soviet period, we lacked open records, candid memoirs of officials, and a free press to inform us how and how well the system operated. We had to rely on a controlled press and a muzzled statistical office, émigré interviews, and rare serendipitous behind-the-scenes glimpses of the system’s workings. The published Soviet literature permitted only tantalizing hints of massive “political-economy-type” negotiations, strategic behavior, and

opportunism taking place out of sight of Western observers.\textsuperscript{13} Thwarted by this veil, we came to rely on convenient textbook stereotypes,\textsuperscript{14} despite a number of scholarly efforts to probe for the real workings of the system.\textsuperscript{15} As the postwar Soviet leadership, disappointed by economic performance, opened the door for discussion of economic reform, we learned more about the weaknesses of the system.\textsuperscript{16} The system’s inability to reward risk takers meant limited technological progress.\textsuperscript{17} Unable to calculate rates of return, planners could not make rational investment choices.\textsuperscript{18} One reform initiative after another was aborted, placing the system on a “treadmill of reform.”\textsuperscript{19}

We cannot answer Berliner’s jockey-versus-horse question without a clear understanding of how the system really worked, both formally and informally. We must obviously move beyond the convenient textbook generalities into the real world of the Soviet system. What we know for certain is that the administrative-command system survived longer than Mises and Hayek would have expected and, at its peak in the 1960s and 1970s, it constituted a credible military threat as a world superpower. These facts alone suggest that the real workings of the administrative-command economy were complex and subtle. Mises and Hayek’s critiques of a “pure” planned economy are undoubtedly valid: The center cannot plan and price millions of goods and services; the coordination and incentive problems of such a complex organization would have been overwhelming; extracting reliable information from reluctant subordinates must have been a nightmare. Yet this system survived for more than sixty years!

\textsuperscript{13} D. V. Averianov, Funktsii i Organizatsionnaiia Struktura Organov Gosudarstvennogo Upravleniia (Kiev: Nauka, 1979).
The Political Economy of Stalinism

The first studies of Soviet managers suggested an answer to the apparent puzzle of the system’s durability. At the microeconomic level, managers, chief engineers, and accountants had an unexpectedly wide range of discretion outside of the planning system. Vast expanses of unplanned actions existed in the planned economy. Enterprises supplied themselves, concealed information from superiors, and formed opportunistic alliances with their immediate superiors. Studies from the postwar period, in turn, disclosed a massive “second economy” existing alongside the official economy, which provided businesses and consumers the goods and services that planners could not.

Managerial discretion and the second economy relate to actions taken at relatively low levels. They do not explain how resources were allocated in the real world of high-level decision making. My earlier study of the “mature” Soviet economy concluded, based on interviews with former officials, that we still knew relatively little about how central institutions actually worked. We did not know how central authorities dealt with each other, how they coaxed information from subordinates, how they managed the complex problem of planning, how they shared responsibility, what incentives were used, what areas were planned and what areas remained unplanned, and what the true goals of the leaders were. These are only a few of the questions that remained unresolved as of the late 1980s.

Raymond Powell, in an overlooked article written in 1977, attempted to explain the puzzling durability of the Soviet system. He proposed that the system could indeed generate enough information to be “workable,” by utilizing unorthodox sources of economic information that are of secondary importance in market economies. State and party officials could tune in on the thousands of petitions, complaints, emergency telephone calls, and other appeals from subordinates to determine what must be done and what could be put aside. Powell’s theoretical hunch was that the Soviet system survived so long because its officials learned how to use

unconventional information for decision making. He did not argue that such “nonprice signals” made the system work well, only that they made the system work.

The Soviet State and Party Archives

Ironically, it was the collapse of the administrative-command system that made this study possible. With the lifting of the veil of secrecy, two new research approaches were opened. First, persons who had worked at high levels within this system could either be interviewed or their increasingly candid memoirs could be read. Starting with the Glasnost initiated by Gorbachev in the mid-1980s, former high-level actors could serve as “expert informants.”

Officials and managers who occupied responsible positions in the 1970s and early 1980s should still have vivid memories of how things were done. One drawback is that living participants could provide information only about the mature system, not about its origins. The administrative-command economy was founded in the early 1930s; even young administrators at the time would have been in their late eighties or early nineties when they were allowed to speak freely. The demographic odds of such high-level administrators being alive in the 1990s would have been relatively slim, given the hard times of the 1930s and the war years of the 1940s. Moreover, few of the founding fathers survived the Great Purges of 1937–8. Fortunately, three of the highest-level surviving founders did leave behind fragments of memoirs in the early 1990s.

