

1 Gregory/Bergson Memorial Conference 11/19/2003

Bergson's Basic Hypothesis and the Soviet Archives: Insights from The Political Economy of Stalinism

Paul Gregory

November 7, 2003

Abram Bergson's writings on socialism addressed two themes: the performance of the socialist system, primarily of the Soviet Union, and its working arrangements. The most comprehensive attempt "to grasp the nature of working arrangements for resource use in the USSR" was his 1964 monograph *The Economics of Soviet Planning*.<sup>1</sup> Bergson's first monograph, his 1944 *The Structure of Soviet Wages*, was also devoted to the Soviet labor market.<sup>2</sup> Bergson's writings on working arrangements were anchored by his compelling interest in welfare economics, which he applied to judge the "merit" socialism: On this point, he wrote: "in order for resource use to be fully rational economically, theory teaches that a community must realize an 'economic optimum.'"<sup>3</sup> Bergson searched for efficiency rules in Soviet working arrangements not because he particularly expected to find them: "After all, one needs some principles even to discover that none prevails."<sup>4</sup> To further his evaluation, Bergson's major concession was that "merit" could be judged in terms of the planners' welfare function, which he expected to favor investment and defense.

Bergson wrote relatively little on the politics or power relations of the Soviet system, but he did not preclude the pursuit of non-economic goals, such as the furtherance of ideology or "personal satisfactions ... derive(d) from administering the economy through some procedures rather than others,"<sup>5</sup> which means the "fact that 'means' are also 'ends.'"<sup>6</sup> Bergson did not delve deeply into the relationship between socialism and dictatorship (as did Hayek),<sup>7</sup> but he did comment on more than one

---

<sup>1</sup> Abram Bergson, *The Economics of Soviet Planning* (New Haven: Yale University Press, 1964).

<sup>2</sup> Abram Bergson, *The Structure of Soviet Wages* (Cambridge, Mass.: Harvard University Press, 1944).

<sup>3</sup> Bergson, *The Economics of Soviet Planning*, 11.

<sup>4</sup> Bergson, *Economics of Soviet Planning*, 12.

<sup>5</sup> Bergson, *The Economics of Soviet Planning*, 10.

<sup>6</sup> Abram Bergson, "Essays in Normative Economics (Cambridge, Mass.: Harvard University Press, 1966), 217.

<sup>7</sup> F.A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944).

occasion that totalitarianism has been predominant under socialism although some of its “advocates sincerely aspire to avoid authoritarianism”<sup>8</sup>

Bergson wanted to test for decision making rules that would at least “tend towards” or “approximate” economic efficiency within the context of planners’ preferences. According to my reading, he found some limited rationality in the Soviet labor market and found, in the short term context of fixed coefficients, some reason for hope for material balances. Bergson was operating on the assumption that a dictator would be loathe to waste resources.

### **Models of Dictatorship**

The “socialist controversy” in which Bergson played an integral role along with such luminaries as Barone, Mises, Hayek, Lange, and Bergson has subsequently changed from information, computation, and pricing problems to the political economy of rent seeking. The pioneer was Hayek with his 1944 *Road to Serfdom*, who was subsequently followed by political economists and public-choice theorists. A unifying theme of the political economy discussion has been the effect of rent seeking upon the principles of political governance of socialist systems and the inevitability of totalitarianism.

Four models of dictatorship can be derived from this political economy literature: The “scientific planner” is a generally 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, who use scientific norms and mathematical balances and to achieve the “best results” for society.<sup>9</sup> The second model is Mancur Olson’s “stationary-bandit,” based on

---

<sup>8</sup> Abram Bergson, *Essays on Normative Economics*, p. 241.

<sup>9</sup> See for example *Ekonomicheskaja Entsiklopedia: Promyshlennost' i Stroitel'stvo* (Moscow: Gosudarstvennoe Nauchnoe Izdatel'stvo, 1962), pp. 327-330; *Gosplan USSR, Metodicheskie Ukazania k Rasrabotke Gosudarstvennykh Planov Ekonomicheskogo i Sotsial'nogo Razvitiia SSSR* (Moscow: Ekonomika, 1980).

