

THE YALE-HOOVER SERIES ON STALIN, STALINISM, AND THE COLD WAR

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# FUNDING LOYALTY

THE ECONOMICS OF THE  
COMMUNIST PARTY

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Yale UNIVERSITY PRESS

New Haven and London

Published with assistance from the foundation established in memory of Philip Hamilton  
McMillan of the Class of 1894, Yale College.

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Set in Sabon Roman type by Westchester Book Group.  
Printed in the United States of America.

#### Library of Congress Cataloging-in-Publication Data

Belova, E. B. (Evgeniia Borisovna)

Funding loyalty : the economics of the Communist Party / Eugenia Belova, Valery  
Lazarev.

pages ; cm.— (Yale-Hoover series on Stalin, Stalinism, and the Cold War)

Includes bibliographical references and index.

ISBN 978-0-300-16436-7 (paperback : alkaline paper) 1. Kommunisticheskaia  
partiiia Sovetskogo Soiuzu—Finance. 2. Soviet Union—Politics and government—  
Economic aspects. I. Lazarev, V. V. (Valerii Vasil'evich) II. Title. III. Series:  
Yale-Hoover series on Stalin, Stalinism, and the Cold War.

JN6598.K7B3735 2012

324.247'045—dc23

2012012198

A catalogue record for this book is available from the British Library.

This paper meets the requirements of ANSI/NISO Z39.48-1992 (Permanence of Paper).

10 9 8 7 6 5 4 3 2 1

*To our daughters, Alexandra and Keira*

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## Preface

This study of the economics of the Communist Party of the Soviet Union (CPSU) is interdisciplinary by nature. It belongs to the area of political science but also relies heavily on the conceptual framework and research methods of modern economics. It is also a historical study that draws on primary sources—archival records. Not unlike many other historical studies, this project can be traced back to an archival discovery or, in this case, rediscovery. The existence of the CPSU financial records was not a secret, as the Hoover-Chadwick project micro-filmed millions of documents of the Soviet ruling party during a relatively short period in the early 1990s, when Moscow archives were at the peak of their openness. By the time we first came across those documents in 2002, they had been carefully cataloged but left largely unattended by researchers. There seemed to be nothing sensational about those documents: no mentions of the “party gold,” no revelations of ghastly Kremlin secrets. And we were not impressed by volumes of spreadsheets, mostly filled in by handwriting—thousands of numbers repeating themselves in variations over years and across the vast administrative domain of the CPSU—but we made some copies anyway. Several years passed before we got back to those documents. Initially, there was no plan on how to approach them, so we began by organizing the numbers. The first data series that we plotted did not look right. The data showed that the CPSU was only in part funded by the Soviet state and that dependence on its own revenues, primarily

from membership dues, had a pronounced increasing trend. A further investigation produced more questions than answers, and the most pressing question was why the party, the stem of the Soviet political system, had to finance itself. In 2006, we returned to the archives intending to find the devil in the details. In the two years that followed, we dug into the layers of the party archives, fascinated by the complexity of the party machine and the scope of the data that it left behind. Surprisingly, the directors of the system—the same system that disparaged money circulation and favored material planning instead—paid serious attention to money matters.

Little by little, an institution designed to “fund” the loyalty of rational supporters of the regime began to emerge from the spreadsheets and scant narratives. The workings of this institution were difficult to understand, let alone explain to others. At the same time, the patterns in the numbers yielded a picture of an organization with its own corporate rationale driven by its own interests. The party seemed to have been turning into an instrument of the self-interested party bureaucracy rather than one of the dictatorial leadership. Could it be that the same features of the institutional design that were the regime’s assets in its earlier days had turned eventually into liabilities, perhaps contributing to the unexpectedly rapid undoing of the system under Mikhail Gorbachev? The consistent flow of data dries up by the late 1960s, and in a sense, this book ends at the most interesting point. We were fortunate, however, to locate some relevant later evidence. This evidence, including the last two annual budgets of the CPSU, which surfaced in the course of preparations for the trial of the CPSU, planned by Boris Yeltsin but never started, provided some reassurance that the final destination lay on the path set in the earlier decades. Eventually, new evidence will become available on the Stalin and Khrushchev periods through the long and seemingly uneventful reign of Brezhnev to the last day of Gorbachev’s Soviet Union, connecting the dots with a bolder line.

