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Mark Harrison
University of Warwick

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Secrecy, Fear, and Transaction Costs: The Business of Soviet Forced Labour in the Early Cold War*

Mark Harrison**

Department of Economics and CAGE, University of Warwick
Centre for Russian and East European Studies, University of Birmingham
Hoover Institution on War, Revolution, and Peace, Stanford University

Abstract

This paper is about the costs of doing business under a harsh, secretive dictator. In 1949 the Cold War was picking up momentum. The Soviet state had entered its most secretive phase. The official rationale of secrecy was defense against external enemies. One of the Gulag's most important secrets was the location of its labour camps, scattered across the length and depth of the Soviet Union. As this secret was guarded more and more closely, the camps began to drop out of the Soviet economic universe, losing the ability to share necessary information and do business with civilian persons and institutions without disclosing a state secret: their own location. For some months in 1949 and 1950, the Gulag's camp chiefs and central administrators struggled with this dilemma and failed to resolve it. This episode teaches us about the costs of Soviet secrecy and raises basic questions about how secrecy was calibrated.

Keywords: Cold War, Forced Labour, Secrecy, Transaction Costs, Soviet Union.

JEL Codes: K42, L14, M48, N44, P26.

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** Mail: Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Email: mark.harrison@warwick.ac.uk.

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We had to write an essay on “the economic level of security.” Total security led to paralysis, for only if no one said or did anything could nothing be given away. Too little security led to disaster. Where was the golden mean? It was as good, or as pointless, a subject for debate as the medieval argument about how many angels could sit on the head of a pin (Frankland 1999, p. 83; the assignment was part of his training for the British Secret Intelligence Service in 1958).

A colleague of mine used to quip “Got an access denied? Good, the security is working.” That means that security administration is fundamentally opposed to network administration – they are, in fact, conflicting goals ... Essentially, the tradeoff is between security and usability. The most secure system is one that is disconnected and locked into a safe (Johansson 2004).

When it comes to the costs of doing business, it would seem that an autocrat has many advantages. Leaders that do not have to account for their decisions may decide without counting costs; in the absence of procedural checks, they rule by fiat. Democratic leaders, in contrast, must uphold the constitution that gives them legitimacy, respect checks and balances, listen to public and private lobbies, build and maintain coalitions of voters, factions, and parties, ensure transparency of the process that leads to their decisions, and so share ownership of the decisions that result with others.¹ Or, if they do not, they are likely to pay a price in the loss of office or the ruin of their reputation.

¹ “Process,” writes a former permanent secretary in the UK Ministry of Defence (Quinlan 2004, p. 128), “is care and thoroughness; it is consultation, involvement and co-ownership; it is (as we were reminded by the failure of international process in the run-up to the Iraq war) legitimacy and acceptance; it is also record, auditability and clear accountability. It is often accordingly a significant component of the outcome itself; and the more awkward and demanding the issue – especially amid the special gravity of peace and war – the more it may come to matter.”

Such considerations make democratic business costly to transact. The costs are often highly public; they may even be prohibitive. Wintrobe (2000, pp. 247-279), for example, identifies democracy's DNZ ("do nothing zone") where bargaining fails because the costs and risks of negotiated agreement are too high.

This paper is about the other side of the coin – a side that we see rarely if ever because it is normally concealed: the transaction costs of dictatorship. A dictator reaches decisions in secret. Secrecy frees the dictator from public accountability and so preserves his freedom of action. Behind the scenes, secrecy is costly. While the dictator appears to make decisions freely in person, the administration on which he relies to inform, implement, and enforce his policies must meet the costs of secrecy.

The costs of secrecy can be of many kinds; in this paper I focus on transaction costs. Secrecy may affect transaction costs through two channels, procedural and behavioural. In this paper I consider the behavioural channel. I use narrative evidence to show that an increase in the level of secrecy led Soviet officials to change their behaviour in ways that made government business more costly to transact. Another paper (Harrison 2011c) describes the procedural channel, estimates the direct burden of secrecy on a small regional bureaucracy of the Soviet state, the Lithuania KGB, and finds that it was surprisingly large.

The narrative at the core of this paper is constructed from the records of the Gulag, the forced labour administration of the Soviet state, not long after World War II. The scale, scope, and organization of forced labour have been an important focus of research in formerly secret Russian archives since the collapse of the Soviet Union. Significant histories and documentary collections on Soviet forced labour are now available, written in English and Russian from various disciplinary perspectives (Applebaum 2003; Bacon 1994; Gregory and Lazarev 2003; Khlevniuk 2004; Kozlov 2004/05). This paper is the first to focus specifically on secrecy in the administration of forced labour.

In the first section of this paper I examine the secret identification and location of camps in the context of the overall regime of Soviet secrecy. In the second section I introduce the transaction-cost aspect of secrecy. In the third section, I narrate the central story of this paper, which transpired in 1949 and is told here for the first time. The fourth section discusses transaction costs of Soviet administration found in the evidence, and shows how they were related to secrecy. A final section concludes.

1. Forced Labour and Secrecy

Stalin died on March 5, 1953. On March 28, on the initiative of its first deputy chairman and interior minister Lavrentii Beria, the USSR Council of Ministers

ordered the Ministry of the Interior to transfer most forced labour camps and colonies to the Ministry of Justice (Gorlizki and Khlevniuk 2004, p. 132). Within a few more weeks, hundreds of establishments and millions of lives had changed hands.

For this changeover to take place, Justice Ministry officials had to receive some sort of account of the assets for which they would become responsible. Of many questions they might have had about these camps and colonies, the simplest were: Where are they? What are they called?

In Moscow the secretariat of Gulag (the interior ministry chief administration of labour camps) compiled lists and maps. Roughly speaking, there was one list and one map for each of the 150 or so provinces and republics of the Soviet Union at the time. Every map was drawn in pen and pencil by an anonymous hand. Roads, railways, rivers, and coasts were traced. Installations were symbolized and place names were artfully lettered.²

The inference is unmistakable: the Gulag had no printed maps. Why not? It is true that the Soviet Union was a poor country, and maps that were accurate enough to be useful were no doubt costly to produce and reproduce. Were they too costly? This was surely not the case.

Russia had a long tradition of print cartography. According to the website of the Russian National Library, map-printing “began and came of age” in Russia already in the eighteenth century.³ In Russian history, when maps were needed, they were produced. Alexander I created the Imperial Army corps of topographers in 1812. In 1914 the Russian Army entered World War I with a stock of 30 million printed maps of the border districts of the Empire and its neighbours. In 1941 the Red Army’s early defeats cost it a stockpile of 100 million maps (Losev and Kazakov 1992). By this time, fortunately, Red Army formations had “embedded” topographical units fully equipped with mobile map stores and printing facilities. After the chaos of 1941, despite the fact that much of the war was fought over vast interior spaces of the country that prewar thinking had considered invulnerable, each major operation saw the production of many millions of maps of various scales and their

² Hoover/GARF, fond R-9414, op. 1, files 119 to 205 contain these documents (also catalogued in Kozlov 2005, vol. 6, p. 94). Some are dated before 1953, suggesting preparation prior to Stalin’s death; Beriia is known to have planned a fundamental reform of the Gulag but was prevented while Stalin lived (Tikhonov 2003).

³ See “Russian Maps and Atlases in the National Library of Russia” at http://www.nlr.ru/eng/coll/maps/rus_map.html (accessed September 30, 2010).

distribution to the troops, including specialized maps for different branches of the armed forces (Voronkov and Zakuvaev 1982).

In short, Stalin's bureaucracy was certainly capable of supplying maps when required. If the Gulag had no maps, it is because they were not wanted. Maps were not wanted because the identity and location of camps were among the top state secrets of the Soviet era.

