



# Economics of One-Party State: Promotion Incentives and Support for the Soviet Regime<sup>1</sup>

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This paper analyses the relationships between the dynamics of political support for the Soviet regime, as revealed in party membership, and economic policy. The Soviet regime is considered as the rule of bureaucracy that captures rents through collective control over state property and job assignment. Activists support the regime in exchange for deferred promotion into rent-paying positions. Analysis of the implicit contract between the party bureaucracy and activists (party candidates) shows that the stability of the Soviet regime was consistent with high-income inequality and high rate of investment in the economy. Under certain conditions, a rational bureaucracy chooses not to renew the contract. Incentive compatibility and time consistency problems inherent in the implicit contract accelerate the movement toward regime change. The long-run trends in the communist party recruitment in the USSR and the end of the Soviet regime in 1991 are consistent with this explanation.

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## INTRODUCTION

Non-democratic regimes die hard. They are swept away by popular revolutions, often followed by years of civil wars, or forcefully removed by

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foreign powers. The rapid and peaceful demise of the Soviet regime in 1991 is a rare and surprising exception to the rule. A popular view holds that the end of the Soviet system was predetermined by its poor economic performance in the last two decades of its existence. Although the series of studies initiated by Abram Bergson establishes a decelerating trend in the post-war Soviet economy beyond reasonable doubt, this is only a part of the answer. A low rate of economic growth is neither a necessary nor sufficient condition for transition to democracy. To the contrary, non-democracies are generally associated with lower rates of economic growth (Barro, 1999) while the probability of transition to democracy is positively correlated, *ceteris paribus*, with higher levels of GDP per capita (Feng and Zak, 1999). Moreover, rational rulers may deliberately block technological and institutional modernisation if ensuing change threatens to eliminate their political rents (Acemoglu and Robinson, 2002).

An explanation of the demise of the Soviet system is therefore to be placed in a broader political-economic context. An enticing option is to assign to Gorbachev's misguided reforms the role of the major trigger of collapse as, for example, in Ellman and Kontorovich (1998, Introduction). The importance of this factor as a proximate cause notwithstanding, it does not explain why numerous twists and turns in Soviet policy and ideology did not lead to the same final result earlier. By focusing on errors, this sort of explanation leaves little room for rational choice of involved agents. A more fundamental approach would be to look into the sources of stability of a non-democratic regime and the limits of its sustainability through the analysis of costs and benefits for the rulers and their subjects. Harrison (2002) makes an important step in this direction by modelling the Soviet system as a game played by the dictator/planner and the producer. Harrison shows that the system has two equilibria: one with a high level of coercion applied by the dictator to the producer and a high level of effort exerted by the producer in response; another with zero coercion and effort. The second equilibrium – which is the equivalent of the system collapse – is realised when, due to increasing monitoring costs, the dictator abandons coercion since it no longer brings positive net returns. This model creates a framework within which economic and political variables can be put together, and it explains the end of the Soviet regime as an optimal outcome for the agents, given the system of incentives and exogenous factors.

In this paper, I take a step further in the same direction. First, I propose to look at a broader scope of options for the rulers. Theoretically, the 'outside option' of privatisation always existed but certain parameters apparently predicated the rulers' choice in favour of non-inheritable collective property rights. From this perspective, a Soviet-type system may 'shut down' when the



net benefit for the rulers is still positive but falls short of what the private-property alternative is expected to yield. Second, I will go inside the black box of coercion. In most economic models of non-democracy, the ruling agent, the dictator, is essentially the 'only guy with a gun in town,' while the cost of maintaining the 'gun' (coercion) is determined exogenously. In reality, the ruling agent is more complex. It is a bureaucratic hierarchy with a sizeable elite on top and a lower stratum of agents who provide the monitoring services on the shop floor, in the field, and in the streets. Regime stability is determined by the system of incentives for both layers of the hierarchy. In particular, the monitoring agents should have incentives to provide services at a finite cost and support the regime politically rather than to seek takeover, to become 'roving bandits,' or to defect to a foreign power. A large share of the coercion costs are then the cost of enforcing the contract between the ruling top and the monitors.

Stability of a Soviet-type regime rests on a sort of social contract. One party to such a contract is the 'bosses' – the ruling state-party bureaucracy, who need loyal agents to supervise (elicit effort from) the working population. The other party is the 'activists' – younger members of the ruling party, people able to fulfill this task, in search of career paths toward higher incomes. Total control by the bureaucracy over the economy and a significant bureaucracy premium – the difference between bureaucratic rents and the wages of the working population – creates an incentive for an activist to enter the contract with the bosses. The terms of this contract assume that activists volunteer their services to the incumbent bureaucrats, thus allowing the latter to increase their rents. Activists are paid back with the deferred promotion into rent-paying positions. The incumbent bosses have either to retire or to create new positions to accommodate the activists whose contracts have reached maturity. The contract is beneficial for the bosses and the activists as long as it maximises expected lifetime incomes for both groups. Under certain conditions, however, the parameters of the promotion contract may become inconsistent with the bosses' participation constraint and transition to a regime based on private property rights ensues.