The search for the origins of the administrative-command economy leads us to the Soviet State and Party Archives, which were opened to scholars in the 1990s. This book deliberately focuses on the first two and a half decades of the administrative-command economy because we are

25 Of Stalin’s original team, which numbered more than twenty, only four survived the Great Purges: Lazar Kaganovich, Vyacheslav Molotov, Anastas Mikoian, and K. E. Voroshilov. The first three lived to advanced ages, as did the former minister of oil and Gosplan chairman, N. K. Baibakov. Molotov and Kaganovich were interviewed by Chuev in F. I. Chuev, Sto Sorok Besed s Molotovym (Moscow: Terra, 1991), and F. I. Chuev, Tak Govoril Kaganovich (Moscow: Otechestvo, 1992). Baibakov was interviewed in Olsevich and Gregory, Planovoia Sistema. Another founder’s (Anastas Mikoian) memoirs were published as A. I. Mikoian, Tak Bylo. Razmysleniia o Minuvshem (Moscow: Vagrius, 1999). Voroshilov died in 1960.
keenly interested in how its institutions were created. Russian archivists have placed virtually no restrictions on the use of documents for this early period. The Soviet State and Party Archives constitute a treasure of records of the founders. The administrative-command system was run by written decrees, instructions, reports, and studies, although many key decisions were made in Stalin’s private study and not recorded. Most actions, however, were recorded on paper, and these records were meticulously maintained by generations of archivists. Officials and archivists were loathe to discard documents; hence, the archives reveal both the light and dark sides of the system. Unlike the Nazi regime, which carefully avoided written records of its crimes, the Soviet archives speak frankly about persecutions, purges, terror, executions, and the infamous gulag system. Stalin’s correspondence is interspersed with terse orders to send opponents of collectivization to concentration camps, to execute those stealing property, and to shoot political opponents:26 “Kondratieff, Gro- man [two prominent nonparty economists, especially reviled by Stalin], and a few other scoundrels must definitely be shot.”27 Stalin’s signature appears on documents authorizing mass executions.28 Stalin could casually order the resettlement of thirty thousand peasant families to desolate regions where they stood little chance of survival.29 The archives also do not whitewash the misdeeds of party officials, all supposedly dedicated to building a better world of socialism. Thousands of party investigations of criminal wrongdoing by party members are carefully filed in the archives awaiting investigation by scholars. These documents show party officials stealing millions of rubles, constructing massive bribery networks, and selling party memberships to the highest bidder.30

This book uses materials from the formerly secret Soviet State and Party Archives, in particular from the Russian State Archive of the Economy (RGAE) and the State Archive of the Russian Federation (GARF).31 These

29 Khlevnyuk et al., Stalin i Kaganovich. Perepiski, 316.
31 Readers interested in learning more about these archives should start with the thorough guides to the Soviet State and Party Archives, such as Kratkii Putevoditel’: Fondy i
archival materials were studied both in Moscow and at the Hoover Institution. The original archival material is drawn from the various archival “funds” (fondy in Russian) described in Appendix A. We also draw heavily from annotated collections of archival materials and from the various monographs based on archival research cited throughout this book.

Models of Dictatorship

The Soviet system is one of many in a long line of brutal dictatorships, dating from the Egyptian pharaohs to the latest African or Middle Eastern despot. Stalin has earned the dubious record as Hitler’s rival as measured by the sacrifice of innocent lives. Scarcely a Russian, Ukrainian, or Central Asian family was spared his cruelty either in the form of executions and deportations of peasants or in purges of officials, managers, and military personnel. This book has more to say about an economic dictatorship than of a political one, although the two are closely intertwined. It describes an economic system where the dictator strives to gain full control of the economy through an extreme concentration of power. Other dictators have had different goals: in Pinochet’s Chile, the dictator used political power to establish market allocation and private ownership. Hitler’s dictatorship was based on nationalism, state control, ethnic hatred, and the push for territorial expansion, but it preserved the property rights of ethnic Germans. Iraq’s Saddam Hussein used the control of economic resources to suppress opposition, eradicate ethnic groups, and reward loyalty. Clearly, the Soviet dictatorship was unique in a number of respects; nevertheless, we must consider whether general principles can be gleaned that apply to other dictatorships, motivated by other principles and pertaining to different circumstances.

