Calculation and Coordination

Essays on socialism and transitional political economy

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8 Soviet venality

A rent-seeking model of the Communist state*

Introduction

We live today in what might be termed the "post-Soviet era." Soviet-style systems are an endangered species; Cuba and North Korea are really the only surviving representative examples. Around the world, the Soviet economic model has been largely overturned.

But the Soviet economic system, and the numerous copies which that system spawned, played a crucial role on the world stage until quite recently. The Soviet Union itself survived for three-quarters of a century. Therefore, the nature and functioning of this economic system remains an important problem which requires explanation.

The progress of post-Communist reform in former Soviet-style states continues to take a variety of forms, with varying degrees of success. This ongoing reform process is the object of considerable controversy among economists. However, there is a remarkably stable consensus about the Soviet past and what it represented.

According to this view, the Soviet economy was a centrally planned system, in which all productive resources were owned by the state, and all important production and distribution decisions were made by state economic planning bodies (most importantly, Gosplan). Although a small "private sector" existed in the former USSR, in which small-scale private production of various consumer goods were legally exchanged, these private exchanges were basically relatively trivial exceptions to the rule that the economy was a non-market, centrally planned system.

This view represents the core of the comparative economic systems orthodoxy. These ranks include a number of economists, who have turned their attentions to the question of how a socialist economy could actually function – in theory. Sophisticated models of "optimal" planning have been developed, which explain how a hypothetical socialist economy might operate.

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Unfortunately, the actual operation of the Soviet economy bore little resemblance to the predictions of these optimal planning models. Soviet "planning" seemed to mostly occur after-the-fact. With the breakdown, and finally the collapse, of the Soviet state, it has become increasingly apparent that central planning authorities had little real power to manage the Soviet economy. Furthermore, the theory of central planning requires us to assume that governmental authorities are selfless public servants motivated solely by their desire to maximize the social welfare. This is inconsistent with the basic assumptions about human behavior which undergird modern economics. Thus, the existing theory of the centrally planned economy has little relevance to understanding how the Soviet economy actually worked.

We propose an alternative model of the Soviet-style economy which avoids these problems. We argue that the mature Soviet system was not a hierarchical central planning system at all, but was really a market economy heavily encrusted with central government regulation and restrictions. The Soviet state employed these various interventions to extract revenue from the economy, as an alternative to collecting revenue via the use of taxation. In short, the style system can be usefully modeled as a modern example of a mercantilist economy. Like France under Louis XIV, the Soviet system was an elaborate device by which the autocrat transferred wealth to itself, and was not a radical alternative to a market economy.

This chapter is organized as follows. The first section outlines the nature of the mercantilistic model, and discusses its application to the case of seventeenth-century France, where the sale of monopoly privileges by the monarch was an important device for raising revenue. The second section applies the model to the case of the Soviet Union, and argues that this model has greater explanatory power than the orthodox alternative. The third section explains the central planning apparatus of the Soviet economy from our "neo-mercantilist" perspective. The fourth section discusses the importance of private market activity in the Soviet Union. The fifth section addresses questions concerning how the "neo-mercantilist" Soviet system monitored and controlled the flow of rents. Finally, the sixth section summarizes and concludes the chapter.

The mercantilist model: privilege for revenue

Conventional models of the Soviet economy all share a basic assumption: the Soviet Union was a novel undertaking, an economy organized around principles unique in human history. We challenge this assumption. The Soviet economy was actually a relatively minor variation on the mercantilist pattern, which had important antecedents in this history of Europe. In this section, we review the major elements in the mercantilist model.

The term "mercantilism" connotes a variety of economic tenets, including such things as the equation of specie with wealth, and the regulation of the foreign trade sector in order to generate the net inflow of specie. Certainly, many European writers of the period between approximately 1550 and 1776 did argue in favor of these tenets, but mercantilism as a system included a number of other important aspects. While regulation of external (foreign) trade was a major interest of mercantilist economic writers, "mercantilism" (as defined by Heckscher 1955, and other historians) also included an elaborate system of regulation of internal (domestic) trade. It is this latter system of internal trade which concerns us.