The discussion proceeds as follows. The first section describes the political-economic exchange between the ruling bureaucracy and the population in the Soviet institutional framework. Optimal promotion contracts and the limits to the regime's sustainability are discussed in the second section. The third section analyses the effects of time inconsistency in the implicit promotion contract and its enforceability under in two institutional settings: personal dictatorship and oligarchy. The fourth section interprets the long-run trends in the communist party membership in the USSR from the developed theoretical perspective and argues that the end of



the Soviet regime in 1991 was consistent with the optimal contract reaching the bosses' participation constraint. The last section concludes.

## **BUREAUCRATIC HIERARCHY AND PROMOTION INCENTIVES IN THE SOVIET UNION**

Non-democratic regimes are conventionally viewed as based on coercion. Voluntary support for the government is often added as a partial substitute to coercion. Support is costly: the rulers buy it with public goods or transfers. If the rulers value only power *per se* as in Grossman and Noh (1994) and Wintrobe (1998), then they can be expected to evolve, in the long run, into welfare-maximising 'benevolent dictators.' If the rulers attempt to protect their wealth from forceful redistribution (Acemoglu and Robinson, 2000) or destruction (Feng and Zak, 1999) by revolutionaries, then they have to give up their political power. Both approaches capture certain features of non-democratic regimes but cannot explain the durability of numerous 'predatory' regimes that extract rents from the population and are characterised by high inequality. The model of a dictator with unchallenged power in McGuire and Olson (1996) explains why a dictatorship can be an economic success but bypasses the problem of the regime stability by leaving no active role for the population.

For a rational, net-revenue maximising ruler, who only uses political power as an instrument of revenue-collection, public expenditure is simply a tax refund that makes the population better off, while reducing political rents. Associated transaction costs will normally make the net welfare effect strictly negative, leaving a rational population disinterested in the current regime. If we follow consistently the positive perspective and assume economic rationality of all involved agents, then we have to look for less costly, in terms of power and rents, mechanisms of raising support.

A non-democratic regime, dictatorial or oligarchic, is a political – and often also an economic – monopoly, but paradoxically it creates no impassable barriers to entry into the ruling stratum on the personal level. This feature creates the possibility to raise support in a way that is consistent with the rationality of political-economic agents: by admission of volunteers to the lowest rank of the ruling hierarchy with a possibility of subsequent promotion to higher-paid positions. The support obtained in exchange for the promise of deferred promotion brings about no immediate losses for the rulers from transfers to the population. To the contrary, it can increase political rents. By recruiting agents from the population, incumbent rulers provide an incentive for aspirants to the rent-paying positions to volunteer as



monitors/supervisors eliciting higher effort from the working population. In other words, the rulers can buy support in the national *political labour market*. Since the payments are made in future obligations, doing so does not reduce the rents in the short run.

The effectiveness of the service-for-promotion exchange depends on the extent to which the bureaucracy is capable of controlling the sources of income and, therefore, the paths of upward job mobility. The Soviet regime created the most favourable conditions for such a control by establishing a state monopoly on the ownership of productive capital. The nomenklatura system of job assignment,<sup>2</sup> run by the ruling party, provided an institutional mechanism for awarding 'promotion tickets' in exchange for loyal service. Soviet-type one-party regime is essentially a system of political-economic exchange between the 'bosses', who hold governing positions (party bureaucracy proper), and the 'activists,' the aspirants to these positions. The border between the two groups is hard to define in a precise way and it could change over time. Before World War II in the Soviet Union, the distinction between the 'candidates', new recruits on probation, and the full party members drew the formal line. As the party was growing, the class of actual activists came to include a part of rank-and-file full party members. However, the relative positions of the two groups remained essentially the same: the bosses enjoyed salaries and benefits well in excess of the average level, while the activists retained ordinary jobs; the activists were required to pay dues, work more, and render additional services; in particular, supervisory services. What Soviet propagandistic literature used to say about a worker joining the party can be interpreted as: more effort, additional duties, promotion to a position in the party bureaucracy or industrial management in the future.<sup>3</sup>

In the short run, the cost of the contract is borne by the activists. Formal admittance to the party does not make them better off immediately. Their positions yield a lower utility than that of an ordinary worker. Moreover, the probability of being promoted in the future may be quite low, because the

<sup>2</sup> Voslenskii (1984) used the term nomenklatura to label the Soviet ruling bureaucracy itself. Although this usage of the word has become popular, I use it in a narrower sense of appointment control, which is more accurate historically.