This study has had a long journey through time and space. Crucial to it was the time we spent at the Hoover Institution, both as visitors to the archives and, most important, as Campbell National Fellows in 2007–2008. This study would not have been possible—or at least would have taken indefinitely long to complete—without the financial and

administrative support of the Hoover Institution. We are especially grateful to its associate director, Richard Sousa, for his interest in and support of this project and cannot say enough good things about the staff of the Hoover Institution Archives.

Proximity to Stanford University's political science, economics, and history departments was crucial for our research, interdisciplinary by nature. From scholars in all three disciplines, we received inputs that ranged from short but stimulating discussions to a workshop to thorough readings of an early draft of the manuscript. This project owes the most to Paul Gregory, Steven Craig, and Gavin Wright, our mentors, whose work and advice shaped our thinking as researchers. We are eternally grateful for Paul's encouragement, support, and occasional light nudging. Steven was the first to suggest that it was necessary and possible to develop empirical tests of our theoretical models, and the suggestion prompted us to start turning the numbers in fading ink into a dataset to be used for econometric analysis. Gavin, a wonderful host at Stanford, watched our initial efforts grow from a vague idea to a full-scale research project. For fruitful and stimulating discussions we are also deeply in debt to Golfo Alexopoulos, Bruce Bueno de Mesquita, Gerald Dorfman, Yoram Gorlizki, Avner Greif, Mark Harrison, James Heinzen, Beatrice Magaloni, Michael McFaul, Gabriela Montinola, and Robert Service, as well as to dozens of participants of seminars and summer workshops.

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# Introduction

“Follow the money.” This saying in its modern sense applies to untangling criminal conspiracies or to understanding the dynamics of elections. The same principle can be applied to understanding the workings of the Communist Party of the Soviet Union, although theoretically actors in the Soviet system were supposed to be largely indifferent to money. Goods, services, and privileges were supposed to go to the system’s directors and their loyal subjects, not to the highest bidder. A party driven by ideological motives as the “guiding force” should have been least of all interested in cash or anything associated with monetary transactions. The CPSU, as well as other Communist parties, was traditionally studied from the perspective of politics, ideology, and governance, primarily from narrative sources.

By following the money of the Soviet Communist Party system, we present, for the first time, a systematic analysis of the financial records of the central and regional party organizations between 1938 and 1965.<sup>1</sup> The flow of party money to national, regional, and local party organizations; the manner in which party money was collected; and the way party financial discipline was enforced yield deep insights into the role of the party in the Soviet institutional design. Following the party’s money allows us to explain the priorities of this vast organization, as well as the motivation of its members.

Tens of thousands of pages have been written describing the organization and functions of the CPSU, but those pages were written without

access to the official documents of the CPSU, whose most innocuous records bore the obligatory stamp of “top secret.”<sup>2</sup> The CPSU remains a black box even a decade after the release of hundreds of thousands of documents of the Soviet state and party archives that still await a thorough analysis. Moreover, many key party documents still remain behind the closed doors of the archive of the president of the Russian Federation.

Official writings, public speeches, and published decrees of the CPSU during the Soviet era illustrate how its leaders wanted it to be presented to outsiders while at the same time concealing its true function. Those documents not only shed light on the workings of the CPSU but also tell us a great deal about how the Soviet system actually worked, about its goals, its governance, and its formal and informal organization.

At first glance, the financial records of the CPSU do not appear to be relevant for a study of such fundamental issues. After all, these are revenue and expenditure statements prepared at the national level from financial reports of republican and regional party organizations. They consist almost exclusively of accounting figures, with little narrative. As such, they have been overlooked as trivial, particularly in an economic and political system that was supposedly uninterested in money and budgets. Yet it is these financial records that form the backbone of this study. They begin in the late 1930s, during the period of “high Stalinism,” and end in the mid-1960s. Also available are some scattered records from the late 1990s, as the end of the system approached and CPSU officials began to contemplate a world without the party and to worry about the preservation of its assets in a post-Communist world.