In seventeenth-century England and France, the government employed the sale of various monopoly rights as a means of raising revenue. That is, the monarch sold monopoly privileges for cash or another consideration (often loans on preferred terms).

Modern governments continue to provide monopoly privileges to favored groups and individuals, and the literature on interest-group models of political behavior analyze such monopolies as the marketed output of politicians and bureaucrats. Modern democratic governments, however, have instituted numerous laws against overt bribe-taking and blatant exchanges of government-supplied privileges for cash. When a modern government legislates a monopoly in some market, the political decision-makers involved typically offer some public interest argument in favor of the monopoly. In this context, an interest-group explanation for the supply of governmentally provided monopoly rights is only one plausible competing hypothesis.

The mercantilist period in England and France represents a less ambiguous problem for economic analysis (see Ekelund and Tollison 1981). Monarchs during this period were quite open in exchanging monopoly privileges for consideration from the potential monopolist. Mercantilist monarchs relied on the sale of monopoly privileges to raise revenue instead of taxation for several reasons.

Direct taxes on land had been the chief source of revenue for ancient and medieval governments, and such taxes continued to play an important role into the seventeenth century. However, the administrative costs associated with raising tax revenues were very high. Effective modern tax-collecting bureaucracies simply did not exist. Technological limitations constrained the efficiency of tax collection; before telephones, radios, and even telegraphs, not to mention typewriters and computers, the costs of administering any tax system were high and the costs of evasion low. In England, competition between the King and Parliament restricted the monarch's ability to raise money via taxation (which required Parliamentary approval), whereas venality was less restricted.[1] In any event, income taxation – the source of the bulk of modern central government revenue in developed countries – was beyond seventeenth-century administrative capabilities. From the monarch's perspective, raising revenue by means of the production and sale of monopolies made sense. For example, in the early seventeenth century in France, 30–40% of state revenue derived from this "venality" (see Webber and Wildavsky 1986, p. 267).

Operationally, the mercantilist system was at base a market economy, where most property was privately owned, but with a substantial government sector. The state intervened extensively in the private economy, in the form of detailed regulations. Many prices and wages were subject to control; movements of labor and capital were intensely restricted; numerous markets for ordinary private goods (e.g. everything from playing cards to aluminum to woolen goods) were monopolized or cartelized; and individual rights were highly vulnerable to governmental fiat, without secure protection from the Rule of Law (see Lipson 1968; Hayek 1960; and Nef 1968).

The mercantilist system did not represent itself as an effort to centrally plan the economy. Similarly, the mercantilist state did not purport to abolish private property, neither did it claim to eliminate the market price system. The ideological claims made on mercantilism's behalf were modest and diffuse.

Another characteristic of the mercantilist system was the massive expansion of standing armies. Military forces grew rapidly, and became the largest component in government expenditure. Wealth maximization by the monarch required that the King secure himself from short-run threats, internal and external, even at the expense of long-term economic development. Given this security constraint, combined with the high cost of contemporary tax collection systems, mercantilist venality was the optimal device available to the monarch to raise revenue. Thus, the sale of monopoly privileges by the monarch was efficient from the standpoint of that ruler, even if the resulting interference in markets reduced overall economic efficiency.

The Soviet economy as a neo-mercantilist state

In the 1920s through 1940s, the comparative systems literature was rocked by the "socialist calculation debate." Ludwig von Mises and (later) F. A. von Hayek argued that replacing a market economy by a centrally planned socialist state was literally impossible (see Hayek 1935/1956). Socialist theorists insisted that the socialist society could dispense with money and markets for the allocation of resources, and rely exclusively on the dictates of central planning authorities for determining efficient economic functioning. Mises and Hayek countered that in the absence of monetary prices reflecting the relative scarcities of capital goods, which could only be generated by markets, central planners would receive neither the appropriate incentives nor the information that is required to promote rational resource use. This Mises–Hayek critique, however, had minimal influence within the comparative systems literature. One reason for this neglect involved a major apparent failing of their argument: it seemed inconsistent with the actual existence of socialist economies such as the Soviet Union. Not only did the Soviet Union exist, but it appeared to achieve relatively high rates of economic growth, as well as impressive technological advances.