Stalin as the exemplar.<sup>10</sup> The stationary bandit has a long time horizon and must behave in an economically rational manner. The stationary bandit is, in effect, a “development planner,” whose “best” strategy was to aim for rapid industrialization, high investment rates, and the creation of an autarkic economy. The “selfish” dictator’s primary goal is political power, which is achieved by strategic gift giving and the buying of political loyalty. 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 by distributing the economic rents extracted from ordinary citizens by coercion.<sup>11</sup> The “referee dictator” mediates among the powerful regional or industrial elites that may form quickly in an administrative-command.<sup>12</sup>

Bergson, Hayek, Lange and other participants in the socialist controversy focused on scientific planning or development planner dictators, paying little attention to power maximizers of dictator-referees. The main thrust of Hayek’s and Bergson’s writings was

---

<sup>10</sup> Mancur Olson, “The Devolution of Power in Post-Communist Societies,” in Robert Skidelsky (ed.), *Russia’s Stormy Path to Reform* (London: The Social Market Foundation, 1995), pp. 9-42. See also Peter Murrell and Mancur Olson, “The Devolution of Centrally Planned Economies,” *Journal of Comparative Economics*, vol. 15, no. 2 (June 1991), pp. 239-265.

<sup>11</sup> These alternate models are elaborated in Valery Lazarev and Paul Gregory, “Commissars and Cars: A Case Study of the Political Economy of Dictatorship,” *Journal of Comparative Economics*. 31, 1 (March 2003).

<sup>12</sup> The referee model is implied in Peter Boettke and Gary Anderson’s model of the Soviet economy as a mercantilist state in “Perestroika and Public Choice: The Economics of the Autocratic Succession in a Rent-Seeking Society,” *Public Choice*, 75, 2 (February 1993), 101-18. J. Arch Getty has applied the interest-group model to the Soviet 1930s, suggesting that even Stalin had to bow to lobbies in key decisions, such as the Great Purges of the late 1930s J. Arch Getty, *Origins of the Great Purges* (Cambridge: Cambridge University Press, 1985). J. Arch Getty and Oleg Naumov repeat this claim in a more careful tone in their *The Road to Terror: Stalin and the Destruction of the Bolsheviks, 1932-1939*, Preface.

the impossibility of scientific planning by ordinary humans (absent a “committee of supermen).”<sup>13</sup> Bergson appeared to focus on the stationary bandit, who set a high investment rate, while leaving the consumer goods sector to be guided by lower administrative bodies. It is important to identify the nature of the Soviet dictatorship. Notably, the selfish dictator and referee-dictator imply poor and perhaps unsustainable economic performance. The selfish dictator sacrifices economic decision making for political and the referee-dictator is overwhelmed by narrow interest groups.

### **The Soviet State and Party Archives: What Would have Surprised Bergson?**

Whereas researchers had to search for tidbits of information during the Cold War, those who continue to study the Soviet economic system are now overwhelmed by an abundance of information from the Soviet state and party archives that were opened in the early 1990s. The archives are particularly rich for the period from the 1917 revolution to the early 1950s. These archives provide the very documents that the Soviet dictator and his administrators used to manage the economy more than sixty years ago and show how the administrative-command system was created and then operated.<sup>14</sup> The major findings from this literature,<sup>15</sup> provide the behind-the-scenes glimpses of the nature of the administrative-command system and of the dictatorship that ran it.

*Planners’ Preferences:* The basic rationale for replacing markets with command is that an enlightened scientific planner or development planner could alter the allocation of resources in an enlightened manner and produce a “better” economic outcome. In the stereotype of the model, planners’ preferences are formed by the dictator (Stalin or the Politburo) and are transmitted to a planning agency that constructs a plan that must be fulfilled by enterprises. Bergson’s hunch was that the most important indicator of

---

<sup>13</sup> Bergson, *Essays in Normative Economics*, 223.

<sup>14</sup> The emerging economic literature based on these archives is provided in the paper by Markevich and Gregory.

<sup>15</sup> Paul Gregory, *The Political Economy of Stalinism: Evidence From the Soviet Secret Archives* (London: Cambridge University Press, 2004).

planners preferences would be the investment plan that would set capital formation proportions and the distribution of investment among branches and regions.<sup>16</sup>

The archives (primarily in the form of reports of Politburo meetings prepared by Stalin's deputies) that the two consistent "control figures" set by the dictator were grain collections and the *nominal* investment budget distributed among agencies.<sup>17</sup> The dictator's other instructions had little practical meaning, even though there was endless discussion among Politburo members on tons of steel, peat, truck designs, freight loadings, and so on.<sup>18</sup> Despite objections to investment targets in nominal rubles, agencies were simply given "investment rubles," and no one appeared to know the "real" investment that these rubles produced.<sup>19</sup> Once agencies, such as ministries or republics, obtained their investment budgets – after a monumental political "battle for the plan"-- they were largely free to spend them, as long as they appeared on the state's "title list." The investment projects on the title lists lacked, in many cases, cost estimates, despite

---

<sup>16</sup> Bergson, *The Economics of Soviet Planning*, 7-9.