<sup>3</sup> For example, a 1970s Soviet sociological review purports: 'Once you become a communist, you assume voluntarily an additional heavy duty to lead others.' A characteristic career path of a new working class party recruit is described in the following manner: foreman – student in an engineering school – head of the planning department in a large enterprise. The next step would be further up the ladder of industrial management or to an entry-level position in the party bureaucracy. Eighty per cent of party bureaucrats of that period followed this career path (*Rabochii*; 1966–1970, pp. 225–234).



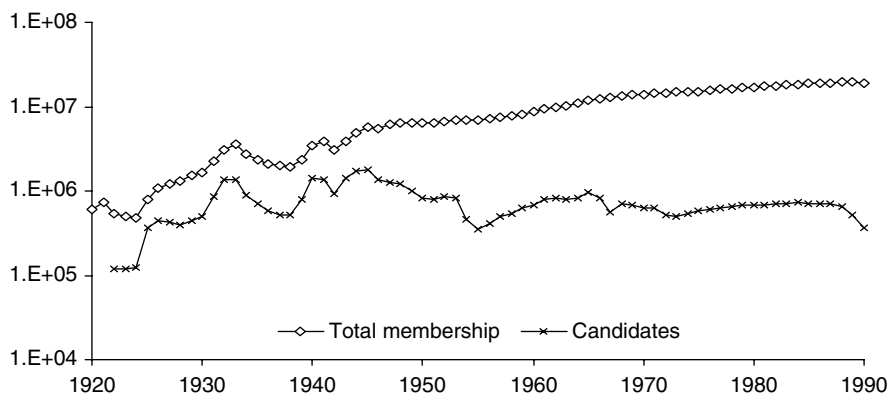
demand for monitoring agents typically exceeds the number of rent-paying positions. However, high inequality, which is the easier to maintain the poorer the country, makes pursuit of a bureaucratic career a game with high stakes.

Bureaucracy bears its share of cost, too. An incumbent has to repay the debt to activists by retiring. As long as the bureaucracy is a collective proprietor, a bureaucrat's benefits are largely *ex officio*. The possibilities to accumulate personal wealth are narrow and therefore post-retirement payments are negligible in comparison to the wage or rent income. Therefore, retirement is a gloomy prospect for a bureaucrat, especially if he internalises the utility of his descendants.

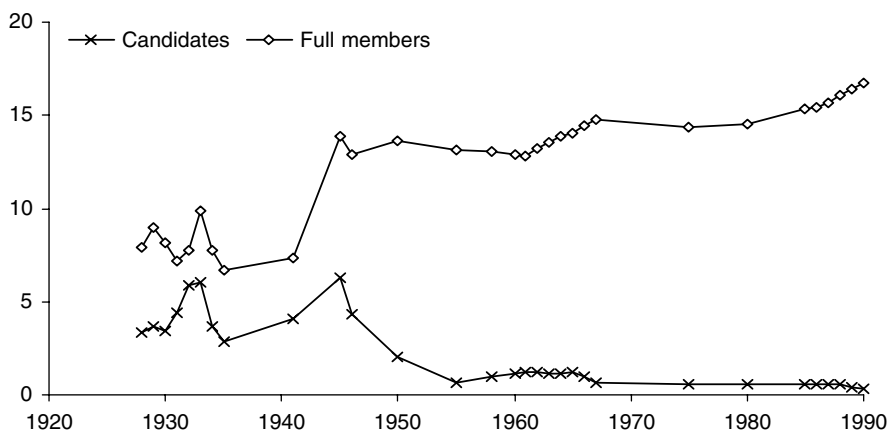
Incentives for incumbent bureaucrats to enter the contract are determined by returns to the activists' service and the cost of these services – the rents forgone due to 'early' retirement in compliance with the contract. Without the contract the bosses expect to stay in office longer, possibly indefinitely (if they are hereditary autocrats or private proprietors), but the additional rents produced by the activists' services are lost. Therefore, the bosses must choose between the 'gold today' and the 'eternal life:' higher rents *versus* longer tenures.

Recent political-economic models of the ruling party in a Soviet-type system describe party recruitment process differently. Schnytzer and Sustersic (1998) in their study of socialist Yugoslavia assume that party membership is a demonstration of loyalty that comes in exchange for the rents distributed to the population. Gershenson and Grossman (2001) treat admission to the party as immediate cooption to the ruling elite. The costs of cooption are borne by the incumbent elite, whose budget is fixed. Thus, the direction of transfer in both models is top-down, and high party membership signifies the stability of a regime, which comes at the expense of bureaucratic rents. The political science literature seems to agree with this conclusion, focusing on the decline of party membership in the last 2 years of the Soviet regime as a major indicator of its weakness (eg, Gill, 1994). It is difficult, however, to see any imminent threat to the regime at the right end of the graph of the Soviet Communist party membership (solid lines in Figures 1 and 2). The party underwent five apparent recessions in its history. Each recession involved larger contractions of total membership than the last one, yet none caused the regime to collapse.