Contrary to the stereotypes, the documents show that the party system operated in an unexpected way. Money and finance were extremely important at all levels of the party hierarchy, so much so that the CPSU operated much more as a business, covering its costs and aiming for a profit, than any of the Soviet economic enterprises. We found that the CPSU did not deny itself the business reforms it denied everyone else. We found that the incentive system for party members, particularly those seeking advancement, was much more complex and differentiated than the one used in the civilian economy. Moreover, the party designed complex monitoring and punishment mechanisms to fight

corruption within its ranks and deal with the misuse of party money and the abuse of offices for personal gain.

Our study has a broader context as well. It is a study in the political economy of dictatorship. Dictatorial power and regime survival are a function of repression and loyalty.<sup>3</sup> Dictatorship is a costly and risky venture. By excluding the majority of the population from political participation, dictators or ruling elites expose themselves to forceful removal, assassination, or execution. To assure regime survival, dictatorial governments must combine coercion and persuasion, and they must maintain both an extensive repressive apparatus and a propaganda machine. The repressive nature of the Soviet regime has long attracted the attention of researchers, historians, political scientists, and economists alike. Works on this theme illustrate that repression was one of the pillars of the Soviet system.

We focus on another pillar of the Soviet system, one that has received less attention—loyalty. A successful ideology-based totalitarian system should be able to attract true believers.<sup>4</sup> In fact, if the message of the CPSU had been so appealing that the entire population were true believers, there would have been little need of repression. In reality, only a fraction of the population embraced the ideology wholeheartedly, and “loyalists” were not necessarily true believers. Loyalists made sure their neighbors cast their obligatory votes for the CPSU slate of candidates. Loyalists gave lectures on shop floors about the glories of communism to largely indifferent workers and made sure that their coworkers did not neglect their duties. Loyalists could head party cells—low-level party organizations—for little or no compensation. How did the CPSU maintain loyalty? What types of incentives and payoffs were used to create its membership base? Was the supply of true believers sufficient for the stability of the regime?

Inventive twentieth-century dictatorships expanded the set of political survival strategies by engaging in the mobilization of voluntary supporters organized in mass parties. The Soviet Union was the first and, so far, the longest lasting regime of this kind. A single political party—the Communist Party of the Soviet Union—dominated the political landscape from the first to the last day of the regime’s existence, and for most of the time it was the only legal entity of its kind. Its “leading-role monopoly” was certified in the Soviet constitution.

One-party dictatorial regimes are not unique, but they also are not inevitable under totalitarian regimes. Many twentieth-century dictatorships emerged as one-party regimes, using a revolutionary party as an organizational device to seize power. There is no requirement, however, that the winning party remain an active political agent after the dictatorship has secured control over the country. Many regimes that owed their existence to mass mobilization eventually downgraded their mass parties, relying more heavily on support by the military, security forces, and/or state bureaucracy.<sup>5</sup> By contrast, the Soviet regime did not become a military dictatorship. In fact, the leaders of the CPSU were very careful to retain firm party control over the military. Few military leaders were allowed into the inner sanctum of CPSU power. The CPSU remained a key governing institution of the Soviet system from its birth as the revolutionary Bolshevik party. The CPSU, therefore, was an institution that appeared to earn its keep. As far as its leaders were concerned, it yielded benefits in excess of its costs.

The chronological focus of this study, the period from the late 1930s to the mid-1960s, allows us to study the Soviet regime at its peak, both economically and geopolitically. This period starts with the consolidation of the “classic” totalitarian Stalinist system, in which the ruling party and the state were tightly intertwined. Together, they formed a symbiotic government that controlled most economic activity and virtually every aspect of public life. The political geography of the Soviet Union took its final shape in the late 1930s, in terms of both its borders and its territorial administrative structures. This period also coincides with the rapid growth of its cornerstone institution, the CPSU. We follow the development of the party through the subsequent relative liberalization in the Khrushchev period, including some data from the period up to 1991.

Studying the workings of a stable one-party regime at its peak allows us to identify the sources of its stability as well as the seeds of its future degeneration. By looking inside the CPSU, into the way its finances were conducted, we contribute to the rich literature on the decline and fall of the Soviet system.<sup>6</sup> We learn a great deal about the intended role of the party system and about what was going on within the regime’s inner core.