<sup>17</sup> This discussion is based upon Gregory, *The Political Economy of Stalinism*, chaps. 4-5.

<sup>18</sup> One of the most detailed set of instructions was sent by L. Kaganovich to Stalin on September 2, 1936: "We [the Politburo] discussed with the ministers the fourth quarter plan. The volume of production of union and local industry was set at 19.7 billion rubles, which gives a 17.3 percent increase relative to the third quarter. The ministries proposed to establish tasks for each main administration, trust and enterprise for the production of completed production and a detailed assortment of production with a high quality parts and corresponding to established standards. The Council of Labor and Defense is charged with approving this more detailed plan. We set the average daily loading of the rail system at 91,000 cars, the transport of commercial freight at 131 million tons, and the volume of passenger transport at 12 billion passenger kilometers. The volume of water transport is set at 12 billion tons and of sea transport at 7.8 billion tons. We set the volume of capital work at 7909 million rubles and financing at 7048 million rubles, taking into account the lowering of construction costs. Retail trade of state and cooperative stores is set at 28 million rubles. The market fund for grain is set at 3100 thousand tons, for grits at 230 thousand tons and for sugar at 360 thousand tons, for vodka at 20,300 thousand deciliters. We ask you to send your opinion." Gregory, *The Political Economy of Stalinism*, 111-119.

<sup>19</sup> No where in the records could we find investment in constant prices. Therefore, we had to turn to Western recalculations to figure this out.

clear cut rules requiring them. Efforts of the dictator's agents (Gosplan, the finance ministry, or the state bank) to impose some sort of cost discipline were easily rebuffed with charges that planners were sabotaging key state projects. Bergson was correct in his hunch that planners would not be able to look into cost records, but the real reason was not the administrative burden, but the fact that producers could argue that such intrusions diverted them from vital state tasks. Even the defense ministry lacked the right and ability to examine the costs of producers.

*Devolving Decision Making to Ministries and Regions:* Bergson assumed that Hayek's administrative burden problem might be ameliorated by breaking down "the apparatus functionally and geographically; it might even have regional offices to take local conditions more fully into account," stating that "this is, of course, what is actually done in the Soviet Union." Bergson was well aware of the principal agent problems of "branch loyalties" and "regionalism," and presumed that they might be handled "by general directives to guide .. subordinates."<sup>20</sup>

Although we knew of serious principal agent problems of the industrial ministries and enterprises since the classic work of Berliner and Granick, we knew less about high-level principal-agent problems between the dictator and the industrial ministries. The archives show their extreme severity and the extent to which Stalin personally recognized their dangers and fought against them.

The dictator's dilemma is that the number of trusted associates is limited, but, in the absence of self-disciplining forces (such as markets), major economic decisions must be made by reliable people. But once trusted people were placed in positions for which they were held responsible, they represented narrow interests.<sup>21</sup> Stalin insisted on

---

<sup>20</sup> Bergson, *Essays in Normative Economics*, 223.

<sup>21</sup> Consider Stalin's self-proclaimed disciple, Kaganovich, writing long after Stalin died: "When we worked together in the Central Committee, we [Molotov and Kaganovich] worked in a friendly manner, but when he became Chairman of the Council of People's Commissars and I minister of transport we argued... I demanded more rails, investment, Gosplan did not give and Molotov supported them". F. Chuev, *Tak govoril Kaganovich* (Moscow: Otechestvo, 1992), p. 61.