Following the approach developed here, party membership *per se* is not indicative of the regime's strength. What matters is the parameters of the implicit contract between the incumbents and the activists. The dynamic of the latter – party candidates in the Soviet parlance (dashed lines in Figures 1 and 2) – is completely different from the dynamic of the total party



**Figure 1:** Party membership in the USSR, 1920–1990.



**Figure 2:** Party membership in the USSR, percentage of labour force, 1928–1990. *Sources:* Party membership: Rigby (1968), *Ezhegodnik BSE* (1971–1990). Labour force: *Narodnoe khoziaistvo*, various issues.

membership. The first period, roughly coinciding with Stalin's leadership, is characterised by relatively high and volatile rates of activist recruitment. The second period is characterised by stable low numbers and declining trend. In the years preceding the end of the Soviet regime, the number of candidates was approaching zero. These patterns are generally consistent with the notion that the political stability of a non-democratic regime is linked to the support of activists.



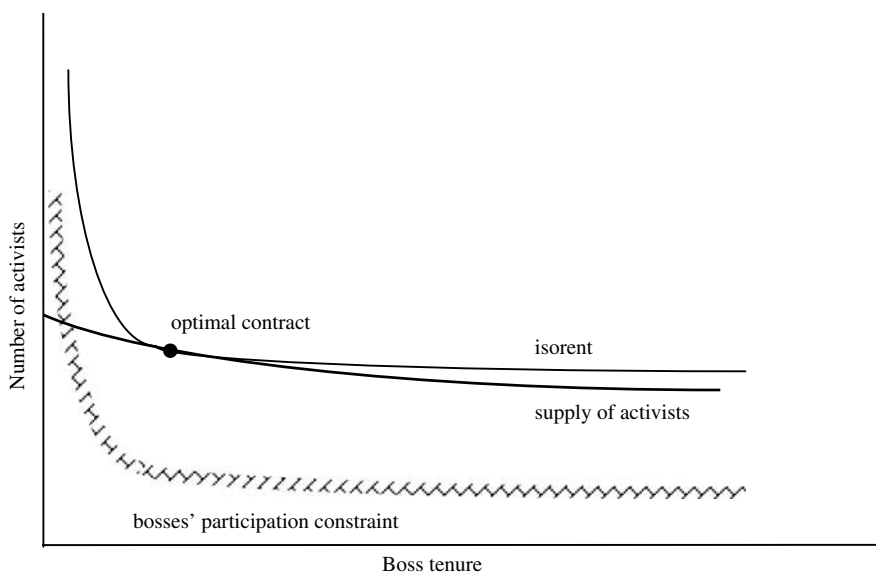
## OPTIMAL PROMOTION CONTRACTS AND REGIME CHANGE

Let us consider a society consisting of two major groups: the bosses and the workers. The bosses acquire bureaucratic rents, while workers earn substantially lower wages. A boss stays in office only for a limited number of years. Income of a retired boss is substantially lower than *ex officio* rents. For simplicity, let us assume that it is not different from average workers' wages. A part of the working population, the activists, provide, in addition to their regular duties, unpaid supervisory services that increase the economy's output and therefore benefit the bosses. Bosses and activists enter the implicit contract that provides an activist with the possibility of promotion into a boss position after a number of years of service and limits the bosses' tenures in order to facilitate promotion.

Both parties to the contract maximise the expected utilities of lifetime incomes. An individual worker makes a decision to enlist as an activist by comparing the cost of extra effort that he is required to volunteer and the benefits of possible future promotion. Assuming that the individual costs of activist service (disutility of effort) are distributed in the society in a certain way, the number of workers willing to become activists – the supply of activists – is determined by the parameters of the promotion contract. The supply of activists should increase with the *expected rent*, which in its turn increases with inequality (difference between bureaucratic rents and workers' wages) and the probability of promotion. The bosses maximise the net gain from the contract participation: the excess of extra rents brought about by the input of activists-supervisors minus the costs imposed by limited tenures. The bosses choose the contract terms in anticipation of a known voluntary response from the workers. The optimal contract is the point where the supply of activists curve is tangent to the bosses *isorents*, the lines of equal level of net gain for the bosses obtained at different combinations of boss tenure and number of activists (Figure 3). It can be also shown that, under certain reasonable assumptions about the economy's production function, the equilibrium number of activists increases with the economy's capital-labour ratio (although at a decreasing rate). Technical discussion of these results can be found in Lazarev (2004).