## PARTY AND STATE IN THE SOVIET INSTITUTIONAL SYSTEM

Soviet institutional design is often viewed as “mono-organizational.” This term, introduced by Thomas Rigby, implies a single monolithic hierarchy where the party plays the pivotal role and directs the operation of other “sub-trees,” such as the ministerial hierarchy of economic management or regional administration.<sup>7</sup> The mono-organizational nature of the Soviet system is a major feature that distinguishes Soviet-type systems from non-Communist one-party or dominant-party regimes, where the impact of the ruling party on the government and economy is more limited. While the party’s role in the Soviet system was undoubtedly quintessential, there were organizational boundaries within the political system. One key boundary lay between the state and the party; another separated the party’s center and the “outer party” of regional and local organizations. These boundaries were often blurred, sometimes for propagandistic purposes. Although it appears that the party’s decisions were made by the country’s top leadership, the party machinery operated through the channels of the outer party, working through subordinated territorial party organizations ranging from regional committees to party cells. Later chapters will discuss the complex relationships between the layers in the party hierarchy and the system of incentives designed to keep the complex party system together.

Normally, one would expect to see a boundary between the government proper and the superior political authority, such as the Politburo of the CPSU Central Committee in the Soviet case. In a dictatorial system, it is reasonable to expect that the dictator and his inner circle—or the “winning coalition” in an oligarchic regime—will occupy positions across the institutional spectrum in order to ensure as complete a control over economic and political decision making as possible.<sup>8</sup> This assumption is consistent with the existence of a Politburo-like body of top party leaders dealing with the most important decisions, but it does not imply a blending of all governing institutions.

In the Soviet system, the state (government) and the party leadership (Politburo) formed an interlocking directorate that misled observers, both within and outside the country, into assuming a unity of the organizational structure for the whole government. There has always been

an organizational separation between the Communist Party and the Soviet state. After the Bolsheviks took over in November 1917, personal ties between the party and the state leadership were created, with Bolshevik leaders, including Vladimir Lenin, Leon Trotsky, and Joseph Stalin, becoming “commissars” (ministers) in the new government. Yet the party did not become a branch of government but retained some elements of democracy. As the tandem of party cells and revolutionary troops (the Red Guards, later the Red Army) extended Bolshevik government control beyond the urban centers and industrial areas in European Russia, regional party organizations were increasingly given the tasks of local and regional government. Although Lenin headed the national government (the Council of People’s Commissars), there was never a doubt as to the supremacy of the party, which exercised its power through the Politburo.<sup>9</sup>

The Bolshevik leadership used the party to seize power in 1917. A decade later, Stalin used the party to take over the government from his “rightist” rivals, Nikolai Bukharin and Alexei Rykov. Using his position as the party general secretary—essentially the head of the party’s human resources department—Stalin created a support base among regional party officials.<sup>10</sup> After his acquisition of supreme power in the early 1930s, the state and the party were ruled by the interlocking directorate of the Politburo and government. But Stalin himself resisted efforts to tear down the wall between the party and the state in the 1930s by refusing to assume the chairmanship of the Council of People’s Commissars. Instead, he relied on a trusted deputy, Viacheslav Molotov, to run the state administration. The Politburo, under Stalin’s direction, remained the center of high-level decision making on major issues of civil administration and economic management. The border between the party and the state was, however, becoming more diffuse in the 1930s. The party-state merger was officially completed when Stalin took over from Molotov as the head of government in May 1941. During World War II, the degree of institutional overlap was such that the participants in meetings headed by Stalin had problems understanding what body they were really attending: the Council of People’s Commissars, the Politburo, or the State Defense Committee (GKO).<sup>11</sup> In a parallel development, the political administrations in the army and security organs were simultaneously made party bodies. After World War II, the center of decision making remained with the Council

of Ministers (as the Council of People's Commissars had been renamed in 1946) and Stalin's informal circle, while increasingly infrequent Politburo meetings came to a halt in 1947. The broader ruling body of the CPSU, the Central Committee (whose apparatus Stalin headed as well), had lost importance even earlier; its last noteworthy meeting under Stalin was the ominous February–March Plenum of 1937 at the outset of the Great Terror.