“encompassing” economic decisions and railed against rent seeking activities, especially from within his own circle: “It is bad when we begin to deceive each other.”<sup>22</sup> Stalin complained bitterly about the “selfishness” of Ordzhonikidze (Minister of Heavy Industry), who pressed “on the state budget on the working class, making the working class pay with its currency reserves for his own inadequacy,”<sup>23</sup> and that the “use of [foreign exchange] funds must be discussed in the interests of the state as a whole not only in the interests of [Ordzhonikidze].”<sup>24</sup> Stalin particularly loathed the selfish deputy minister of heavy industry (Piatakov), whom he accused of “turning our Bolshevik party into a conglomerate of branch groups.”<sup>25</sup> Stalin berated trade minister Mikoyan for proposing a grain reserve for his trade ministry: “Why such unlimited faith in the trade ministry and such limited faith in the government?”<sup>26</sup>

These quotes showing Stalin as a lone stationary bandit fighting vested interests, could conceal the work of a selfish dictator. The Politburo and Central Committee were torn by conflicting interests. With limited investment resources, each distribution of resources had its supporters and opponents within the Politburo and Central Committee. Indeed Stalin’s correspondence is full of what could be political payoffs. Kaganovich

---

<sup>22</sup> Stalin I Kaganovich, *Perepiska*, 80

<sup>23</sup> *Stalin i Kaganovich. Perepiska. 1931-1936 gg.*, p. 72.

<sup>24</sup> *Ibid.*, p. 88.

<sup>25</sup> In both cases, the Ministry of Heavy Industry attempted to reduce the plan targets through imports. The first case involved Ordzhonikidze’s attempt to push an increase in steel imports through the Politburo (E. A. Rees and D. H. Watson, “Politburo and Sovnarkhom”, in Rees (ed.), p. 16). The second case involved the deputy minister of heavy industry’s attempt to force the currency commission to allot additional currency for imports of wagon axles.

<sup>26</sup> *Stalin i Kaganovich. Perepiski. 1931-1936 gg.*, p. 80.



was called to Moscow as a reward for supporting Stalin's policies in Ukraine.<sup>27</sup> Stalin had to referee conflicts, such as between Kazakhstan and Western Siberia over ownership of eight state farms.<sup>28</sup> Molotov had to personally resolve conflicts among regional Party bosses over who would get an imported car. Stalin was uncharacteristically concerned in 1931-32 that his native Georgia (and most solid power base) was "on the verge of hunger" and of "bread riots," while in other regions, while he made "feigning hunger" a counter-revolutionary offense.<sup>29</sup> Stalin angrily ordered Mikoyan "to send grain to western Georgia and personally see to its delivery."<sup>30</sup> Stalin's anger at Mikoyan was so intense that Mikoyan threatened to resign.<sup>31</sup> Stalin listened attentively to the lobbying of regional and local officials<sup>32</sup> and delayed the formation of separate union-republican ministries in Georgia, Armenia, and Azerbaijan to avoid ruffling the feathers of regional politicians, including his own supporter, L.P. Beria.<sup>33</sup>

*Rules versus Ad Hoc Interventions:* Narrow rent-seeking behavior could perhaps be controlled by rules. As stated by Bergson: "Presumably the Board [read: The dictator] would establish general directives to guide its subordinates."<sup>34</sup> A major surprise of the archives is the dictator's aversion to general rules. Although the administrative-command

---

<sup>27</sup> Ibid., p. 26.

<sup>28</sup> Ibid., p. 106.

<sup>29</sup> J. Arch Getty and Oleg Naumov, *The Road to Terror: Stalin and the Self-Destruction of the Bolsheviks, 1932-1939*, p. 69.

<sup>30</sup> *Stalin i Kaganovich.. Perepiski. 1931-1936 gg.*, pp. 44-51.

<sup>31</sup> Ibid., p. 52.

<sup>32</sup> O. Khlevnyuk, "Sovetskaia Ekonomicheskaiia Politika na Rubezhe 40-50 Godov i Delo Gosplana", Working Paper, Florence, Italy, March 2000.

<sup>33</sup> *Stalin i Kaganovich.. Perepiski. 1931-1936 gg.*, p. 704.

<sup>34</sup> Bergson, *Essays in Normative Economics*, 223.

economy was a decree-based system, there were few general rules and procedures, and any such rule or procedure was subject to override by a superior. Each year or each quarter's planning process was initiated by new guidelines (rather than the simpler process of a general set of planning rules).<sup>35</sup> No "plan" was final; all were tentative and subject to intervention. The few accounting and loan administration rules that existed were easily overridden.<sup>36</sup> Ministries operated without any charters that spelled out matters of corporate governance.<sup>37</sup> Hayek ruled out a rules-based resolution of the paradox, arguing that an administrative system "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..."<sup>38</sup> The Soviet dictatorship constituted a nested dictatorship comprised of multiple hierarchies in which the principal in each hierarchy could intervene into the decision making of agents, while the agents themselves were "dictators" of their own hierarchy of lower level subordinates down through the hierarchy to the enterprise level. If any of these multiple dictators were obliged to follow "rules" their power in a gift exchange economy would be lessened. If valuable resource were allocated based on rules, the rule becomes the dictator not the individual in the nested dictatorship.