Fully rational behaviour by both bosses and activists does not guarantee acceptability of the optimal contract for the bosses: under certain conditions, the absence of contract-based exchange between the bosses and the working population may result in higher rents for the former than the best available contract can yield. An alternative to the regime with collective ownership and rotation of the ruling bureaucracy is one that is based on private property rights and lacks the support of activists. Rational bosses will choose not to





**Figure 3:** Optimal promotion contract and participation constraint.

‘renew’ the contract with the activists if the latter option promises absolute advantage over the former. Let us assume that the bosses have a time horizon of  $T_m$ , which is determined exogenously and reflects the perceived stability of the regime.  $T_m$  may be infinite (if the current regime is believed to be everlasting) and in any case boss tenure is shorter  $T_b < T_m$ . The bosses choose to enter into a promotion contract with the workers if the rents accumulated over the period of tenure,  $T_b$ , are expected to exceed those in the absence of activists ( $R_0$  per period of time for  $T_m$  periods):

$$\int_0^{T_b} f(N_a) e^{-rt} dt \geq \int_0^{T_m} R_0 e^{-rt} dt$$

where  $f(N_a)$  is the ‘activist production function’ – rents generated by the activists-supervisors. This expression implicitly determines the lower boundary of acceptable contracts – the *bosses’ participation constraint* (Figure 3).

The location of the participation constraint is determined by the productivity of activists (function)  $f$  and the bosses’ perception of the regime’s durability,  $T_m$ . The insecure geopolitical environment and/or internal instability increase the bosses’ need for the activist support and



makes them willing to accept lower rent contracts, or technically, decreasing  $T_m$  depresses the participation constraint curve and expands the region of acceptable contracts. Conversely, a declining threat of aggression or uprising causes the region of acceptable contracts to shrink, thus making it more likely that the bosses choose not to enter in the promotion contract and abandon one-party regime.

It is not only the change in the bosses' expectations that can cause the regime change but also a downward shift of the supply curve. An increase in workers' wages is of particular importance in this context. Wage-setting by bureaucrats-planners is a matter of economic decision-making. This process is institutionally separated from the design of optimal contracts for the political labour market. The industrial bureaucracy may find it beneficial to increase wages to stimulate higher productive effort on the part of ordinary workers, especially when the productivity of activists-supervisors does not yield desirable results. Gregory (2003) shows that efficiency-wage considerations had a profound impact on the Soviet leadership economic policy. Therefore, economic efficiency and political support are generally contradictory objectives. While pursuing the former, bureaucrats-managers can lower inequality (boss premium). This depresses the supply of activists to the point where the bosses' participation constraint can no longer be satisfied.

Finally, the ability of the ruling bureaucracy to raise support in the political labour market depends on its ability to control the paths of upward income mobility. Absolute control is never possible. Two major avenues leading to higher incomes were partially independent from the bureaucratic control: higher education and the shadow economy. In a small and primitive economy, this problem can be contained. A more complex economy requires, on the one hand, more human capital. This brings about opportunities for higher incomes for 'apolitical' professionals. On the other hand, there is more space for illicit economic activity, especially in services. Both undermine the regime by carrying off potential activists, who respond to economic incentives outside of the state-controlled economy. Therefore, modern economic development produces downward pressure on the supply of activists and sets the natural limits to the growth of bureaucratic regimes.

## INSTITUTIONS AND ENFORCEABILITY OF PROMOTION CONTRACT

The major problem with the implicit contract between the incumbent bosses and the activists is its time inconsistency. The contract benefits both parties at the time of signing as long as the participation constraint is met. However, the bosses have an incentive to renegotiate the contract at the time it reaches



maturity: if the expected regime stability, reflected in  $T_m$ , is high, the bosses expect a significant loss of rents due to retirement.<sup>4</sup> The activists may or may not accept renegotiation. Breach of contract can take one of the two forms. First, the bosses can promote a lower share of activists than the latter expected. Second, the bosses can stay in office longer and increase the activists' term of service correspondingly. In either case, the promotion rate falls and the boss tenure increases. The bosses are strictly better off in the short run. The immediate effect of these changes on the supply of activists is positive if the effect of a longer tenure exceeds that of the decreasing turnover. However, repeated breach of contract makes the prospective activists understand that the tenures of the incumbents are growing at the expense of the future cohort of bosses. Moreover, the activists, once denied timely promotion, tend to extend their tenures after they eventually get promotion.<sup>5</sup> This chain of contract violations results in a non-stationary drift away from equilibrium (down and to the right from the optimal contract point in Figure 3). Restoration of the *status quo* calls for either a reduction in the number of bosses or a sort of 'Ponzi scheme.' The former strategy leads to a gradual contraction both in the number of activists and in the number of bosses. In the latter case, new boss positions, created for the activists whose contracts reach maturity, are paid for by hiring yet larger number of new activists. Along this expansionary path, the system reaches eventually the bosses' participation constraint.