As the war ended, the party could have become an integral branch of the mono-organizational state, a sort of ministry of propaganda and social control of the economy. That never happened. On the contrary, the distinction between the party and the state, with the party reasserting its central role, was gradually reestablished. The merger of the government and the Politburo, which came to be perceived as the archetypical feature of the Soviet model, existed only during World War II and its immediate aftermath.<sup>12</sup>

## INSIDE THE PARTY BUREAUCRACY

The existing literature tells us a great deal about the leaders of the Soviet state and party. They have been the subjects of biographies; their letters have been published.<sup>13</sup> Stalin has commanded as much attention as any other major political figure of the twentieth century. The Stalins, Molotovs, and Khrushchevs, however, at the most, set general policies and monitored major initiatives.<sup>14</sup> The actual work of the administrative-command system was carried out by a massive *apparat* of faceless officials within planning agencies, the finance ministry, and the industrial ministries. Whereas party/state leaders set general policies for party finance, the actual implementation was delegated to back office bureaucrats.

The story of party finance is told largely by an organization buried deeply within the Central Committee (CC) of the CPSU headed by the party general secretary. The Central Committee itself was broken down into the dominant Politburo, the Orgburo (Organizational Bureau), and the Secretariat. This apparatus of the Central Committee employed more than one thousand people in the 1940s–1950s. These three closely interrelated bodies represented the “inner” party, or the party section of the interlocking national directorate, and they were charged with managing internal party affairs.<sup>15</sup>

One of the most important agencies within the Central Committee was the Administration of Affairs (Upravlenie Delami, hereafter UD). Initially, its tasks were to feed, dress, house, and drive party leaders. Eventually, however, the UD took over party finance—first the finances of the Central Committee and then of the party as a whole. This agency, therefore, will be the focus of our study.

Despite numerous formal and informal links with the state and overlapping jurisdictions, the party retained its autonomy as an organization. From the financial standpoint, the CPSU represents an intermediate case between a budget organization and an economic-accounting organization. The exact way in which the party's financial issues were resolved reveals the leadership's attitude toward the party and its role. The various ministries of state, such as foreign affairs or defense, were budget financed, receiving their funds from the state budget with little effort to construct a balance of revenues and expenditures. State enterprises, on the other hand, were economic-accounting entities. They were obliged to report their revenues, expenditures, and profits or losses. They were separate from the state budget, although they might have had to transfer their profits to the budget or be subsidized from the state budget. Our analysis of these budgets, discussed primarily in chapters 1 and 2, reinforces the notion of the party as an autonomous and self-interested actor in the Soviet system and shows the relevance of this autonomy to understanding regime dynamics.

By definition, budgets—both financial plans and records of actual revenues and expenditures—show what individuals, households, firms, organizations, or nations can or cannot afford and how they allocate their scarce resources. Budgets are not responsible for preference formations but reveal them by forcing the agents to prioritize within certain boundaries using monetary units. Otherwise unobservable information surfaces revealing patterns of consumption, investment priorities, and income sources. The notion of a budget—unlike simple ex post records of expenditures—implies commitment over certain periods of time, which is enforced using a set of institutionalized procedures. As individual or national incomes change, the boundaries for dos and don'ts expand or shrink, whereas changes in preferences or terms of trade alter the allocation of funds. Analyzing such changes over a long period allows changes in the objectives of the budgeting entity to be tracked, as well as in the economic environment in which it operates.

Budgets—or more broadly financial statements—do not immediately come to mind when a political institution such as the Communist Party of the Soviet Union is considered. Nevertheless, each year the CPSU had a budget—a carefully planned top-secret document—that allocated well-defined amounts across a specific range of expenditure items. Just as any other organizational entity, the CPSU as a whole and every single party organization faced a budget constraint and expressed its spending priorities and revenue expectations in the form of budget plans. The UD reviewed those spending priorities and collected and verified financial reports from its constituent bodies to obtain feedback.

To be binding, budgets must be enforced. In market economies, outside auditors examine the revenues and expenditures of corporations. Congressional or parliamentary commissions examine compliance with state budgets. The CPSU largely followed this practice. The party leadership created two networks that were in charge of enforcing the compliance of lower-level party bodies with budgetary targets: party control (*partiinyi kontrol'*) and audit (*revizionnye komissii*). Party control was essentially the party's internal police, equipped to investigate and prosecute wrongdoing by party members, especially in industry and the civil administration. Audit had a narrower mandate, being in charge of verifying financial statements, investigating cases of embezzlement of party funds, and the like. Both types of controllers curbed encroachment by the party bureaucracy on other branches of power and its own self-enrichment. Audit dealt with the party's formal economy, embodied in its budgets, and was instrumental in guarding the border between the inner party and outer party, while party control was largely dispatched to the border between the outer party and the state.