All economic dictators presumably face common problems: they cannot decide and control everything themselves. They must, therefore, use an administrative structure in which subordinates are delegated authority.


The dictator must control these subordinates by incentives and threats – carrots and sticks, if you will. Some subordinates will be closer to and more trusted by the dictator. Others will possess skills necessary to the dictator, such as the ability to manage production facilities or to plan, but may be remote from or even inimical to the dictator. The performance of all subordinates, both from the dictator’s immediate circle and from outside, must be monitored and evaluated. Subordinates, seeking to avoid the dictator’s wrath, will be inclined to report only positive information, concealing unfavorable information from the dictator’s view.

How a socialist economic dictator would organize and control this inevitable administrative hierarchy was an issue into which Mises and Hayek did not delve deeply. They wrote vaguely of a Central Planning Board or euphemistically of “the center,” but a command economic dictatorship requires a massive administrative apparatus, whose workings must be understood. Organization theory, information economics, and the new institutional economics provide templates for studying complex organizations, such as corporations, industrial ministries, or even entire administrative-command economies. These literatures share common features: they stress that the dealings of the superior (such as the dictator), or principal, with subordinates, or agents, can be explained by transaction and information costs. When it is too costly to use the agent to carry out an action, the dictator will execute the action himself. Agents will not faithfully interpret and execute the directives of principals because their goals typically diverge. Agents possess more information about their local circumstances; therefore, they engage in opportunistic behavior, taking advantage of the dictator’s information disadvantage. The dictator must establish checks and balances to limit such opportunism and must devise appropriate incentives and punishments. The new institutional economics particularly focuses on the dictator’s problems with organized groups of agents – industrial, regional, or other lobbies formed to elicit actions favorable to the narrow group but against encompassing interests.


The Stalin dictatorship, like any other dictatorship, could not have been immune to such principal–agent problems, although socialist theory predicted that a “new Soviet man” would emerge who would place the interests of society above his own. How the Stalin dictatorship coped with agents should provide general lessons that transcend time and geographical boundaries. We must particularly study how the dictator managed subordinates, differentiating between his natural “functional” allies, such as the planning agency, and those agents whose narrow goals diverged from those of the dictator, such as producers.36

This book asks another core question: What truly motivated the Soviet dictatorship? What was the dictator’s objective function? What did Stalin and his allies most want to accomplish above all other things? We posit and test four alternative models of economic dictatorship. Our first model is the “scientific planner” – a benevolent dictator prepared to turn resource allocation over to planning experts, content to set only general rules and guidelines. The scientific planning model is that heralded in the official Soviet literature. An all-knowing party (the dictator) plays its leading role but leaves the concrete decisions to scientific planners. The planners follow the general principles and guidelines of the party and plan outputs and inputs using scientific norms and mathematical balances to achieve the best results for society.37

The second model is Mancur Olson’s “stationary bandit,” based on Stalin as the exemplar.38 A stationary bandit is characterized by a long time horizon. No matter how ruthless, despotic, or evil-intentioned, the stationary bandit must maximize growth and development in his own selfish interest. A reasonably efficient, growing economy is necessary to maximize long-run tax revenues, achieve military power, and accumulate resources to reward political allies. The stationary-bandit model suggests that the growth-maximizing policies of the 1930s would have been pursued by any person in Stalin’s shoes. The stationary bandit is, in effect, a development planner. Given that the Soviet Union was backward and

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36 The distinction between functional agents and production agents was suggested in Gregory, Restructuring the Soviet Economic Bureaucracy, chapters 2–3.
37 See, for example, Ekonomicheskaia Entsiklopedia: Promyshlennost’ i Stroitel’stvo (Moscow: Gosudarstvennoe Nauchnoe Izdatel’stvo, 1962), 327–30; Gosplan USSR, Metodicheskie Ukazaniia k Rasrabotke Gosudarstvennykh Planov Ekonomicheskogo i Sotsial’nego Razvitiia SSSR (Moscow: Economika, 1980).
surrounded by capitalist enemies, the stationary bandit’s best strategy was to aim for rapid industrialization, high investment rates, and autarky.