The prevailing type of contract violation and, consequently, the regime's evolution path is a function of the political institutions that the ruling bureaucracy creates. Various types of institutional arrangements can be grouped into major categories: dictatorship and oligarchy. The problem of collective action within the ruling bureaucracy motivates the choice between the two. On the one hand, it is beneficial for the bureaucracy on the whole to maintain the equilibrium terms of the promotion contract. On the other hand, it does not pay for any particular boss with a narrow interest to keep a promise to retire, especially for one who is near the end of tenure. The benefit

<sup>4</sup> A contract 'signed' during hard times (uprising, war, etc), when expectation of  $T_m$  goes down momentarily and the demand for activists experiences additional upward shift, is most likely to be renegotiated. As soon as the threat to power is restored, normal  $T_m$  rebounds and a downward revision of promotion rate can take a form of massive purge of excess activists. This happened in the Soviet Union after the end of the forced collectivisation of peasantry (1929–1933) and after the World War II.

<sup>5</sup> If the bureaucracy is a multi-layered hierarchy, as it really is, its higher-ranking officials have better chances to overstay in office, because they are protected from the pressure from below by intermediate levels, and the smaller size of higher layers makes it easier to establish mutual-protection networks. Formation of cliques causes the 'clogging' of promotion channels. Therefore, hierarchy effects an additional deceleration of job mobility.



from staying one more year in office is greater than the immediate loss from the shrinking supply of activist services that ensues. Therefore, the key factor that prompts contract violation is free-riding among bureaucracy, and its senior members in particular. The free-rider problem can be mitigated by entrusting dictatorial power to a member of the bureaucracy with an encompassing interest. The dictator is able to force the bosses into retirement as they reach the announced terminus of tenure. In this context, dictatorship can be regarded as a political institution that serves the primary goal of enforcing contract compliance. Dictatorship also coordinates the bureaucracy more effectively than a looser oligarchic rule, thus increasing total revenue and per capita rents. Finally, the dictator with a secure power ('stationary bandit') has the means and incentives to maintain a system of orderly distribution of benefits that prevents wasteful competitive rent seeking within the bureaucracy (Olson, 1993).

Absolute dictatorship, however beneficial it may be for the stability of bureaucratic rule, imposes additional costs on the bosses. Dictators by definition cannot be controlled, and one can become a 'disloyal patron' to the bureaucracy, as Joseph Stalin did in the late 1930s (Rigby, 1990). Oligarchy, with its distribution of power within the ruling bureaucracy, involves no costs of this type and creates an environment that is more suitable for a risk-averse boss. For these reasons, a dictatorial solution is more likely to emerge when a high level of coordination is a vital necessity for the survival of a regime and when it depends crucially on activist services: during or on the eve of a war or an uprising; in poorer societies, where inequality is high and/or when developmental challenges call for massive investment. To the contrary, the lower the threat to bureaucratic rule and the more productive the economy, the more readily the bosses choose an oligarchic regime with less coordination and less rigorous contract enforcement. Whenever this happens, the one-party regime sets a course toward abolition.

## LIFE CYCLE OF THE SOVIET REGIME

The promotion-contract model obtained considerable support from the estimation of panel data on party membership over a short period of time, 1956–1968 (Lazarev, 2004). The same model is used here to interpret the Soviet political-economic dynamics in the long run. Available data on administrative employment and salaries of administrative employees in conjunction with the data on total employment and average wages give some idea of trends in factors influencing the supply of activists. Although employees in the administrative sector are not synonymous with bosses in



terms of the model, data on this occupational group is likely to reflect general trends in the size of the bureaucracy and in bureaucratic rents. These variables can be used to construct a single indicator that captures both positive and negative incentives for a potential party entrant. This indicator, expected rent,  $R^e$ , is the product of administrative wage premium (ratio of average salary in administration,  $W_a$ , to the average wage in the economy,  $W$ ) and the *a priori* probability of promotion. The only suitable indicator of the latter in the longitudinal national data is the ratio of administrative sector employment,  $E_a$ , to the full party membership,  $P$ . Thus,