How did this come to be so? The existence of forced labour was not, initially, a Soviet secret. As of 1927, for example, a comprehensive list of state secrets did not include labour camps (Bone 1999, pp. 81-83). It did classify as "secret," under "matters of a military nature," "The dislocation *in toto* of every category of institution and establishment (for example, ... all institutions of higher learning ..., all warehouses, etc.)." According to these rules a comprehensive list of labour camps would have been classified a military secret, but labour camps were not singled out for this, and it was not forbidden to reveal the location of any one forced labour facility in particular.

In fact, in the early 1930s the Soviet press published various accounts of life behind the wire. The writer Maksim Gor'kii, for example, contributed stories about rehabilitation by forced labour in camps of the far northern Solovetskii islands, the Moscow suburb of Liubertsy, and the White Sea canal project (cited respectively by Davies 1996, p. 36, and Applebaum 2003, pp. 59-62, and 80-82). At this time, therefore, the existence of particular labour camps was not secret, although the conditions under which they operated were heavily sanitized.

Already, however, the fact that something was not listed as secret did not mean that just anyone could freely know it or repeat it. The statistics of forced labour were secret *de facto* at this time, as well as the laws governing its use (Davies 1989, p. 35). In the depth of the Great Depression, moreover, there was an international outcry against the Soviet export of commodities produced by forced labour (Davies 1989, p. 395; Applebaum 2003, pp. 74-76). A self-reinforcing cycle of simultaneous causation ran from Soviet secrecy on this sensitive matter to anti-Soviet sentiment in the world outside and back again.

After the depression the campaign against Soviet exports died away, but the Gulag was increasingly hidden. Official propaganda of the benefits of "corrective labour" ceased. The works that were previously published were banned, and many of their authors were arrested. Concealment was complete by 1937 (Applebaum 2003, p. 110). There were no more accounts of life behind the wire until 1962, when Alexander Solzhenitsyn was allowed to publish his fictional account of *One Day in the Life of Ivan Denisovich*, set in an unnamed Siberian labour camp. This window into Soviet reality was soon

closed again, and the full facts were held back for a further thirty years. Until the 1990s, ample scope remained for speculation and error.⁴

The Soviet Union was already one of the most secretive states in the world before World War II broke out. At the war's end, there were widespread hopes that victory would be rewarded by relaxation and a return to more open or even "normal" political and cultural relations (Hough 1985). These hopes were eventually dashed. The fog of secrecy became even more impenetrable on June 9, 1947 with a Supreme Soviet decree "On responsibility for the disclosure of state secrets and for the loss of documents containing state secrets." Its occasion was the "KR" affair – a scandal whipped up around a Soviet husband-and-wife team of biological scientists, Nina Kliueva and Grigorii Roskin, who had shared preliminary results of their research on anti-cancer agents with American specialists (Esakov and Levina 1994). Kliueva and Roskin were accused of violating secrecy and betraying the interests of the Soviet state to American intelligence for the sake of "personal fame." In the second half of 1947, hundreds of closed meetings were held in party organizations and government ministries to condemn them. But they were not charged with spying or arrested, a sign of how times had changed since 1937.

The 1947 law was aimed at offenses that fell short of espionage or treason, for which the most severe penalties were already available.⁵ Discussing the new law in a draft for *Pravda* (published on September 27, 1947), the USSR State Prosecutor Konstantin Gorshenin pointedly began with some exemplary cases in which offenders were sentenced to four or more years of forced labour, not because they were traitors, but because they lost secret documents through negligence. In this postwar narrative there were spies, but these were foreign rather than home grown. Foreign intelligence agencies, Gorshenin suggested, were predators in search of a "habitat" with "willing or unwilling prey." He claimed that they found their victims especially among those citizens "in whose consciousness such relics of the past as a

⁴ Bacon (1994) surveys the pre-1991 literature. The most reliable clues were contained in secret sections of the Soviet national economic plan for 1941, seized by German forces during World War II and later published in the United States. The 1941 plan was exploited by Jasny (1951) for an evaluation that turned out remarkably close to the figures revealed in the 1990s.

⁵ Thus the downfall of Nikolai Voznesenskii, the wartime economic chief and once Stalin's favourite, was triggered in March 1949 by a scandal over the negligent loss of secret papers in Gosplan, but his subsequent execution in August was for treason and undermining the economy under the RSFSR Criminal Code, Article 58 (Gorlizki and Khlevniuk 2004, pp. 83-89).

self-centred attitude to social causes, non-ideological, narrow-minded interests, an egotistical drive towards cheap personal fame, adulatory self-abasement before bourgeois culture, and so forth, are still strong.” Also open to foreign manipulation were “those who, out of their own generosity, trust everyone and anyone, and fail to reckon the cost of their generosity to the interests of the state.” Only vigilance could frustrate the imperialists’ designs, seen in this light.⁶

The implementation of the law of June 9, 1947, provided the exogenous shock to the secrecy regime that yields our data. As a result of the new law, security was tightened further throughout the Soviet bureaucracy. The law prohibited disclosure of a long list of matters, ending with “other information that will be recognized by the USSR Council of Ministers as not subject to disclosure.” The Council of Ministers followed this up on March 1, 1948, with new lists of classified information and new instructions for all aspects of handling information of all kinds and all degrees of secrecy.⁷

The instructions ran to 47 printed pages. Their spirit was to add a rule to cover every past violation.”⁸ The document covered all levels of classification but was itself classified “top secret”; this meant that those cleared for access to documents that were merely “secret” could not read about their new obligations. Among government officials it was a particular fear that matters such as plan figures, released a few months previously and already in the public domain, might now be considered secret, making it an offence under the law to repeat them in public (Gorlizki 2002, pp. 722-723).

The change in the law had implications for every part of the Soviet bureaucracy. The leaders of the Gulag followed through within a few days by issuing a new list that itemized the Gulag’s secrets. First on the list was: “The

⁶ Hoover/GARF, R-9492/1a/513, folios 8-18 (“Soobshchenie prokuratura Soiuzu SSR”).

⁷ Hoover/GARF, R-9492/2/79, folios 2-26 (“Instruktsiia po obespecheniiu sokhraneniia Gosudarstvennoi tainy v uchrezhdeniakh i na predpriatiiakh SSSR,” Moscow, 1948).

⁸ Thus typists were instructed not to discuss the content of secret documents with others, to consult only their seniors or the author of the document about illegible words, not to take dictation where they could be overheard, and to hand all waste paper to their seniors for destruction. Hoover/GARF, R-9492/2/79, folio 19ob.

location of corrective-labour and verification-filtration camps, colonies, deportation prisons, and other Gulag subsections.”⁹

2. Transaction Costs and Secrecy

The repercussions of the “KR” affair are consistent with the use of secrecy as an instrument that raises the costs of unauthorized transactions (Harrison 2005, 2008a). How does it work? Information is valuable both in itself and when it is shared to facilitate value-adding exchange. Controlling information is therefore one way of regulating exchange.

Regulated exchange was fundamental to the working of the Soviet planned economy. Exchange was fundamental because parallel ministerial hierarchies, unified at the top in the Politburo and Council of Ministers, were specialized at lower levels by facility, function, technology, and territory. In order to function at the lower levels, the managers of specialized facilities had to trade resources with other ministries, with households and cooperatives, and, through state intermediaries, with foreign corporations and agencies. Regulation from above was designed to ensure that agents at lower levels undertook only authorized (“planned”) trade. This was necessary because lower level agents faced many potential exchanges that would be privately profitable at the cost of diverting resources from plan objectives. Legally enforceable plans were designed to rule these out.