---

<sup>35</sup> On this, see the paper by Markevich and Gregory.

<sup>36</sup> . Eugenia Belova and Paul Gregory, "Dictator, Loyal, and Opportunistic Agents," *Public Choice*, 113, 2002.

<sup>37</sup> Gregory and Markevich, *Slavic Review* Paul Gregory and Andrei Markevich, "Creating Soviet Industry: the Houston that Stalin Built," *Slavic Review*, 61, no, 4 (Winter 2002).

<sup>38</sup> Hayek, *The Road to Serfdom*, p. 82.

The general aversion to rules introduced considerable chaos into the system. These dictators at the apex of the nested dictatorship might make enlightened “encompassing” decisions, but those in lower positions would make uncoordinated decisions based on narrow economic and political interests. Moreover, Hayek’s prediction about the dangers of decision making without scarcity prices is seen in the fact that each dictator had great difficulty in distinguishing the momentous from the trivial. The fact that a small group of political leaders (the Politburo) or one leader (Stalin) were making the “key” decisions sentenced them to a life of toil, drudgery, and boredom filled with endless meetings, petitions, consultations reading of statistical reports, reviewing plans, distributing products, and, for a change of pace, inspection trips.<sup>39</sup> Absences of

---

<sup>39</sup> A letter from Kaganovich to Stalin describes two of his routine days (August 30 and 31 1931). On the thirtieth day, Kaganovich attended a Politburo meeting on the export-import plan, oil transportation, and state purchases of potatoes, vegetables, beef, and chicken. During this meeting, Mikoian lobbied to lower his plan, it was decided to buy an oil tanker, the poor financial results of the third quarter were analyzed, and the foreign minister’s granting of an interview without permission of the Politburo was discussed. The next day, Kaganovich first attended a meeting on railroad ties with the main administration of forestry products, in which a ministry official was accused of manipulating figures, and a special commission was formed to solve the problem of deficient ties. Kaganovich then arranged a transfer of tractors from the agricultural ministry to the timber industry subject to Stalin’s approval. Later that day, Kaganovich oversaw the formation of a three-person Politburo special commission to prepare directives for regional Party authorities on grain shipments to ports with a detailed calendar of shipments. This schedule, broken down into 34 grain producing regions, constituted a major planning task involving intense lobbying from each region. Kaganovich concluded his day with a report to the absent Stalin on these activities plus notes on a speech held by Bukharin that failed to praise the Party. This list of activities includes only those events important enough to bring to Stalin’s attention. The time in between was spent on the telephone, meeting petitioners, and working on other commissions, such as the transportation commission, for which Kaganovich was responsible. Stalin I Kaganovich Peregiska. 73-75.

Politburo members had to be coordinated so that members were available to deal with official business, and absence threatened the completion of vital work.<sup>40</sup> The pressure of work was so intense that such threats of resignation and pleas for lengthy vacations were commonplace. The Politburo normally considered some 3,000 issues on an annual basis. Numerous other participants were invited to and participated in Politburo meetings as discussants or reporters. A representative Politburo meeting, for example, on March 5, 1932, had 69 participants and 171 points on its agenda.<sup>41</sup>

The greatest burden of all, however, fell on Stalin as he took over more and more decision making responsibility. Virtually every communication from Kaganovich set out various options and then asked Stalin for his opinion (*vashe mnenie*). Stalin was even asked to check poetry and essays for their ideological purity. On rare occasions, even Stalin would explode at this torrent of paper work, demanding that his Politburo associates decide something themselves, such as his tirade of September 13, 1933: “I won’t read drafts on educational establishments. The paperwork you are throwing at me is piling up to my chest. Decide yourself and decide soon!”<sup>42</sup> Yet just a few weeks after

---

<sup>40</sup> Consider Kuibyshev’s (Chairman of Gosplan) complaint of August 10, 1932: “The commission which was selected by the Politburo [to deal with the 1932 plan] effectively fell apart with the departure of Comrades Stalin and Molotov. The exchange of opinions in the first meeting of the commission and the failure of the sub commission (representatives of the most important economic institutions did not show up) force me to make the following recommendations [Kuibyshev then requests a series of delays and a reduction of tasks]. I ask you to authorize a leave of absence from August 20 to October 5 on account of my illness....In light of the fact that I clearly cannot handle the responsibilities of the chairman of Gosplan, I ask you to free me from this work and give me work that is within my powers (preferably in the regions).” Ibid., p. 710.