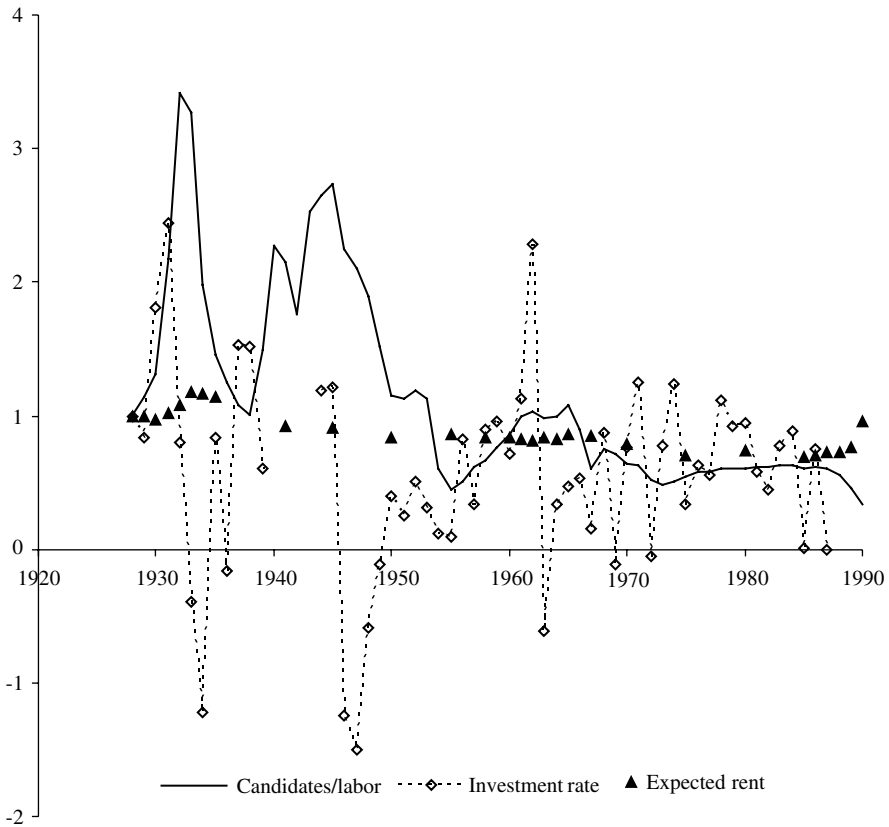
$$R^e = (W_a/W)(E_a/P)$$

Figure 4 displays the dynamics of candidate recruitment against major indicators of the supply and demand for activists – expected rent and the investment rate, respectively. It can be observed that the movements in the candidates/labour ratio are similar to the investment index. The major exception is the years of World War II and its aftermath, when activists were needed primarily in the army, not in the economy.<sup>6</sup> The variation of the expected rent is lower and its relationship to activist recruitment is less apparent. It is still apparent that the period of the largest increase of expected rent in 1930–1933 coincides with the period of the fastest increase in the candidate/labour ratio,<sup>7</sup> while the remaining five decades of bureaucratic rule are characterised by downward trends in both candidate recruitment and expected rents. The last 5 years of the regime, Gorbachev's period, is a notable exception: candidates and expected rents set onto diverging trajectories. During that period, the declining investment rates depressed the demand for activists, while retirement protraction should have outweighed the increase in expected rents. This development can be interpreted that the regime was approaching the participation constraint.

Although no systematic data on tenures and turnover rates are available, it is well known that the upper tiers of the bureaucracy were purged three times in the first 40 years of the regime: in 1929–1930, when Stalin came to power, in 1937–1938 (the Great Terror), and in the mid-1950s after Stalin's

<sup>6</sup> Correlation between the two series in the post-war period should be higher, since the equipment removed from defeated Germany as reparations is probably not accounted for in the data.

<sup>7</sup> Full party membership did not exceed administrative sector employment until mid-1930s. This implies that the probability of promotion was close to unity in that period. Anecdotal evidence suggests that full party membership indeed gave an unconditional right to fill an administrative or managerial position. The head of the Central Party Control Committee (KPK) reckons in 1936: 'One who has a party membership card can enter <any office>. Once in there, he would demand a job...' and get an appointment even if he has a criminal record (RGANI.6.1.15.37).



**Figure 4:** Political-economic dynamics in the USSR, 1928–1990. Indices: 1928 = 1. *Sources:* Candidates, labour: see Figure 2; Investment – Easterly and Fischer (1995); Expected rent – calculated by the author using published data on wages and archival data (RGASPI) on the salaries of party officials.

death. Each of these episodes was preceded by 3–7 years of dramatically declining rates of promotion to full party membership, signalling a breach of contract by the party bureaucracy. In all three cases, the dictatorship was able to enforce promotion contracts and reinvigorate candidate recruitment. On the average, bureaucratic tenures in this period could rarely exceed two decades and often ended with demotion, imprisonment, or even death (until 1953). The Soviet bureaucracy chose to end dictatorial regime in the Khrushchev's period (finally, after his removal in 1964). The gain was security from the excesses of dictatorship, but the new oligarchic regime was unable to enforce promotion contracts. Upward mobility, especially into the bureaucratic elite, became notoriously low in the 1970s (Clark, 1989; Farmer,



1992). In the early 1980s, top bureaucratic positions were occupied by people who reached their first boss positions (in the model sense) in the late 1930s and 1940s. Thus, boss tenures had increased up to approximately four decades. The reverse side of this process was increasing expectations of length of service for the activists enrolled in the 1970s or considering joining the party in the 1980s. Given the long and growing queue of activists, chances for promotion became virtually zero. Attempts to solve the problem of shortage of new activist by offering them more relaxed service requirements led only to further accumulation of 'overdue debt' to activists, represented by a steadily increasing full party membership (Figures 1 and 2).