Every diversion of resources from planned uses to unauthorized sideline trading represented a risk of loss to the state.¹⁰ This is what the “KR” affair

⁹ Hoover/GARF, R9414/1/335, folios 11-12 (“List of questions of the work of the GULAG of the USSR MVD and its peripheral organs that are state secrets (gosudarstvennaia taina),” signed by acting Gulag chief Dobrynin, June 17, 1947). Applebaum (2003, p. 110) notes that “subsection” was an internal codeword for a labour camp. On December 10, 1951, USSR interior minister Kruglov issued a similar “List of questions of special importance (osoboi vazhnosti) about the GULAG of the USSR MVD, correspondence about which should be classified ‘top secret (special file)’ (Sovershenno sekretno (osobaia papka)” (Hoover/GARF, R9414/1/335, folios 71-72). Items 2 and 3 were “The location and information about numbers of the Gulag contingents engaged in the construction of especially important closed special construction projects of Glavpromstroï” (a reference to the newly founded Soviet atomic weapons industry) and “Summative information on the location of corrective labour camps and colonies and transit prisons of the USSR MVD.” Item no. 1 was “Summative information on the overall number of the contingent of prisoners maintained in all MVD camps (including special camps) and colonies, their physical condition and labour utilization”; this was the second item in the 1947 list.

meant to Stalin, and it is why he reacted to it so sharply. Secrecy was then a means of reducing such losses by raising the expected costs that subordinates would face if they exchanged information that was valuable directly or indirectly to potential partners on the side.

Each extra degree of secrecy created an important dilemma, or trade-off, for the Soviet authorities. This is because, while raising the costs of unauthorized transactions that fell outside the plan, additional secrecy also promised to raise transaction costs of the command system itself. This trade-off matters if we think of the dictator as aiming to maximize payoffs, net of transaction costs. By implication, the dictator had an interest in transacting business efficiently.

The Soviet command system incurred significant transaction costs. According to Hayek (1945), such costs must have exceeded those of a market economy, because markets share information more economically than a hierarchy. These costs were incurred in both the vertical and horizontal dimensions of hierarchy. In the vertical dimension, there were *decision costs*: the information and deliberation costs of making decisions in high level committees and enforcing or adapting them in the face of indifference, criticism, self-interested resistance, or objective obstacles. In the horizontal dimension were *trade costs*: the resources consumed in order for agents at lower levels to assure each other and those watching them from above that the exchanges that they sought were consistent with higher level plans.

How then would secrecy cause these costs to vary? We consider three effects.

- A. Agreements for the sequential exchange of goods or services for money or other considerations depend on the parties knowing each other's identity, address, legal status, and ability to supply or sell. Secrecy limited state agents' access to unauthorized sideline options by criminalizing the provision of such information to outsiders and its acquisition by them. Other things being equal, agents faced with lower returns from sideline trading could be expected to switch effort and resources back into the state sector, increasing the value of the dictator's objective function.

¹⁰ "Risk of loss," rather than certain loss, because even loyal managers frequently had to trade on the side, without authorization, in order to fulfil the plan. It was intrinsically difficult for the authorities to draw a line between the unauthorized exchanges that were plan-oriented (or loyal) and those that were profit-oriented (and disloyal). Kliueva and Roskin, for example, persistently protested their loyalty. For further discussion, see Gregory and Harrison (2005).

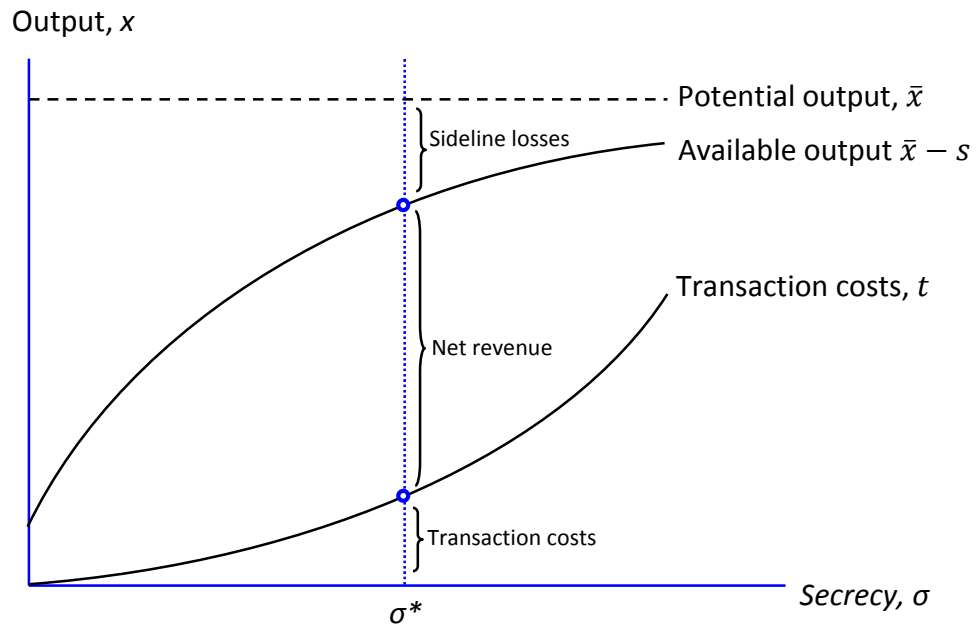
- B. While pushing up the costs of unauthorized sideline trade, secrecy could also raise authorized trade costs within the state sector by criminalizing information sharing and complicating verification among loyal agents who were just trying to follow instructions. Resources would be consumed by this, and some authorized contracts would be so impeded that they would be left unfulfilled. This effect of secrecy on transaction costs is reflected in today's information systems literature on security versus usability (Johansson 2004). The dictator would lose from this effect.
- C. A further effect was associated with Stalinist regulatory regime shifts rather than with secrecy as such. This was an increase in decision costs, which are also a cost of transactions. New laws were often accompanied by stringent enforcement campaigns based on exemplary punishment of offenders (Gorlizki 1999; Heinzen 2004; Harrison 2011a). It was in the same spirit that Kliueva and Roskin were pilloried in 1947, and Gorshenin's offenders were sentenced to the camps. The result was a state of fear, arising from uncertainty among government officials and managers about how the new regime would be applied, and to whom, and what punishments might follow. Managers and officials responded to such threats by avoiding decisions, for which they might be held responsible, as well as pooling risks and covering each others' backs (Gregory and Harrison 2005). If they responded to additional secrecy by withdrawing from sideline activities, therefore, they did not necessarily put more effort into the plan because they would divert some into self-protection.

Where would the dictator stand in terms of net gain or loss? This discussion is easily formalized and turns out to resemble the general case of a security versus usability tradeoff. Consider an economy with potential output fixed at \bar{x} . Output is delivered to the dictator after deducting sideline losses s (from sharing and stealing for sideline trade), so available output is $\bar{x} - s$. The dictator then pays transaction costs t , leaving a net revenue of $r \equiv \bar{x} - s - t$, and this is what he must maximize.

The level of secrecy, continuously variable as σ , is the dictator's instrument. Suppose sideline losses are diminishing in secrecy, but at a diminishing rate, so $s'(\sigma) < 0$, $s''(\sigma) < 0$; transaction costs are increasing in secrecy at an increasing rate, so $t'(\sigma) > 0$, $t''(\sigma) > 0$. Then, the dictator's revenue is maximized where $s' = t'$. In Figure 1, the upper horizontal line is potential output. The output above the $\bar{x} - s$ curve is diverted into sideline losses and that below the t curve is lost in transaction costs. The gap between the curves is available to the dictator, whose optimum is found by fixing

secrecy where the curves are parallel and the vertical gap is at its widest. At σ^* , the marginal gain from tighter security is equal to the marginal loss from more costly transactions. Here, secrecy is just right; elsewhere, it is too weak or too extreme.