A third model is the “selfish dictator,” whose primary goal is the accumulation of political power, which is achieved by strategic gift giving and the buying of political loyalty. The selfish dictator is driven not to maximize growth or welfare but to consolidate totalitarian control. When confronted with choices, the selfish dictator allocates resources to maximize political power not to achieve the best economic results. The selfish dictator gains allies and political support by distributing the economic rents extracted from ordinary citizens. Insofar as citizens will not part with their economic resources voluntarily, the dictator must apply force and coercion. Indeed, Stalin carefully chose and cultivated allies; he reacted with fear and panic to threats to his political power, no matter how small; he bullied and bribed associates. Selfish dictators, who sacrifice economic performance for political power, are not rare. Examples would be those who initiated the Chinese Cultural Revolution, Pol Pot in Cambodia, Mugabe in Zimbabwe, and Castro in Cuba.

The fourth model is the “referee–dictator,” who mediates among the powerful vested interests that constitute the real sources of power. The referee–dictator model would be expected at a mature phase of dictatorship, when the stationary bandit or power-maximizing dictator is no longer able to dominate, but falls under the influence of industrial and regional elites. In market economies, the domination of the political process by interest groups may emerge slowly due to free riding and the difficulty of organizing effective lobbying. Mancur Olson and others have characterized the mature Soviet economy as dominated by interest groups pulling the leadership in different directions and giving it a lack of coherence. Interest groups, however, might form more quickly


40 Getty and Naumov, The Road to Terror, 53–8, demanded the death penalty for M. N. Riutin in 1932 for distributing a pamphlet calling for Stalin’s overthrow, a move Stalin’s team failed to support.


43 Mancur Olson, The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities (New Haven, Conn.: Yale University Press, 1982), has argued that the
in young administrative-command economies because of the ready-made concentration of economic power in industrial ministries and regional authorities. Unlike others who relate interest-group power to the mature Soviet system, historian J. Arch Getty has suggested that even Stalin had to bow to lobbies in key decisions in the 1930s.44

The first two models, at least, incorporate the intent to produce good economic performance. Scientific planning is implicitly an optimizing model but is subject to the information and computation problems raised by Mises and Hayek. The stationary-bandit model at least aims at rapid growth and development. The selfish dictator drops all pretense of economic goals. The referee–dictator model implies poor economic performance. Resource allocation disintegrates into an incoherent battle among interest groups over economic rents; encompassing interests are overlooked.

We would like to test which model best describes the Soviet Union of the 1930s. We lack the quantifiable data usually required for hypothesis testing; we have, instead, observations of the dictator’s behavior in concrete situations. Anecdotal information makes hypothesis testing more difficult but not impossible. Some activities, such as direct loyalty buying, might not be recorded. A selfish dictator would characterize political bribery as an act of economic rationality. Both a stationary bandit and a power-maximizing dictator would place the most trusted allies in charge of key industries. Concessions to industrial or regional lobbies could be the acts of a referee–dictator, a stationary bandit, or a power maximizer.

The personal role of Stalin constitutes a complication. Economists prefer models in which personalities are not particularly important, as opposed to historians who often emphasize the unique roles of individuals. We like to think that our general models explain how any dictator, with a defined objective function, behaves under a given set of circumstances irrespective of time and place. The first three models assume a “rational” dictator, who maximizes his objectives subject to economic and political constraints, but can we apply rationality assumptions to a dictator whose acts appear to be irrational? Was Stalin’s annihilation of his own

long-term decline of the Soviet economy can be attributed to the growing strength of special interests, just like the long-run decline of Europe (Eurosclerosis) explains declining economic performance in Europe. Peter Boettke, Calculation and Coordination: Essays on Socialism and Transitional Political Economy (London: Routledge, 2001), makes similar arguments about the mature Soviet economy under Brezhnev.

military staff and of leading managers and specialists during the Great Purges of 1937–8 before the Nazi invasion the actions of a rational dictator? The same can be asked of his imprisonment of returning POWs in the vast gulag system. Stalin appeared to believe some of the more bizarre stories of wrecking and sabotage, and he harbored paranoid fears of contagion of loyal party members by nonparty specialists.\textsuperscript{45} However, irrationality may be a rational strategy to intimidate opponents or to ensure loyalty. Ronald Wintrobe writes,