The counter-argument offered by the defenders of the Mises–Hayek position stressed the ability of Soviet planners to rely on world market prices to aid in the allocation of scarce resources and the empirical fact of the large-scale borrowing of technology from Western market economies (see Rothbard 1970: 933–4). In addition, pockets of private market activity existed throughout the Soviet period in agriculture and in illicit consumer markets.

There is also a more basic problem. All varieties of the socialist model presume that a monolithic state organization will expropriate productive resources and plan all future economic activity in a manner designed to maximize social welfare. Central planners are assumed to be solely dedicated to serving the public interest. The socialist model assumes that the central planners and other state decision-makers are not rational, self-interested, actors; in fact, for socialism to function efficiently it is necessary to assume that key decision-makers act solely in the public interest.[2] The socialist model is fundamentally inconsistent with the economic model of human behavior.[3]

There were major discrepancies, however, between the socialist model and "socialist" reality, obvious upon even superficial examination. Despite the presence of an intricate system of restrictions and regulations on free exchange, the Soviet-style economy possessed a large legal market sector. Moreover, even within the state sector a substantial element of underground, or non-legal, market activity was part and parcel of routine operations. Most industries were nationalized, and the state sector represented a large proportion of the overall economy. But this is also true in many Western capitalist economies.

Although the operational reality of the Soviet-style economy was empirically inconsistent with major assumptions of the socialist model of the centrally planned system, this reality was consistent with the model of the mercantilist society. The mercantilist model includes the following major elements:

1 the government is headed by an autocrat;
2 this autocratic state extensively intervenes in the private economy and sponsors a large variety of monopolies and cartel arrangements;
3 positions of monopoly status as well as various other restrictions on competitive entry are sold by the autocrat as a means of raising revenue; and
4 the autocrat employs a specialized bureaucracy whose function is to monitor the various monopolist-franchisees to ensure that they do not behave "competitively" in relation to one another, and also to enforce barriers designed to deter outside entrants.

Clearly, the mercantilist system requires a powerful government, with an extensive security apparatus. The autocrat maximizes his venal income subject to a security constraint. Providing for internal and external security against competitive entry – i.e. a *coup d'état*, violent revolution, or foreign invasion – is a cost of ruling.

A ruler will select the optimal mix of overt coercion (the secret police) and pecuniary rewards to minimize the risk of challenge from their subordinates in the state bureaucracy. The autocrat receives several advantages from assigning payments to supporters in the form of privileges instead of cash. First, supporters become residual claimants in the operation of the system of venal revenue raising, and this provides an incentive for them to actively and diligently support the mercantilist program. Residual claimants will receive benefits from their privileged positions as a function of their efficiency as exploiters of those rent opportunities. Second, the installation of supporters into strategic economic positions with commensurate responsibilities limits their ability to conspire or otherwise participate in plans aimed at deposing the autocrat; much of their time will be devoted to the extraction of rents from their privileged positions. Third, to the extent that the reward takes the form of privilege, power, and status instead of cash, the autocrat can more readily monitor and control the activities of the supporters. In contrast, if rewards take the form of liquid assets which can be readily concealed, the autocrat's ability to control supporters is limited.

Once an economy becomes encrusted with legal monopolies and cartels, and where legal institutions are directly controlled by the autocrat (a further self-protection device), a transition to a less-restricted, more productive economy becomes increasingly difficult. A rational revenue-maximizing autocrat will recognize that the optimal revenue-maximizing device is an open economy combined with an efficient tax system. But, existing monopolists, who are unable to cash-in on the capital value of their privileged positions, will oppose any such transition to an open economy. Moreover, an open market economy is a riskier internal environment to the autocrat anyway, in which domestic opposition to their rule is more likely to coalesce and lead to their overthrow. Thus it is rational for an autocrat – whether Louis XIV or Leonid Brezhnev – to favor the perpetuation of an economic system that sacrifices global economic efficiency in exchange for their enhanced security.