Figure 1. Optimizing Secrecy



Our empirical evidence comes from a single episode in the history of a particular bureaucracy, the Soviet administration responsible for forced labour camps, in 1949/50. It is a limitation of the evidence that it supports a narrative but is not amenable to measurement. It is not a natural experiment, because no group went untreated. It tells us nothing about other payoffs that might have been sought from secrecy, or whether or not they were commensurate with the costs. Despite such limitations, this paper provides the first account, based on historical evidence, of transaction costs of a change in the regime of official secrecy in any country.¹¹

¹¹ That's a challenge to the reader. Counter-examples are welcome; please send them to mark.harrison@warwick.ac.uk. In economics there is an extensive literature on information, reviewed by Stiglitz (2000). This literature has much to say about information costs, and about collective and individual choices over concealment and disclosure, notably in corporate governance and monetary regulation. It is silent, however, on the value of artificial secrecy, when information would be relatively freely observable, except for the fact that the ruler chooses to penalize its disclosure by law.

The evidence does not let us observe the optimum; in fact, we will not be able to rule out the possibility that, when he intensified secrecy, Stalin made a mistake. The one thing we will observe is the sign of the slope of the t function. Thus, identifying the relationship between secrecy and transaction costs is the contribution of this paper.

As a final preliminary, I address the issue of whether an optimization model is appropriate to Stalin's political economy. From the 1920s to the 1950s the Soviet command system was ruled by a totalitarian dictator whose rationality is often questioned. Sebag Montefiore's (2003, pp. 48-49) biography describes Stalin as a victim of "paranoia." Filtzer (2010, p. 18) refers to the "mindless, excessive secrecy" of the postwar years. Indeed, historians often seem easier with the idea that Stalin blundered uncontrollably than that he calculated.

Intellectual resistance to the proposition that Stalin sought to optimize secrecy is natural but mistaken. There is plentiful evidence of Stalin's psychopathology (e.g. Conquest 1971, p. 114; Medvedev 1971, p. 306; Tucker 1974, 1992; Bullock 1993, p. 494; Service 2004, pp. 343-344). Damaged by childhood abuse, Stalin had few scruples, few friends, and a limited capacity for empathy. At the same time he had superior talents for organizing information and reasoning logically. He excelled at the patient, step-by-step argumentation of syllogisms. In speeches and letters he advanced complex, consistent models of cause and effect in the world. He showed patience and persistence in the pursuit of long term objectives, whether we construe these as personal or political. With this went a high degree of self control, including the ability to wait. He controlled his feelings, rarely allowing himself to express self-doubt, depression, or despair. Even if he lacked empathy, he had insight and was able to dominate and manipulate others.

Stalin could rationalize; could he also optimize? In some instances, Stalin's policy decisions have been thought to suggest unstable or inconsistent preferences. These include choices over investment and consumption, and over mass killing and selective repression. In both cases, however, economically minded historians have shown that Stalin's behaviour is consistent with optimization subject to constraints; when the constraints changed, so did his choices. Stalin favoured investment over consumption when possible, but returned the priority to consumption when intelligence reports warned him that he risked violating the workers' fair wage constraint (Gregory 2004; Gregory and Harrison 2005). He preferred selective repression when possible, but switched to mass killing when internal threats became less well defined (making selection more difficult) and when external threats increased (making the neutralization of internal threats more urgent) (Harrison 2008b, 2011b; Gregory et al. 2011). New work by Markevich (2011)

points in the same direction: In his general approach to business, Stalin aimed for efficient control, not for control at all costs.

While the dictator had an interest in doing business efficiently, the command system did not exist to be efficient, and it could not calibrate or compute many of the values required for full optimization. If Stalin optimized, he did it intuitively, by trial and error. His attention and capacity for work deteriorated, moreover, after 1945 (Gorlizki and Khlevniuk 2004), so that he increasingly left important decisions to subordinates. For all these reasons, we should think of optimization as a hypothesis, not a presumption.

A further reason to retain a critical attitude to the idea of optimizing secrecy can be seen in Figure 1. This diagram is just a visual metaphor, but suppose for a moment that it literally represents reality. If so, if the optimum existed, and if Stalin aimed broadly to achieve it, even a small amount of measurement error or non-maximizing behaviour could lead to a relatively large deviation from the optimal allocation. This is because the curves are parallel at the optimum, and their slopes diverge only slowly as secrecy becomes suboptimal or superoptimal (for more general discussion see Akerlof and Yellen 1985).

3. A Matter of Special Importance

The story that follows is taken from a single file in the collection of the USSR MVD (interior ministry) chief administration of places of confinement. The narrative begins in the spring of 1949 and concludes more than a year later. It is a story without drama. There is no excitement, no suspense, no revelation, no reversal, and not even a dénouement. All the personalities are grey. The emotions are fear and frustration. When the evidence runs out, these feelings have not been discharged; at best, they have been normalized.

The labour camps of the Gulag were not self-sufficient. They had to undertake everyday transactions with civilian suppliers and purchasers, with the railways that shipped supplies to and from the camps, and with the state banking system that recorded debits and credits for camp purchases and receipts. According to our story, in 1949 and 1950, bilateral transactions between the Gulag and its civilian environment began to break down. Reading between the lines, one infers that the breakdown was more threatened than realized; it would have become fully actual, only if all those involved from top to bottom had stuck rigidly to formal rules. Instead, a complete breakdown was avoided to some extent by working around the rules or ignoring them to some degree.

The existence of a gap between rules and realities was not unique to this moment or this context. In fact, rigid adherence to the rules might have made the entire Soviet system unworkable. All Soviet managers were

compelled to break rules in order to do their job, even when all they wanted was to be left alone to “sleep peacefully” (Berliner 1957). Their skill lay in knowing which rules to break, and by how much.

The evidence of our story is that Soviet managers saw the gap between secrecy rules and realities as particularly dangerous. It produced more than the usual amount of fear. For this reason, although they were willing to work around the rules to some extent, they also took steps to insure themselves against the potentially severe legal consequences of their own actions. Insurance involved two activities, both directed towards their superiors. One was prompt disclosure of the illegal actions they were being forced to undertake; this implicated their superiors in joint responsibility either for rule breaking or for the plan breakdown that would follow from full compliance. The other was to invest significant time and effort in lobbying superiors for the rules to be adapted to reality.

Background

Labour camps were given different addresses and designations for different purposes. Specifically, every camp had a “full” or “effective designation” (polnoe or deistvitel’noe naimenovanie) and one or more “conventional designations” (uslovnoe naimenovanie).

The purpose of the conventional designation was to avoid disclosure of the full designation and address. The conventional designation was for non-secret use, most commonly in providing release certificates, enabling personal correspondence between prisoners and their relatives, and in personal correspondence with camp officers and hired employees. While concealment of the full designation and address was the first objective of security, it was particularly important also to avoid disclosing the concordance between full and conventional designations.

Volzhlag, also known as Volgolag (and before that Volgostroi), provides an example. The full designation of this camp was Volzhskii ITL MVD (the MVD Volga Corrective Labour Camp), opened in 1946 and transferred in April 1953 to the Iaroslavl’ provincial MVD administration.¹² The camp’s full address was “Perebory village, Rybinsk ward (raion), Iaroslavl province (oblast’).” Volzhlag also had a unique telegraphic address, “Volga.”

Unique letter codes were issued to every camp under MVD decree 001542 of December 25, 1945; for Volzhlag, high in the Russian alphabet, it was “E”; camps lower down the list had codes with two or three letters.