There were apparently certain concerns within the bureaucratic elite by the mid-1980s about the regime setting on an unsustainable trajectory. The last party General Secretaries, Yuri Andropov in 1982–1984 and Mikhail Gorbachev from 1985, restarted the practice of forcing high-ranking party bureaucrats into retirement. These activities reached the highest point by the late 1980s. The main beneficiaries of the acceleration of bureaucratic mobility under Gorbachev were 'young cadres' in their 40s and 50s who had been stuck in mid-rank positions for a decade or more. In the oversized party, this moderate increase had little impact on recent recruits. At the same time, introduction of the freedom of small enterprise and removal of salary ceilings in state enterprises opened new and potentially lucrative outside options for activists. The supply of activists fell to the point where the incumbent bosses were no longer interested in maintaining the contract.

Although the reduction in the number of activists in 1987–1990 was moderate in comparison to some earlier periods, it was sufficient for the system to reach quickly its lower boundary – the bosses' participation constraint. At the same time, the bureaucracy itself got an outside option. The end of the Cold War gave it new sources of rents associated with international trade and foreign investment. It also reduced the burden of military spending. Therefore, the bureaucracy experienced a positive shock in expected rents, even though the rates of economic growth in the USSR were low and falling. Given the proximity of the participation constraint, the new sources of rents, even if minor and transitory, were sufficient to cross it over. It would be an exaggeration to say that the end of the Soviet regime was absolutely smooth and welcome by everyone. Yet, the relative ease of radical institutional change in the country with enormous army and secret police, and a tradition of ruthless political repression, suggests that no significant economic interests remained in favour of the renewed contract.

Subsequent political democratisation and privatisation represented a natural and probably the only feasible transition solution. It auctioned off state property and most bureaucratic positions in a quasi-competitive way



that was acceptable for both the bosses and the activists. On the one hand, it allowed the Soviet bureaucrats, who had the incumbency advantage in the privatisation process (Alexeev, 1999), to convert their *ex officio* control rights into legally protected private property rights. On the other hand, it gave a chance of 'promotion' into entrepreneurs to a part of the population most actively seeking opportunities for upward mobility. Although the last cohort of the Soviet leadership was removed in the course of transition, the old bureaucracy on the whole won the 'privatisation match': after the end of mass privatisation (mid 1990s), former nomenklatura appointees accounted for about two-thirds of the top positions in Russian business and government (see Lazarev (2001) for a review of empirical studies). Even later, in 1999, former communist party membership was still associated with a significant wage premium (Geishecker and Haisken-DeNew, 2002). Despite its common origin in the Soviet monolithic system, the new Russian elite is no longer a collective owner of the country and has neither ability nor need to pay for activist services with promotion contracts. The path dependence, however, displays itself in the slow, still far from completion, making of the system of private property rights enforcement.

## CONCLUSION

Collective bureaucratic control rights over the economy, as opposed to private property rights, create the possibilities for the incumbent bureaucracy to 'buy' support and rent-augmenting services of the activists, aspirants to the rent-paying positions, in exchange for promises of deferred promotion. The more thorough this control, the more rents the bureaucracy can capture by controlling the paths of upward income mobility in the society, the closer its position to the monopsony in the political labour market. Institutional forms that facilitate the political-economic exchange of this type vary historically and across countries. What they all have in common is turnover within the hierarchical ruling stratum. In the Soviet Union, like in many other modern non-democratic regimes, one-party rule and centralised appointment control implemented the mechanism of the promotion-for-loyal-service exchange. The role of activists was played by candidate members of the ruling party, who competed for the promotion into the ranks of the ruling bureaucracy.

Implicit contracts underlying the exchange between the activists and the ruling bureaucracy provide participation incentives for both. The activists have an opportunity to achieve higher than average income levels and the bureaucrats increase their rents due to the effort-eliciting supervisory services of the activists. Efficiency of this exchange is a function of the income gap





between the working population and the bureaucrats. It also depends on the production technology: there is a positive correlation between the bureaucrats' demand for activists and public investment.

The cost of the promotion contract for the bureaucrats, which is their limited tenure, can offset its benefits. The bureaucrats seek to renegotiate the contract in order to capture additional rents, probably at the expense of long-term stability of the regime. The implicit promotion contract is not self-enforcing, and dictatorship is necessary to keep the regime dynamics on a quasi-stationary path. However, in the absence of an extreme threat to the regime, the costs borne by individual bureaucrats under dictatorial rule are excessive, and they choose an oligarchic rule. The latter is unable to keep the tenures of incumbents from rising, and the contract eventually ceases to be beneficial for both the potential activists and the bureaucracy. Once this happens, the bureaucracy abandons collective proprietorship and hierarchical organisation, since these are merely the instruments that facilitate borrowing of services and political support from activists. Soviet political-economic dynamics is consistent with this theoretical scenario and suggests an explanation of its peaceful end in 1991 as the choice of its ruling bureaucracy 'approved' by the majority of the population.

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