The central planning apparatus and restriction rents

While French mercantilism and the Soviet system bear many important similarities, there was no apparent counterpart to the Soviet central planning apparatus in mercantilist France. We propose that the Soviet-style central planning system was in actuality a mechanism which functioned to protect the value of mercantilist monopoly rights.

A mercantilist system of monopoly rights created for the purpose of raising revenue is only effective to the extent that monopolistic barriers to entry are successful. The most valuable monopoly rights tend to be those which can be defended against competing entrants at the lowest cost.

The relevant competitors may be others in possession of monopoly rights elsewhere in the economy who produce potential substitutes to the output of other monopolists. Illicit entry by one monopolist into the privileged market domain of another state-sanctioned monopolist will tend to reduce the value of the latter's monopoly right. To the extent that such illicit competition is allowed to occur, state revenues derived from the sale of (now less valuable) monopoly rights will decline. The preservation of the value of this revenue source requires the state to monitor and enforce the monopolistic economic structure.

Central planning was the mechanism to accomplish this end in the Soviet-type system. Planned output targets were not floors, but ceilings. That is, planned output targets functioned like cartel output quotas. The planned targets implicitly protected the value of monopoly rights against competition from within the "official economy." Enterprises sometimes exceeded their nominal targets, but this only suggests that the actual target was somewhat flexible. The planning system closely monitored the production and sale of enterprise output, so as to ensure that no poaching occurred. Sellers of output were assigned buyers, i.e. granted monopolies.

Some buyers were themselves privileged and allowed to purchase output from other enterprises at subsidized prices. The military, for example, received tanks, planes, and guns from various industries at subsidized, not monopoly, prices, and was allowed to shop around among enterprises.

Central planning also performed other functions for the socialist ruler. Polanyi (1951 and 1957) suggested as early as the 1950s that the plan was partly a propaganda facade that the regime created to disguise the sale of monopoly privileges. A considerable amount of internal monitoring by the CPSU and the KGB of enterprises was designed to prevent the appropriation of rents by employees from their legal recipients, and a centralized system for such monitoring was deemed to be more efficient. Of course, this implies that in the Soviet-style system one of the main functions of the police was to protect monopolists against competition.

The appropriation of rent by a ruler can take many forms. Louis XIV built the Palace of Versailles. Soviet rulers provided themselves with mechanisms designed to secure their position from internal and external competitive threats. The Soviet Union maintained a powerful military force as well as a large internal security apparatus.

Strategic positions in the economy were "sold" to those individuals willing to offer the highest bid to the central authorities, either in cash or (more typically) non-cash transfers. Thus, like in the case in the France of Louis XIV, the sale of "offices" served as an alternative device for raising government revenue. In the French case, we noted above that the inefficiency of the tax collection system encouraged the monarch to sell offices to generate funds. Though this cannot completely explain the modern Soviet-style reliance on the sale of monopoly rights to raise revenue, it should be noted that poor tax collection technology has been universally noted by Western advisors to the reforming governments of the former Soviet bloc. The reliance on mercantilist-style revenue techniques for raising revenue may be related to the origin of the ruling system of Soviet-style states. Communist regimes in the Soviet bloc were either installed by foreign military force, or else from a violent internal takeover by a revolutionary clique. Under such circumstances, pre-existing tax systems demonstrated their inability to expropriate private wealth at a sufficient rate so as to ensure secure protection for the new regime. The new autocrat required massive wealth, quickly, to shore up their political position. Large-scale nationalization and the issuance of monopoly rights to loyal supporters represented a solution to this problem.

There are, to be sure, many differences in detail between seventeenth-century mercantilism and the modern Soviet incarnation. For example, whereas the monarchs of England and France held the equivalents of open auctions at which monopoly privileges were sold to the highest bidder, the Soviet rulers appear to have instead shared in the rents with franchisees.[4] But the basic systems appear to have operated under similar principles.