¹² The Memorial website entry under “Volzhskii ITL MVD” at <http://www.memo.ru/history/nkvd/gulag/r3/r3-63.htm> (accessed September 30, 2010), provides these and following details.

Camps were issued with letter-coded stamps and seals (shtampy i pechati) to certify releases and correspond with persons such as prisoners' relatives, Gulag officers, and hired employees. Stamps tended to be articles of convenience that substituted for typed or printed letterheads. Circular seals were more important because without them even signed original documents had no legal force. At this time, meanwhile, camps continued to use their full designations in correspondence with state organizations and state counterparties; they were also issued with stamps and seals giving full designations in order to authorize and notarize such correspondence and financial documentation under MVD decree no. 00249 of April 29, 1949.

Finally, mailbox numbers were issued under MVD decree 0035 of January 15, 1949; these were for use in all non-secret correspondence, so as to avoid fuller identification.¹³ For Volzhlag, the mailbox address was "Shcherbakov town, mailbox no. 229."

Issues

Our story begins on February 15, 1949, when Gulag third administration chief Volkovyskii forwarded a letter to second administration legal department chief Liamin. The letter was from Moldavian deputy interior minister Babushkin to Gulag chief Dobrynin in Moscow.¹⁴ It reported that the local oil industry distributor was refusing orders for fuel from the local Gulag administration. The reason: these orders were classified secret, as they had to be, given that the delivery address was a state secret. But under the Soviet Union's secrecy regime the fuel supplier was entitled to accept secret orders only from military units. The camps of the Moldavian Gulag were not military units, so their orders were returned without being met. The same difficulty was affecting supplies of meat, grain, and other food products to the camps, and so was "demoralizing the work of supply."

A related issue emerged with a letter of April 7 from MVD war supplies administration chief Gornostaev to deputy interior minister Obruchnikov.¹⁵ MVD decree no. 0035-1949 (see above) ordered that labour camps' non-secret correspondence should use mailbox numbers as the only form of designation. This created the following problem. Gosbank, the state bank,

¹³ Mailbox numbers were first issued, apparently, in 1939, to enable camps to subscribe to periodical publications without revealing their full addresses. Hoover/GARF, 9414/1/21, folio 49 (Gulag chief Filaretov, decree dated January 16, 1939).

¹⁴ Hoover/GARF, R-9414/1dop/145, folios 1a, 3.

¹⁵ Hoover/GARF, R-9414/1dop/145, folio 4.

held its depositors' full names and addresses, not mailbox numbers. Gosbank was now refusing transfers to or from the settlement accounts of labour camps based on identification by mailbox number, because this did not match the account details that it held. But full designations were now a state secret that could not be disclosed to Gosbank, although Gosbank already held this information in the account details. Payments were being held up and there was a risk of penalty charges for setting up transfers incorrectly.

A note of August 6 from MVD supply administration Moscow office chief Slobodkin to Gulag chief Dobrynin widens the frame.¹⁶ Slobodkin reported a general breakdown in the settlement by labour camps of invoices for equipment and medical supplies. Bank officers were rejecting payments across the board on the grounds that the payer was insufficiently identified. Bank records had not been updated to correspond with depositors' mailbox numbers. Slobodkin warned Dobrynin, in updating them, to anticipate a problem. Under MVD regulations it was prohibited to extract information from secret documents. If the document that Gulag now provided to Gosbank was a list of camps by mailbox number, labeled "top secret" or "secret," it would be illegal to extract the necessary information. Slobodkin asked Dobrynin "not to delay a solution."

Time passed, but the mismatch between rules and realities persisted. On March 9, 1950, for example, Volzhlag chief Kopaev reported to Gulag secretariat chief Chirkov his anxieties over procedures.¹⁷ The root of the problem, he suggested, was a clash between two MVD decrees. Decree no. 001542-1945 gave every camp a letter-coded designation and letter-coded stamps and seals to authorize releases and correspond with private persons. Decree no. 00249-1949 issued stamps and seals giving camps' full designations, for correspondence with state organizations and state counterparties, and to authorize and notarize financial documentation. One problem arose in mailing non-secret correspondence to other government agencies. The letter inside was written on paper headed by the full name of the camp. The envelope, which could be seen by anyone, carried the sender's mailbox number and town. Put the two together and you had a state secret. Similarly, an order issued to an external supplier bore the camp's mailbox number, while the authorizing seal gave its full name. Similar issues arose in dispatching products and making payments. Someone in the secretariat wrote in the margin: "Comrade Rozenberg. We need to speed up agreement on the draft decree. March 17, 1950."

¹⁶ Hoover/GARF, R-9414/1dop/145, folio 8.

¹⁷ Hoover/GARF, R-9414/1dop/145, folios 26-27.

Recall MVD war supplies administration chief Gornostaev, who wrote first to deputy interior minister Obruchnikov on April 1949. He appears in the file twice more, the second time on July 24, 1950, more than a year later, writing to new deputy interior minister Serov.¹⁸ He began by reminding Serov that the matter was not new. MVD decree no. 0035-1949, he continued, did not cover the addressing of rail and river shipments and bank transfers. At present this could be done only by revealing the full names of camps. The MVD war supplies administration had made proposals, Gornostaev complained, but the matter remained unresolved. "Given that the disclosure of the full designation of MVD camps, building sites, and colonies, and their location is impermissible," he concluded, "I ask for your instructions to accelerate the resolution of this question."

First steps

Overlapping with this process were the first steps towards a possible resolution. In May 1949, Gulag second administration deputy chief Nikulochkin reported to Gulag chief Dobrynin that the allocation of mailbox numbers to camps had given rise to unanticipated difficulties with suppliers and bank officers.¹⁹ He proposed a round of consultations with counterparties to identify solutions. But consultations would involve the exchange of information, which required high-level authorization. Nikulochkin asked Dobrynin to authorize the Gulag's financial section chief to visit Gosbank, its transport section chief to visit the transport ministry, and its quartermaster general to visit the ministry of communications.

These visits evidently took place. On July 1, 1949, MVD transport section chief Zikeev reported back that the transport ministry did not need to know details of senders other than mailbox numbers (the report does not discuss the problem of recipients).²⁰ The MVD transport section could provide the transport ministry with a daily matrix of shipments by line of origin and destination. The mailbox numbers of camps had to be known to the MVD transport section in Moscow, its local sub-offices along the railway lines, and the station masters. This system already applied to shipments from special-purpose construction projects, i.e. the secret labour camps of the interior ministry's administration for industrial construction, Glavpromstroi.

¹⁸ Hoover/GARF, R-9414/1dop/145, folio 42.

¹⁹ Hoover/GARF, R-9414/1dop/145, folio 5.

²⁰ Hoover/GARF, R-9414/1dop/145, folio 6.

Six weeks later, on September 21, Gulag acting chief Bulanov proposed two options to deputy interior minister Chernyshov.²¹ He began by reviewing the current situation: orders for food, clothing, building materials, equipment and machinery, pharmaceuticals, and published materials, were breaking down. The orders went to suppliers as top secret, and were being rejected and returned unfilled. Suppliers required full addresses to fill orders. But to provide these addresses openly would disclose state secrets. The first option that Bulanov proposed to Chernyshov was to assimilate relations between Gulag establishments and civilian counterparties to the rules that the interior ministry had recently (as of August 6, 1949) applied to the military formations of its internal security troops. In effect, every camp would be reclassified as an army unit (*voiskovaia chast'*) of the MVD. A second option was to re-register every camp with suppliers and banks as an "MVD facility" (*ob"ekt MVD*) with a mailbox number. Either way, private correspondence would continue to go via existing mailbox numbers.