<sup>41</sup> *Stalinskoe Politburo v 30-e gody*, p. 232.

<sup>42</sup> Ibid., p. 340.

this outburst, Stalin berated the Politburo for distributing tractors contrary to his personal instruction. Stalin to Kaganovich: “I insist on my opinion!”<sup>43</sup>

Stalin’s correspondence mixes matters of great import with trivia. In one communication, Stalin would order officials shot, the minister of transport fired, issue instructions on foreign exchange, order vast organizational changes, cut back investment, or order major foreign policy initiatives. In another communication (often the same), Stalin would discuss the production of vegetables near Moscow, whether a particular bridge should have one or two lanes, whether a Soviet author should write books about Soviet industry, giving a Ford automobile to a particular official, the depth of a canal, sending products to send to Baku, which articles published in various journals and newspapers included ideological errors, the prices of bread in various regions, the fact that Pravda must report on a daily basis automobile and truck production, and the renaming of a square in Moscow. In a typical year, 1934 for example, Stalin spent some 1,700 hours in private meetings, the equivalent of more than 200 eight-hour days.<sup>44</sup>

The dictator’s curse was that, having the power to decide all, his most trusted colleagues had the incentive to decide as little as possible. Such a strategy minimized their risks. The less they decided, the less blame they would have when things went wrong. The dictator, meanwhile, could not readily distinguish trivial from significant matters and was reduced to being asked to decide everything.

*Execution and Control:* Bergson wrote that “even if the Board could specify how every sort of resource should be used, the task of controlling the execution of its directive

---

<sup>43</sup> Ibid., p. 379.

<sup>44</sup> Stalin’s calendar is reproduced in Oleg Khlevnyuk, *Politburo: Mekhanizmy Politicheskoi Vlasti v 30-e gody*, pp. 290-1.

would still remain,”<sup>45</sup> a statement that Stalin would have characterized as a gross understatement. Stalin intensely feared that “the center’s directives will remain completely on paper” or that key agencies “will not learn about the Politburo’s decision, and it will get bogged down in the bowels” of the bureaucracy. The most powerful industrial minister declared that he had to “curse” and “act like an animal” and “drive to hysterics” the ones who have to carry out the directive in order to get things done by subordinates. Stalin dreamed in vain of a “Commission of fulfillment” that would force fulfillment of orders.<sup>46</sup> Orders had to be issued through a vertical hierarchy after preparation by agents, such as the State Planning Commission, which was not responsible for bad plans and was staffed by technocrats rather than party loyalists. An elaborate system of monitoring the delivery and execution of orders was established.

The ultimate problem of execution, however, was most of the real resource allocation was carried out by the producers themselves. The output and supply balances were prepared by the ministries and their branch administrations. Even in the case of highly centralized goods, such as vehicles, the power of the producer was surprisingly great.<sup>47</sup> Decisions were formally made at a centralized level, but the actual producers had the flexibility to make most of society’s key resource allocation decisions themselves. If resource allocation decisions are being made by the producers themselves in the absence of market allocation, it is hard to conceive a reasonable result.

---

<sup>45</sup> Bergson, *Essays in Normative Economics*, 216.

<sup>46</sup> On these matters, see Gregory, *The Political Economy of Stalinism*, chap. 10/

<sup>47</sup> **Valery Lazarev and Paul Gregory, “The Wheels of Command,”** *Economic History Review*, **55, 2 (May 2002).**

*Arrow's Impossibility Theorem, Collegiality, and Brutality:* Whether or not anyone will ever wish to repeat the Soviet experiment depends on whether it can be conducted under conditions of democratic socialism. At a minimum, its appeal would require at least a committee of wise men and avoid the dangers of brutality of a single dictator. The "deal" which Stalin implicitly offered his Politburo allies in December of 1930 was a political equilibrium of collective decision making. In the early 1930s, Stalin could dictate decisions, he considered vital but, if he went too far, the Politburo could still rein him in. In violation of this implicit contract, the period 1932 to 1937 saw the marked decline of collective decision making. By 1936, the Politburo was largely a consultative body. Other Politburo members now referred to Stalin as the "master of the house."<sup>48</sup> Stalin's personal secretary (Poskrebyshev) counted among the most powerful figures in Soviet administration.