The bureaucratic apparatus ostensibly tasked with "central planning," although performing many of the same functions as the differently organized mercantilist-era equivalent, seems also to have been partly designed to conceal socialist venality from consumers. This investment in concealing rent flows was an innovation of the Soviet-style system. And the Soviet Union was bureaucratically much more advanced than its seventeenth century counterparts, organizing the state-granted monopolies which dominated the economy in a more thorough-going manner. The lower cost of communications, and the greater potential for bureaucratic management, in the twentieth century surely accounts for much of this particular difference. Despite these relatively minor variations, however, the basic economic character of the state sector of the economy was similar in both the seventeenth- and the twentieth-century examples.

One further difference between sixteenth-century mercantilism and the Soviet case may be more apparent than real. The Soviet Union originated in the sudden, violent overthrow of the existing government structure by well-organized revolutionaries, but, by contrast, mercantilism in England and France accumulated gradually over time. However, while the Soviet Union as a political entity was an outcome of the Russian revolution, an extensive system of state controls over the Russian economy had developed gradually over the preceding half-century. The tsarist state had nationalized oilfields, two-thirds of the railway system and thousands of factories; regulated prices, profits, and the use of raw materials; organized much of private industry into state-managed syndicates (cartels); and placed state agents on the boards of all private joint stock enterprises (see Miller 1926, p. 299; and White 1979, p. 50). One historian concludes that in Tsarist Russia "the predominance of the state in every area of economic life was becoming the central fact of society" (Johnson, 1983, p. 14). Thus, Tsarist Russia already had developed a kind of neo-mercantilist economy before the Russian revolution. The new Soviet rulers reallocated the monopoly rents, but otherwise needed only to modify the existing mercantilist system to serve their own purposes.

The market economy in the Soviet context

The comparative systems literature has tended to emphasize the importance of the central planning apparatus in the Soviet-style economy. By all accounts, however, there was a substantial private sector in the Soviet economy.

The comparative systems literature of the 1970s and 1980s often mentioned the importance of private agriculture (on small, privately owned agricultural plots) in overall agricultural output. However, the private sector of the Soviet economy was far more extensive than this. The parallel or second economy, comprising economic activities which were illegal or quasi-legal, was very large.[5] The private sector could not be readily distinguished from the planned sector (see Feher *et al.* 1983, pp. 98–105).

Wherever there is a gap, alert economic actors will attempt to grasp the opportunity available for personal gain. In the production process, special middlemen, the *tolkachi*, were relied on to gather resources (inputs) so enterprises could meet plan targets. The *tolkachi* worked on behalf of state enterprises selling surplus commodities on the one hand and purchasing needed products on the other. There emerged an entire secondary supply system around the *tolkachi* which allowed state enterprises to appear to conform to state output targets, and thus receive the appropriate bonuses, etc., than otherwise would have been possible (see Berliner 1957, pp. 207–30). On the consumption side, unofficial market transactions attempted to correct for the long queues and the poor quality of consumer goods found in the official state stores. Private market activity enhanced consumer well-being by increasing the flow of goods and services available and by offering an additional source of income to citizens.

Unofficial economic activity was based on evasion of legal entry restrictions. Legal monopolies in the form of entry restrictions characterized the Soviet economy. The central planning system, according to Berliner (1957, p. 408), erected barriers to entry drawn along industry lines. Giant enterprise monopolies, in the strictest sense of establishing single producers of a particular good for the entire country, were created.[6] These monopolies represented opportunities to extract monopoly rents from consumers, whether in pecuniary or non-pecuniary forms.

The conventional view admits that Soviet central planning authorities used a sort of price system, but one in which all prices were supposedly set by the planners. Prices were strictly an accounting tool, and not designed to reflect the relative scarcity of resources. Described as such, the Soviet-type economy was not a monetary economy, but rather a "documentary" one, in which money serves an accounting function, but could not command resources – documents issued by the planning authorities were necessary to do so. Producers were forbidden by law from selling commodities to a purchaser who did not possess an allocation certificate issued by the supply planning agencies (see Berliner 1976, pp. 88–9).