Stalin may have been extraordinarily ruthless but was not irrational if we look at the effects of terror from his point of view. He transformed the Communist Party of the Soviet Union, especially its upper echelons, from an organization dominated mainly by old Bolsheviks whose loyalties were primarily to the Party itself (or to each other) into an elite which was entirely of Stalin’s own making.\textsuperscript{46}

On strictly economic matters, the archives show Stalin to be well informed and consistent. He had well-defined goals, he gathered his facts carefully, and he listened to advice and sometimes changed his mind as a consequence of such advice.\textsuperscript{47} Stalin’s penchant to swing between paranoia and rationality is illustrated in a routine letter to his trusted deputy, V. Molotov, dated approximately August 6, 1929:

1. Transfer Comrade Mirzoian to the Trade Union International. 2. Purge the finance ministry and state bank of wreckers despite the wails of dubious communists and definitely shoot two or three dozen wreckers from these apparaty, including several dozen common cashiers. 3. Kondratieff, Gromon and a few other scoundrels must definitely be shot. 4. A whole group of wreckers in the meat industry must definitely be shot. 5. It is a mistake to issue nickel coins now. 6. It is a mistake to import shoes from England. 7. It is good that the United States has allowed the importation of our timber. 8. How are things with German credits? 9. Force grain exports; credits will come. 10. Pay attention to the Stalingrad and Leningrad tractor factories. Things are bad there.\textsuperscript{48}

This letter could be either that of a paranoid person or a calculating totalitarian ruler bound by no moral constraints. Stalin’s role is clearly pivotal in deciding the jockey-or-horse issue. Clearly, the Soviet Union would have been better off without Stalin. Yet, the purpose of modeling dictatorship is to posit behavior that is independent of personalities. In

\textsuperscript{45} These conclusions are drawn in Khlevniuk et al., \textit{Stalinkoe Politburo}, and in Lih et al., \textit{Stalin’s Letters to Molotov}, 50; also see Getty and Naumov, \textit{The Road to Terror}, 26–8.

\textsuperscript{46} Wintrobe, \textit{The Political Economy of Dictatorship}, 227.


\textsuperscript{48} Lih et al., \textit{Stalin’s Letters to Molotov}, 200–1.
effect, the models suggest that the system itself predestines the personality of the dictator.

**Was Stalin Inevitable?**

Alec Nove’s famous query “Was Stalin necessary?” can be rephrased as “Was Stalin inevitable?” Are administrative-command economy and brutal dictatorship inexorably linked like Siamese twins? Does the administrative-command economy automatically breed totalitarianism or does totalitarianism breed this type of economic system?

Obviously, the world’s first administrative-command economy was created by more than one person. In the mid-1920s, Stalin joined the “moderate” Politburo majority and was far from the dominant political figure. After defeating his former moderate allies in 1929, Stalin was first among equals in the ruling elite. It was not until the mid-1930s that Stalin became “master of the house,” a moniker used by his Politburo associates. Stalin, despite his growing absolute power, continued to involve his immediate associates in decision making, was influenced by their arguments, and insisted on the appearance of collective decision making, even when this became a formality. Stalin could make few of the thousands or hundreds of thousands decisions that had to be rendered each month, quarter, and year. He was troubled by the shortage of executive talent among those he trusted and used solicitous flattery, pleading, and bargaining to keep key persons on his team. Yet, I attribute the creation of the administrative-command system more to Stalin than to any other person because of his clear conception of how power should be exercised.49 He scarcely participated in the intellectual debates over development policy of the 1920s. Stalin and his team won the support of the majority of the party in a relatively open power struggle in the late 1920s (see Chapter 3). His allies accepted him as their leader because of his superior leadership skills and his innate expertise on raw political power. Stalin crafted and maintained the fateful Politburo coalition through cunning, threats, manipulation, blackmail, and an iron determination that made the fateful decisions for forced collectivization and superindustrialization. Stalin’s political victories were the result of better preparation and harder work, the willingness

49 For documentation of the fact that Stalin alone had a firm conception of how the Soviet system should be formed, see Oleg Khlevnyuk, Politburo: Mekhanizmy Politicheskoi Vlasti v 1930-e gody (Moscow: Rosspen: 1996). This conclusion is also shared by Lih et al., in Stalin’s Letters to Molotov, introduction, 17.
to employ extreme and brutal methods, and a ward boss’s knowledge of the people with whom he was dealing.