The path from a collective to a personal dictatorship clearly can be explained in part by Stalin's thirst for total power. But there are several theoretical arguments in favor of the evolution to a single dictator: Olson's stationary bandit model implicitly suggests that only a single person (or a very cohesive small group) could prevent the rise of vested interests. Hayek wrote of the tendency for collective decision making to transform into one person rule under conditions of administrative allocation:<sup>49</sup> The Arrow Impossibility

---

<sup>48</sup> See for example the letter from Kaganovich to Ordzhonikidze in *Stalinskoe Politburo v 30-egody*, pp. 146-147.

<sup>49</sup> "But in a society which for its functioning depends on central planning this control cannot be made dependent on a majority being able to agree; it will often be necessary that the will of a small minority be imposed on the people because this minority will be the largest group able to agree among themselves on the question at issue." F.A. Hayek, *The Road to Serfdom*, 50<sup>th</sup> anniversary ed., (Chicago: University of Chicago Press, 1994), pp. 74-75.

Theorem provides, surprisingly, a third rationale for the emergence of a supreme leader.<sup>50</sup> If we drop Arrow's non-dictatorship conditions, the theorem still applies to a ten-person Politburo that it is impossible to develop rules of social choice (should society choose A, B, or C) that meet necessary conditions such as transitivity (A is preferred to B and B is preferred to C but C is preferred to A)<sup>51</sup> In such a setting, decision making requires some established procedure – such as a fixed criterion, a random device (such as the roll of a dice), or recourse to an arbiter -- when two alternatives tie for first place. The Soviet Union, of course, was not a democracy in December of 1930, but it had ten decision makers with differing preferences.” The arguments of Hayek and Arrow therefore seem to provide reasons why an administrative-command economy will evolve into a single-person dictatorship. In fact, a collective dictatorship may be unstable and may yield inferior economic results.

The archives show Stalin, willingly or forcibly, being thrust into the role of arbiter or tie breaker in clashes within the ruling elite. Three Party leaders nominated themselves to fill the vacant position of transport minister, leaving it up to Stalin to make the final choice.<sup>52</sup> Unresolved issues were turned over to Stalin. Kaganovich to Stalin (August 15, 1931): “We put off the question of grain procurements [provides details]. We decided to delay until the 20<sup>th</sup> in order to receive your opinion.”<sup>53</sup> When Stalin feared that Kaganovich could not handle the matter, he would suggest a delay until he could be present: “I am against the import of steel pipes. If possible delay the matter until

---

<sup>50</sup> Kenneth J. Arrow, “Little's Critique of Welfare Economics,” *American Economic Review*, vol. 41 (December 1951), pp. 213-9.

<sup>51</sup> William Vickrey, *Microstatics* (New York: Harcourt, Brace and World, 1964), pp. 272-3.

<sup>52</sup> *Stalin i Kaganovich.. Perepiski. 1931-1936 gg..*, p. 118.

<sup>53</sup> *Ibid.*, p. 46.



autumn.”<sup>54</sup> When Ordzhonikidze disputed a Stalin decision, Stalin sent him an ultimatum: “In the case of your disagreement, I propose a special meeting of the Politburo which requires both our presence.”<sup>55</sup>

A “dictator-referee” is unable to control vested interests. The archives provide little support for the revisionist view that Stalin’s major actions were decided by “bottom-up” influences of pressure groups.<sup>56</sup> Our reading of the archives yields a quite different picture of Stalin as a master of orchestrating interest groups when their support was needed. He relied primarily on placing his own people in responsible positions, where he actively sought mediocre but brutal loyalists. Stalin clearly played the role of stationary bandit – particularly his willingness to take on his own rent-seeking allies. Stalin had the insight to understand that the greatest rent-seeking danger came from within rather than from outsiders. Of course, Stalin, as a master politician, distributed “gifts” to insure political support when it was necessary, but the impression is that he sought to limit such gift-exchange activity.

---

<sup>54</sup> Ibid., p. 71.

<sup>55</sup> Ibid., p. 35.

<sup>56</sup> J. Arch Getty, *Origins of the Great Purges* (Cambridge: Cambridge University Press, 1985).