This, of course, was only the official picture. In the Soviet-style economy, just like Western economies during periodic episodes of government price control, official prices are not equivalent to the effective prices in actual transactions. Effective prices adjusted freely despite the fixity of official prices.

"Profits" flow to those officials in the strategic position to transform these non-monetary costs to consumers into personal benefits. Enterprises, for example, often bribed (whether in money or in favors) officials in the chain of supply before necessary inputs became available to their organizations. The deputy director of the supervisory board of the Ministry for the Automobile

Industry, say, might only agree to countersign requisition notes for the supply of vehicle parts at a rate of 1,000 roubles per requisition. Regular clients might rent a flat in Moscow for Ministry officials' use for parties and orgies, and in fact this kind of non-pecuniary bribery was apparently fairly common.[7]

Positions of political authority or influence allow for the holders to extract rents from individuals throughout the economy. One crucial aspect of this market for rents, however, was the complete absence of clearly defined and enforceable property rights to rent flows. As a result, political opportunism was a serious threat at all levels. Protection from legal sanction and regulation was a lucrative source of revenue for strategically placed officials.[8]

The *nomenklatura* system ensured that appointments to strategic positions were carefully monitored and controlled by Party officials. But, as we have seen, in some instances large bribes, in addition to or as a substitute for party loyalty, were required to secure important *nomenklatura* appointments (see Willis 1985, p. 308). Bribery of state officials became commonplace, with various jobs available for established (albeit technically illegal) money prices.

Access to goods and services was frequently only available after payment of a technically illicit bribe to the appropriate official. Medical services were legally rationed according to need, but in reality were rationed by bribery. This was also true in the case of higher education, where ostensibly students were accepted or rejected on the basis of ability, but where admission was often subject to a required bribe.[8]

These examples of rent-seeking illustrate the kind of neo-mercantilist venality which motivates decision-makers in Soviet-type economies.[9] Officials in command of particular entry barriers are in a position to obtain profits resulting from the exercise of coercive restrictions on competition in the form of bribes. In the Soviet system, entry into competition with officially sanctioned suppliers was technically prohibited, but could be achieved in practice by "paying off" the enforcers of the restrictions.

The extensive and elaborate system of official prices supposedly reflected the ideological commitment to the abolition of free-market price formation under Communism, but in reality it represented a myriad of opportunities for profits on the part of those in official strategic economic positions (see Levy 1990; and Shleifer and Vishny 1992). Such rents result from actual bribery, and also from artificially increased prices creating gains in the form of legal monopoly revenue increases to favored producers.[11]

Monitoring and controlling the flow of rents

We must distinguish between two types of "second economy" activity within the Soviet-type economy. The first type involved the exploitation of monopoly positions by the officially appointed holders to extract monopoly profits or rents from consumers. The monopolist shoe producer, for example, cannot raise the official price of shoes, but he can extract surpluses from consumers by requiring "extra" unofficial payments. The second type involved attempts by outsiders to enter into competition with the established monopolists, e.g. the private shoe producer who competes with the state shoe factory. Both types of activity indicate the degree to which market exchange, without even the pretense of planning, characterized the Soviet economy.

Holders of monopoly franchises have an obvious interest in evading payments of "franchise fees" to the rulers responsible for creating the monopoly rights. In order to maximize revenue from the "sale" of monopoly franchises, the Soviet authorities needed to monitor and control opportunistic behavior of this sort on the part of "franchisees."

In order to monitor and control the flow of privilege rents within the system, the Soviet neo-mercantilist state adopted a device pioneered by earlier mercantilist regimes: the professional informer. A considerable bureaucracy arose whose principal task was protecting the monopoly rights of political patrons.

Many scholars noted that the Communist Party played a very weak active role in the Soviet economy (see, for example, Andrle 1976; Conyngham 1973; and Hough 1969). The Party maintained a large supervisory apparatus which oversaw the operation of enterprises, and was chiefly responsible for the selection of managers.