The Bolshevik Party was designed by V. I. Lenin as an elite group of revolutionaries whose goal was to gain political power by socialist revolution and to maintain power using any means necessary. As long as the Bolsheviks remained in control, there would be no consideration of democracy. The elections to the Constitutional Assembly, held on November 26, 1917, showed that the Bolsheviks could command only a quarter of the votes in a democratic election.\(^{50}\) Democracy was out of the question for the Bolshevik leadership; the sole issue would be the degree of democracy within the ruling party. Would power be exercised by party democracy, by a relatively small group of top party officials such as a Politburo, or by one person? Indeed, this was the fundamental political issue that had to be resolved in the late 1920s and early 1930s.

The next chapter explains that these Bolshevik leaders would inevitably choose a planned economy. Dedicated to preserving dictatorial political control, they could not tolerate market allocation as an alternative source of power in society. Hence, the choice of planning was inevitable. Would Bolshevik leaders be inclined to turn resource-allocation authority over to experts? Would they put economic interests above the consolidation of political power? Would they be able to control industrial and regional lobbies? If a command economic system was inevitable, what kind of leaders would it breed?

F. A. Hayek contends that a dictator or dictators operating an administrative-command system would be particularly skilled in political intrigue and infighting.\(^{51}\) Resources cannot be administratively allocated without the exercise of extreme political power. Administrative orders must be backed by the threat of punishment and coercion. Resource allocation, by definition, means taking from one to give to another. Only those with unscrupulous and uninhibited moral behavior will advance in the political apparatus.\(^{52}\) As Hayek wrote, although there may be no original intent to exercise political power over people, “planning leads to dictatorship because dictatorship is the most effective instrument of coercion and enforcement of ideals and, as such, essential if central planning on a large scale is to be possible.”\(^{53}\) “In order to achieve their


\(^{52}\) Boettke, *Calculation and Coordination*, 52–6.

\(^{53}\) Hayek, *Road to Serfdom*, 78.
end, collectivists must create power – power over men wielded by other men – of a magnitude never before known, and . . . their success will depend on the extent to which they achieve such power.” 54 Hayek writes further that “the unscrupulous and uninhibited are more likely to be successful” in a totalitarian society. 55 Hayek’s conclusion is echoed by Frank Knight, who argued that planning authorities would have to “exercise their power ruthlessly to keep the machinery of organized production and distribution running” and “They would do these things whether they wanted to or not; and the probability of the people in power being individuals who dislike power is on the level with the probability that an extremely tender-hearted person would get the job of whipping-master on a slave plantation.” 56 Hayek further contends that the moral and economic behavior of dictators would be unconstrained by laws and rules because a dictatorship “cannot tie itself down in advance to general and formal rules that prevent arbitrariness. . . . It must constantly decide questions which cannot be answered by formal principles only.” 57

Brutality was indeed a valued trait of the Bolshevik leadership. Stalin’s first deputy throughout the 1930s, L. M. Kaganovich, was selected for his personal brutality. He ordered thousands to be executed during the collectivization drive and personally ordered thirty-six thousand executions, largely of his own subordinates, during the Great Purges. 58 Nikolai Bukharin (a leader of the opposition to Stalin in the late 1920s) was chastised for lack of brutality by one of Stalin’s henchmen (K. E. Voroshilov) in the following telling words: “Bukharin is a sincere and honest person, but I fear Bukharin no less than Tomsky and Rykov [two other leaders of the opposition]. Why do I fear Bukharin? Because he is a soft-hearted person.” 59 Softness was a sign of weakness. One of Stalin’s closest friends (A. S. Yenukidze) was ostracized for showing pity on discredited party members and their families. 60 Destitute widows of expelled leaders were told to get jobs and stop complaining. 61 Discredited party leaders were set upon by their former friends and associates with the brutality of sharks

54 Hayek, Road to Serfdom, 159.
55 Hayek, Road to Serfdom, 149.
57 Hayek, Road to Serfdom, 82.
58 Khlevnyuk et al., Stalin i Kaganovich, Perepiski, 28.
59 Getty and Naumov, The Road to Terror, 102.
60 Ibid., 161–71.
61 Ibid., 291.