## METHODOLOGY

The subject of the present study is in many ways a “parallel universe” with respect to the Sovietological literature of the past. Up until the 1980s, scholars were studying a living and stable regime from the outside, trying to rationalize its existence and explain its political and economic success. The fact that the Soviet regime and most of its institutions and organizations no longer exist influences the way we approach and think about them today. Moreover, access to rich archival data adds new dimensions to our studies of the Soviet regime. At the same time, unlike

the scholars in the early 1990s, we now know that the CPSU outlived the regime and can see the transition paths of former Soviet republics who chose to replace their administrative-command economies with markets but, for the most part, have made less progress in creating democracy.

From the perspective of ideological determinism, it was Marxist-Leninist ideology rather than the pursuit of personal advancement that was to underlie individual behavior. The Soviet people were to become *Homo sovieticus*, a special type of human that allegedly did not follow the conventional norms of rationality. The party was to consist of “true believers” in communism. From this perspective, the party owed its existence to Lenin’s *What Is to Be Done?*, published in 1901, in which he stated the need for a party and outlined its organizational basics. It would not have occurred to any true believer thereafter that the Soviet Union could have fared better without the party. This view reflects the Soviet propaganda aimed to a large extent at outside observers and suggests an unquestionably superior role for the party organization.

Alternatively, the continued existence of the Communist Party after Stalin secured his dictatorial power by the late 1930s could be justified as a tribute to Bolshevik tradition, adding to the legitimacy of the regime. This explanation certainly has its merits. After all, Stalin and other Soviet leaders were actively rewriting history to accentuate their personal involvement with, if not joint authorship of, Lenin’s ideas to validate their own positions of power. This perspective, however, suggests a marginal role for the party that is not consistent with the variety of functions assigned to and performed by the party system in the course of Soviet history. Neither would a ritual party of this kind require incessant attention to the growth of its ranks. On the contrary, it was the soviets (workers’ councils), the institutions of direct democracy that appeared independently of the Bolsheviks before the October Revolution, that were marginalized in the system (despite giving the country its name) and became largely ritual in the 1920s.

In our study, we try to avoid imposing overly strong assumptions on findings and their interpretations implied by each of the paradigms described above. The positive political theory that we have chosen as a framework for studying the economics of the Communist Party offers a number of flexible analytical tools. In line with the rational choice

perspective, we assume that Soviet state and party leaders, as well as ordinary Soviet citizens and rank-and-file party members, chose among a variety of strategies, seeking to maximize their individual objective functions rather than blindly following predetermined ideological dogmas. Within this framework, Communist ideology can coexist with private beliefs; dictators' preferences do not crowd out individual preferences; political and economic organizations compete for power and resources and change their positions in the hierarchy depending on their current relative strength. The leaders' objectives and policies affect the lives of individuals and also the choices made by ordinary people. These choices influence the course of events, thereby constraining the leaders' discretion. We assume that party leaders and rank-and-file members, therefore, made rational decisions based on incentives and costs. Moreover, the focus on party finance—party budgets, their execution and monitoring, and punishment of party members for financial transgressions—allows us to get at much larger issues such as the intended role of the party versus its actual role in creating and maintaining loyalty.

For the Soviet Communist Party to be a regime-stabilizing factor the following conditions had to be met. First, since the party was a distinctive agent within the Soviet system, its short-term goals and long-term objectives had to be aligned with the goals and objectives of the national leadership. Second, the party had to be established as an utterly legitimate and incontestable political organization.

By the late 1930s, both conditions had been met. The lower levels of the party hierarchy—regional party secretaries and their deputies, as well as the armies of instructors and propagandists, that is, the people who were supposed to deliver the socialist ideology to the masses—had to have strong incentives, first to choose to work for the party system and, second, to stay with the party, as opposed to seeking lucrative careers outside of it. In the 1920s, a quasi-market economy was growing rapidly, industry received the lion's share of state investment, and party ranks were fluctuating without an apparent growth trend.

To be viable, the party system had to have enough resources to "compete" with the economic bureaucracy. Unlike industrial managers, party bureaucrats were not resource holders and, at least initially, were unable to provide for themselves. The resources for them, therefore, had to come from the state. True believers—party workers who