The Communist Party exercised control over managerial appointments in a number of ways. Every Communist Party member who sought to change their job could only do so with the approval of their *raikom* (Party district committee). The majority of enterprise managers were members of the Party. Every Party organization was responsible for creating a managerial reserve list of people who were potentially suitable for managerial careers, and Party organs possessed the right of veto over all appointments made to posts listed in the *nomenklatura*.[12]

In addition, Party cells existed within each enterprise. Moreover, Party industrial instructors were employed to monitor, and actually participate in, enterprise decision-making.[13] This system of Party monitoring closely resembled the practices of the *intendant* system used under French mercantilism around the time of Colbert. Any system of monopoly restrictions requires enforcement to prevent illicit competition from dissipating the monopoly rents and rendering monopoly rights worthless. In mercantilist France, the intendant system was designed to accomplish just that. Intendants were charged with monitoring markets in local areas and empowered to prevent illicit competition (see Ekelund and Tollison 1981, pp. 85–91). The Communist Party appears to have performed this function in the Soviet Union.

Thus the Party closely controlled the positions of privilege which the Soviet state awarded. This control protected the value of the "monopoly franchises" that those positions represented, a predictable concern from the perspective of a revenue-maximizing autocrat.

Managers of enterprises, officials in the Party and the central planning apparatus, as well as almost all other official positions – those which potentially provided access to a significant rent stream – were selected from approved lists, i.e. *nomenklatura*, that were drawn up by the Communist Party. In this way, the regime ensured that those in positions of economic power were loyal to the regime. The *nomenklatura* system played an important role in perpetuating the system in the face of economic inefficiency. The *nomenklatura* functioned as a large, powerful, highly organized and cohesive interest group whose members benefited from the (Soviet) status quo.[14]

A basic function of the central planning bureau in the Soviet system was that of central monitor and coordinator of the activities of the numerous monopolies and cartels in the economy. The socialist calculation debate aside, there is ample evidence that the central planning bureaucracy only planned the economy after the fact.[15] The plan was constantly revised and renegotiated throughout the planning process. Central plans reflected the expected pattern of output from state enterprises, which in turn manipulated the formation of the plan in a variety of ways.

Conclusion

Both defenders and opponents of the Soviet system have agreed on one vital point: the Soviet economy was a radical innovation, an experiment in the abolition of the market and its replacement by central planning. The present chapter challenges this assumption. The Soviet economy was a modern version of the mercantilist economies typical of sixteenth- and seventeenth-century Europe. Like those previous incarnations, the Soviet economy was a market heavily restricted by state-granted monopolies.

Ekelund and Tollison (1981) model the sixteenth- and seventeenth-century mercantilist system as devices employed by the monarch to raise revenue through the sale of monopoly privileges. While the sale of offices and other monopoly privileges hampered the efficiency of the overall economy, it nevertheless maximized the net revenue available to the monarch. The Soviet rulers confronted similar constraints on their ability to maximize revenue from an efficient tax collection system, leading to the emergence of the Soviet-style economic system that maximized the wealth available to the rulers, albeit at a substantial cost to the efficiency of the general economy.

The French mercantilist system ended when the French monarchy was violently overthrown in 1789; the English mercantilist system gradually declined (and the efficiency of the English economy increased) in consequence of a more peaceful conflict between the monarch and the Parliament for political power. The demise of the Soviet-style system in Europe fell somewhere between these two extremes, although the Soviet-style systems in parts of Eastern Europe were overthrown (e.g. Czechoslovakia, the German Democratic Republic, and Romania), the Soviet Union itself folded its tent quietly. In all of these cases the economic interests of consumers ultimately succeeded in outbidding the ruling class for the control of political institutions.

The mercantilist model of the Soviet-style economy outlined above does not imply that ideological factors played no role in the origin of the Soviet state. Revolutionary idealism may have motivated the early Bolsheviks, at least in part. But, by the time of Stalin, the economic system began to function like a mercantilist state. The Soviet Union had become a rent-seeking society by the time it entered its "mature" stage.

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