Bulanov's memo is followed in the file by two draft decrees for interior minister Kruglov. The first, "On the introduction of new designations of corrective labour camps," approved the nomenclature "MVD facility, mailbox number XXXX."²² It authorized camp chiefs to communicate in top secret their true addresses to deposit holders and railheads, and required them to prepare new stamps and seals incorporating the new nomenclature.

The second draft decree, "On the procedure for maintaining correspondence of corrective labour camps and formalization of their documentation on business and financial operations," provisionally dated November 1949 and so most likely prepared separately, approved the alternative nomenclature "army unit no. XXXX" for all camps, except the special *Glavpromstroï* camps.²³ According to this draft decree, Gosbank account holders would register only the army unit number; orders for goods would specify the unit number and railway line and station. This draft decree gave authorizations and requirements to camp chiefs that were similar to the one before, and covered the complexities of secret and private correspondence in more detail.

At this point the MVD second special section stepped in and became responsible for carrying the matter forward. On November 26, second special section chief Filatkin wrote to Gulag chief Dobrynin asking for comments on a

²¹ Hoover/GARF, R-9414/1dop/145, folios 9-13.

²² Hoover/GARF, R-9414/1dop/145, folios 12-13.

²³ Hoover/GARF, R-9414/1dop/145, folios 14-16.

revised draft decree “On the procedure for maintaining correspondence,” etc. This document is not in the file, but is evidently a revision of the option that sanctioned the renaming of camps as “army units.” (the title given is more or less the same with a few extra words).²⁴ Dobrynin wrote back to Filatkin on December 7 with minor amendments and corrections to the list of camps. Dobrynin and Filatkin jointly sent the agreed composite to Kruglov for signature on December 30.

One step forward, one step back

Kruglov did not sign. On January 20, MVD financial department chief Karmanov and chief accountant Zaitsev raised objections to the Dobrynin-Filatkin solution.²⁵ They pointed out that, under a Gosbank instruction of April 2, 1945, army units could hold only deposit accounts, not settlement accounts with overdraft facilities. The camps currently held 10.6 billion rubles of Gosbank credits that they would have to give up; replacing this would be beyond the budget of the MVD (more evidence, if more is required, that finance mattered in the Soviet economy). For the proposal to work, Gosbank and Prombank, the state industrial investment bank, would have to agree to alter the instructions so that the “army units” of the Gulag could raise overdrafts.

Almost immediately, this interpretation was confirmed by Gosbank. On February 4, 1950, financial service state counsellor Borychev wrote to deputy interior minister Mamulov to make a simple point: Renaming labour camps as army units would not preserve secrecy.²⁶ “Everyone knows,” he explained patiently (or was that sarcasm?) that real army units were not funded by Gosbank. The camps had large funding needs. The discrepancy, he pointed out, would attract attention and lead directly to what was to have been avoided: disclosure of the location of camps. It would be better, Borychev argued, to stick to mailbox numbers on a system like that used by the defence industry.

These arguments appear powerful and are not contested in the documentation. Instead, they were ignored. A short background paper from Gulag second administration chief Matevosov, dated May 1950, for example, noted that the “army unit” proposal had been current since September when

²⁴ Hoover/GARF, R-9414/1dop/145, folio 17.

²⁵ Hoover/GARF, R-9414/1dop/145, folio 31.

²⁶ Hoover/GARF, R-9414/1dop/145, folio 30.

Gulag first proposed it to deputy interior minister Chernyshov.²⁷ It envisaged that, while camps would be renumbered as army units for business purposes, the system of identifying camps by a letter designation, which originated with NKVD decree no. 001542-1945 (see above), would be maintained for non-secret correspondence such as release certificates and correspondence with private persons.

The MVD leadership met on May 9, 1950. The minutes recorded approval “in principle” of Filatkin’s draft decree, but also asked the MVD secretariat, second special department, and legal unit “attentively to review” the issue together one more time.²⁸ There is no draft decree, but 95 Gulag establishments are listed by name from “A” to “Ia”, each labeled “Army Unit no. [space].”²⁹ The list is dated December 1949, so it is evidently part of the package originally sent to Kruglov at the end of that month (see above). A sheet attached with a mock letterhead and three seals for correspondence, financial authorizations, and packages respectively, looks as if it has the same origin.³⁰ The letterhead followed this template:

МВД СССР	MVD USSR
ВОЙСКОВАЯ ЧАСТЬ	ARMY UNIT
№ _____	№ _____
_____ 19 __ г.	_____ 19 __ (year).
№ _____	№ _____
гор. _____	Town _____

The proposal to reclassify labour camps as “army units” was still current in June 1950, when a draft letter from interior minister Kruglov to war minister Vasilevskii enquired whether the Soviet Army would object to the renaming of camps as army units.³¹ It is not clear whether the letter was ever sent; no reply is filed. Handwritten across the copy on file are the words: “Comrades Iatsenko and Filatkin. Examine the draft decree one more time for report to the minister for signature. June 8 (signature illegible).”

Indecision

At the back of the file are further draft decrees of the interior minister, one dated 1950 and the other August 1950. The idea of renaming camps as “army

²⁷ Hoover/GARF, R-9414/1dop/145, folios 22-23.

²⁸ Hoover/GARF, R-9414/1dop/145, folio 35.

²⁹ Hoover/GARF, R-9414/1dop/145, folios 36-40.

³⁰ Hoover/GARF, R-9414/1dop/145, folio 41.

³¹ Hoover/GARF, R-9414/1dop/145, folio 34.

units" had gone. Instead, both decrees were based on Bulanov's other option of September 1949: camps were to be renamed "MVD facility" (ob"ekt MVD) with a four-digit number. The first draft decree is a single page followed by lengthy "Instructions" and a model letter for each camp to send to its local Gosbank branch office.³²

The instructions are more detailed than in previous draft decrees. A key clause states: "The location (of camps) is a document of special importance (osobaia vazhnost', the highest level of Soviet secrecy) ... Reproduction and duplication are prohibited." Previous conventional designations, including letter codes and telegraphic addresses were to be abolished, but mailbox numbers would be retained. Secret correspondence within the MVD would use full designations; secret correspondence with other ministries (including MGB, the security ministry) and non-secret correspondence would use only facility numbers. The instructions deal with many other contingencies, including how to deal with camps that are dissolved, newly established, or moved, and so on.

The last draft decree in the file, dated August 1950 (51-56) again enacts the "MVD facility" solution.³³ Model letters to local railway stationmasters (57) and bank officials (58) are included. The tone is more practical and bureaucratic than the preceding draft. Much of the content is similar; two additions stand out. Paragraph 6(e) deals with prisoners and their relatives: "Mailboxes of MVD corrective labour and special camps are used only for letters, transfers, and packages addressed to prisoners. Answers to relatives of convicts requesting the location of prisoners ... are to be given out only verbally through the information bureau of the first special department ... indicating the mail address of the prisoner's place of confinement (e.g.

³² Hoover/GARF, R-9414/1dop/145, folios 43-50. The model letter is not without interest. It is written as if from the Mikhailovskii camp chief to the Sverdlovsk branch office of Gosbank. Headed "Top secret" and "In person only," it reads: "I inform (you) that the Mikhailovskii corrective labour camp of MVD has been given the conventional designation "MVD facility no. 5401. In connection with this I request (you), from September 1, 1950, to change the designation of settlement account no. 258 of the Mikhailovskii camp and rename it: "Settlement account no. 258 of MVD facility no. 5401 in the town of Sverdlovsk." In the top left hand corner is a place marker for "Stamp with full designation of the camp." The words "with the aim of barring disclosure of the location of MVD corrective labour camps" are crossed out from the text of the letter. Too much information, one supposes.

³³ Hoover/GARF, R-9414/1dop/145, folios 51-58.

Skvortsov Ivan Petrovich, year of birth 1903, serving punishment – town of Kotlas, mailbox no. 420).”

And paragraph 3(c) directly addresses the anxieties of Volzhlag chief Kopaev (voiced in March 1950: see above): “To prohibit the simultaneous use in a single service correspondence of differently named forms, stamps and seals of the camp (e.g. application of a seal with the camp’s conventional name and use of its actual name on signature, etc.).”

Neither the “army unit” nor the “facility” solution was enacted. On July 29, 1950, MVD war supplies administration chief Gornostaev complained – again – to deputy interior Serov.³⁴ The interior minister, he said, had issued more decrees: in addition to no. 0035-1949, there was now decree no. 00108-1950. These decrees (not in the file, unfortunately) gave every camp a mailbox number. The problem, Gornostaev continued, was that nothing had been implemented. MVD camps and building sites had not revised their bank account details, so that the MVD war supplies administration remained unable to debit camps for shipments because the debits were not accepted by Gosbank; in fact, Gosbank was imposing a 100-ruble penalty for each incorrect debit. Meanwhile, the war supplies administration had to continue to use full details of camp names and addresses, since these were what Gosbank required. Until the matter was resolved, Gornostaev asked permission to maintain this practice, using the MVD secret courier service (spetssviaz’).

Decree no. 00108-1950 was not the final resolution. Gulag second administration chief Matevosov wrote to MVD legal section acting chief Kurbatov on September 23, 1950, asking him for comments on the draft decree “On the procedure for maintaining correspondence,” revised after the May 9, 1950, MVD leadership meeting and still, apparently, pending.³⁵

Triangular seals have been employed that have become unfit for use

In the spring of 1950 a by-play emerges in the file. On March 4, 1950, Unzhlag chief Ivanov reported to the MVD second special department chief that the previous November, he had asked the MVD Gor’kii oblast office to allow him to order numbered circular seals for internal authorizations, and had been refused on the grounds that MVD had not approved seals for internal use.³⁶

³⁴ Hoover/GARF, R-9414/1dop/145, folio 24.

³⁵ Hoover/GARF, R-9414/1dop/145, folio 66.

³⁶ Hoover/GARF, R-9414/1dop/145, folio 71. “Unzhenskii ITL MVD,” telegraphic address “Unzha”; address “Sukhobezvodnoe station, Gor’kii province (oblast’); mailbox number 242. See the entry under the Memorial

Ivanov asked for a ruling that existing approvals could apply or, failing that, for a new approval. "Up to the present in Unzhlag," he wrote, "triangular seals have been employed that have become unfit for use."

The letter, accompanied by samples of what Ivanov wanted, was passed from MVD second special department deputy chief Katurkin to MVD secretariat deputy chief Diukanov and from there to Gulag chief Timofeev. Unzhlag was a timber camp; six weeks later, on April 26, MVD timber camps administration deputy chief Sorokin asked MVD secretariat deputy chief Diukanov to approve the Unzhlag request.³⁷ No decision yet, then.

The Outcome

Nearly one year after Volzhlag chief Kopaev first reported it (above), the problem of mixing secret and non-secret identities in non-secret correspondence continued to trouble camp officials. On February 9, 1951, Bazhenovlag acting chief of administration Golubev asked MVD secretariat deputy chief Diukanov for urgent clarification of MVD decree no. 0035-1949. Two months passed before Gulag organization department chief Liamin replied, on April 4: "A draft decree has been presented to the USSR MVD leadership on the procedure for correspondence about questions of the production and business activities of camps. Given a positive decision on this question, the questions raised by comrade GOLUBEV will find their solution."³⁸

On February 27, 1953, the MVD finally issued decree no. 0033-1953 (again, missing from the files), with new rules to resolve the problem of unintentional disclosure of state secrets in non-secret correspondence. Provincial MVD administrations reported new mailbox numbers to their superiors and to bank officials and other counterparties; there was no further mention of "army units" or "facilities."³⁹

website at <http://www.memo.ru/HISTORY/nkvd/gulag/r3/r3-431.htm> (accessed September 30, 2010).

³⁷ Hoover/GARF, R-9414/1dop/145, folios 67, 70, and 73.

³⁸ Hoover/GARF, R-9414/1dop/157, folios 1-2. "Bazhenovskii ITL MVD," telegraphic address "Kombinat"; address "Sverdlovsk province (oblast'), Asbest town"; mailbox number 35 or ED-35. See the entry under the Memorial website at <http://www.memo.ru/history/NKVD/GULAG/r3/r3-19.htm> (accessed June 29, 2011).

³⁹ For example, Hoover/GARF, R-9414/1dop/187, folios 32-33 (Chuvash ASSR, March 17, 1953); file 204, folios 24-25 (Kaliningrad province, March 10, 1953); file 212, folios 18-19 (Crimea province, March 14, 1953).

By this time, it would appear, the fear had subsided. As a measure of that, the files of the party control commission from this period show only two cases involving the loss of secret documents. One, dated April 1951, involved deputy minister of the timber and paper industry Izvekov.⁴⁰ In 1944, as director of a paper factory in Gor'kii (Nizhnii Novgorod) province, but temporarily absent, Izvekov should have received a coded telegram from GOKO, the state defence committee. Until his return, the telegram was held by the local city party secretary, Morozov. After that, it went missing. Seven years later, Morozov insisted he had handed it to Izvekov, but admitted he had failed to get a receipt; Izvekov denied receiving it. These failures were still significant, for the report of 1951 was addressed directly to A. N. Poskrebyshev, Stalin's chief of staff. But there was also forgiveness: the report gave both Izvekov and Morozov the benefit of the doubt.

Two years passed before another case was filed in June 1953 in connection with lax accounting for paperwork in the USSR state committee for supply of food and consumer goods.⁴¹ Four secret documents were missing. In the most favourable outcome, they had been destroyed without the necessary record being made. Two documents were outstanding on the account of deputy chairman Rudnitskii, one against former chairman Pavlov (who blamed his deputy Selivanov), and one against secretary Polievktov (who blamed the current chairman Rybakov, who blamed inspector of the secret department Sokolov). Rybakov ended this game of pass-the-parcel by warning Rudnitskii and Selivanov and reprimanding Polievktov and Sokolov. These were light penalties, normal and frequent in the bureaucratic career of any moderate risk-taker. There was no hint of criminal charges.

Six years after the secrecy law of June 9, 1947, the number of complaints about its impact had fallen away. The officials of the Gulag had evidently learned to do business in spite of the new regime. Perhaps, through habituation, they no longer feared it. Stalin was on his way to see Marx. The Gulag would shrink to a shadow of its former self before disappearing forever in 1960. But its secrets would be held back for another generation.

⁴⁰ Hoover/RGANI, 6/6/1575, folios 33-34 (report to Poskrebyshev, signed by KPK chairman Shkiriakov, April 16, 1951).

⁴¹ Hoover/RGANI, 6/6/1650, folios 21-23 (report to KPK chairman Shkiriakov, signed by responsible controller Byshov, June 1953). The report responded to a former employee of the state committee who had complained of mismanagement and various abuses.

4. Effects on Transaction Costs

This story, observed in real time, would be one of maddening tedium. Cut down to a few paragraphs, it yields basic insights into the trade costs and decision costs of doing Soviet business when secrecy was tightened.

Trade costs

The evidence of the Gulag in 1949/50 reveals the role of secrecy as an inhibitor of exchange. The law of June 9, 1947, suddenly intensified secrecy throughout the Soviet economic and political system. The change was not instantaneous, because it took many months to implement fully, but it was surely an unanticipated shock. This shock complicated the relations between the Gulag and its civilian environment. As a result, trade became more costly; possibly, some exchanges did not take place at all, although both parties would have wished to make a contract.

The wider effectiveness of secrecy might be overstated in our documents. Perhaps the identity and location of many camps was not so much a secret as an “open secret.” Although they did not have the legal right to such knowledge, many people might have been perfectly well aware of the identity and address of many particular camps. While this may be true, it does not really change the essence of the story about transaction costs. For some purposes, it is not enough to know something; the knowledge you have must be verifiable. For example, in writing a contract or making a bank transfer, you have to be able to assure your own legal identity and/or be assured of the legal identity of the counterparty. What secrecy legislation did was to put verifiable knowledge out of reach, and from a transaction-cost perspective it probably did not matter whether the knowledge was an open secret or a real secret.

There is irony in this. The contractual parties and counterparties were not independent buyers and sellers in a real market. They were owned by the state, were commissioned by the state to operate in an internal market that the state had created, and were trying to make or complete contracts that the state had pre-authorized, but the state’s own laws prevented them from identifying themselves to each other in a way that would let this happen. Or, if it happened, it was at a higher cost than would have been necessary in the absence of those laws. Ultimately this cost was paid by the state that made the internal market and the laws that regulated it.

Notably, it is the authorized trade of the Gulag that was visibly hindered, involving exchanges that were already approved in state plans for the benefit of regime goals – the same regime that had enacted the secrecy laws. No effect was reported on unauthorized trade of the Gulag, where none was being reported in the first place. Gulag officials were not like scientists; they

did not have opportunities to meet with foreigners or any incentive to share information or resources with them, so there was no local parallel with the “KR” affair. In other words, increased transaction costs in the Gulag were part of the price that Stalin paid in order to exclude more “KR” affairs elsewhere.

A mitigating factor was the human capacity to normalize changes in the regime over time. At first, the new secrecy law was frightening. Officials did not know how it would work and how it might affect them. It took several years to learn how to work around it and insure against it. Eventually, however, it became the new “normal.”

Decision costs

The problem of how to do business while keeping camps and their locations secret, which arose early in 1949, took four years to resolve.

The by-play about the Unzhlag seals shows the same thing. Camps had to have official seals to function as legal economic entities, but no one could be found to authorize the ordering and purchase of new seals when old ones became worn out. Indecision on the major issue became an excuse for delay on minor matters, however distantly related.

Anyone can be tempted to delay reaching decisions. In the behavioural literature, procrastination is attributed to undue salience of the costs of present action relative to future action (Akerlof 1991). Alternatively, complex organizations can give rise to rational procrastination, because delay allows individual officials to transfer work pressure or responsibility onto others. Rose-Ackerman (1986) considers an organization in which jurisdictions overlap so that a decision can be taken at more than one instance. Here, the official with a reputation for timely decision making will be overwhelmed by petitioners. Inaction shifts work pressure onto others. The most applicable case may be procrastination that passes responsibility for decisions to others. One example is the tendency of leaders of democracies to leave hard choices to the next administration (Gomes, Kotlikoff, and Viceira 2007). This would seem to apply equally to officials in bureaucracies where there is rapid circulation among posts, allowing difficult decisions to be left to successors.

In our story, Gulag officials did not wish to be held accountable for wrong decisions, so the safest course was to take no decision and hope that responsibility could be shifted elsewhere. What were the costs of indecision? There was a pure time cost, clearly; a decision that would optimally be taken now was taken later. At the same time the unit cost of a decision that was subject to delay, measured by the total of committee time and other administrative resources required to make it, actually increased. This is because each decision was considered and reconsidered repeatedly. Higher officials used their time to draft and redraft complicated decrees and

instructions in alternative variants that were never approved. Lower officials used their time to press for information about the progress of a decision that was never made. The decision they wanted had no political significance; it was of a technical nature that might be thought well suited to a committee of experts. The problem was that the committee did not decide.

Delay and trade costs interacted. The Soviet officials that left the issues for which they were personally accountable hanging in the air were demonstrating indifference to heightened transaction costs. While they left matters unresolved, officials and managers below them continued to avoid responsibility where necessary, to work around the rules where possible, and to take out the insurance that seemed to be recommended – to give time and effort to lobbying Moscow for change. So, decision costs and trade costs fed off each other. The officials that repeatedly delayed effective resolutions tolerated this negative spiral.

From a system point of view, procrastination had one merit. What appears to have happened is that senior managers postponed resolution for several years, waiting until junior managers had found a workable accommodation to the new regime. Then, they legislated in such a way as to formalize this accommodation. There is no evidence that this happened by design, but it is suggestive of the option value of wait-and-see.

The tendency to indecision belies the reputation of autocracies for decisive action. While indecision can be found in any organization, it had fewer restraints in the government of a closed society under a dictator. Soviet officials answered only to superiors for their actions, and Stalin did not have to account to anyone for his. Although this might seem to facilitate easy decision making, it also created shelters for the indecisive.

In an open society, in contrast, indecision is visible, and voters and markets can be unforgiving of decision makers that visibly fail to decide. Democratic leaders must answer for the costs of government to voters, including taxpayers, who can switch their votes to political rivals. Private corporations in a competitive market economy answer for higher costs to the buyer, who can switch business to a competitor. Because of such pressures, political and economic organizations in open societies are more likely to develop mechanisms to limit their own indecision.

Stalin had a clear idea of decision costs and the importance of efficient control. By the nature of his regime, he could not apply the disciplines of transparency and open competition. One of the few instruments available to him was terror. But the application of terror intensified the fear of being identified as accountable for decisions, and this exacerbated the problem of indecision.

5. Conclusion

Comparisons of democracy and dictatorship suffer from an asymmetry. Democratic business is done in public, and democracy's transaction costs are all too visible. Dictators do their business in secret, so their transaction costs are hidden too. We get to see the evidence, only after regime change makes their archives available.

This paper exploits archival evidence on transaction costs produced by an exogenous shock to the Soviet government bureaucracy. The shock was Stalin's sudden tightening of secrecy in 1947, by which he aimed to deter officials from engaging in the unauthorized exchange of information with outsiders. This led to significant problems for the business of the Gulag in 1949 and 1950. It was not only unauthorized business that became more costly. The new rules made all business more costly – authorized as well as unauthorized. Higher costs hindered transactions that were previously authorized and desired on both sides, and may have prevented some.

Business relationships were maintained, only to the extent that the parties were willing to work around or ignore the new rules. In that context, however, neglect of the rules was now more dangerous than before, because the law of 1947 was explicitly aimed at secrecy violations committed without intending harm the state. Those responsible for the business of the Gulag tried to insure themselves by both implicating their superiors in the actions they took to work around the rules, and lobbying for action to remove these difficulties. Higher level responses were marked by indecision and delay. In short, we observe that, when the level of government secretiveness was markedly increased, both trade costs and decision costs rose.

Economic analysis suggests that, when higher costs are incurred willingly, this is done to get some equal or greater expected benefit. If the Soviet rulers were willing to face higher costs arising from secrecy, the question that follows is: where was the commensurate payoff? The available documents do not explicitly motivate either the classification of the identification and location of labour camps as one of the most important secrets of the Soviet Union, or the extra measures that strengthened their security. Instead, we infer motivation from the context of the "KR" affair: Stalin was concerned to limit the scope for sideline dealing.

Did Stalin reckon with the increase in trade and decision costs that followed? He might have launched the intensification of secrecy because he calculated that higher transactions costs would be compensated by a greater reduction in sideline losses, or because he miscalculated. Without direct evidence, we cannot be certain. This gives a sense of the gaps to be filled before we can fully understand the scope and complexity of Soviet secrecy.

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