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In the shadow of the Gulag: Worker discipline under Stalin

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ABSTRACT

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An ‘efficiency wage’ model developed for Western economies is reinterpreted in the context of Stalin’s Russia, with imprisonment – not unemployment – acting as a ‘worker discipline device’. The threat of imprisonment allows the state to pay a lower wage outside the Gulag than otherwise, thereby raising the “surplus” left over for investment: this externality provides a reason for coercion over and above the direct productivity of those in custody.

Just how credible the threat of imprisonment was under Stalin is documented using archival data now available; but the enormous scale of random imprisonment involved is, we argue, attributable not to economic factors but to Stalin’s insecurity in the absence of a legitimate process for succession.

We develop a model of demand and supply for industrial labour in such a command economy. To get more resources for investment or war, the state depresses the level of real wages; to avoid incentive problems in the wider economy, the harshness of prison conditions can be intensified. This is the logic of coercion we analyse. *Journal of Comparative Economics* xxx (xx) (2015) xxx–xxx. University of Warwick, UK; Centre for Economic Policy Research (CEPR), UK.

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1. Introduction

In the 1930s, when Western economies were plagued by the mass unemployment of the Great Depression, Josef Stalin could claim to have found a cure: a command economy with ambitious five year plans to catch up with the West by rapid industrialisation. The state would maintain high levels of aggregate demand to ensure full employment. But what about supply? Here Stalin had to confront the issue of incentives¹: how was he to motivate workers with low levels of skill, including – as a result of collectivisation – “millions pouring in from the countryside entirely lacking in training or experience of the rigour and rhythms of life in a factory or on a construction site” ([Acton and Stableford, 2005: 315](#))?

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¹ The incentive problems arising from asymmetric information are central to Stiglitz’s critique of the Soviet system in *Whither Socialism?* (1994).

The Russian economy had been growing before the revolution (Gregory, 1982); and it was recovering and returning to growth in the 1920s, before the Gulag² was established. Transition to the command economy posed a major challenge for the dictator, however (Markevich and Harrison, 2011). Ample labour was available following the transfer of population from the countryside to industrial towns, but how was Stalin to extract the resources needed for rapid industrial development?

One approach would be to *borrow* from the workers the resources needed for investment. But recourse to capital markets was evidently not an option for Stalin: ideologically, private property was viewed as theft, and the livelihoods of millions of kulaks were expropriated on that basis. A second approach, analysed by Sah and Stiglitz (1984), would be to engineer a *terms-of-trade transfer* of resources from agriculture – essentially by reducing the cost of food.³ A third approach – more consistent with the evidence according to Carter (1986) and Ellman (1975) – is to enforce a *wage reduction* in the industrial sector itself, so the workers in the newly industrialising state pay for the capital needed to accelerate economic growth: “The source of the increase in accumulation in 1929–32 was the surplus obtained from the employment of additional workers in the urban sector *at real wages less than those enjoyed by employed workers in 1928 plus the surplus obtained by reducing the real wages of those who had been employed in 1928*” (Ellman, 1975: 856, *italics added*).

This is the approach we explore in this paper. The basic insight is that the wage that has to be paid in “free” labour market depends on the conditions in the Gulag. The main channel through which the prison system contributed to Stalin’s surplus was this externality – its depressing effect on the efficiency wage in the non-Gulag economy. Our approach is thus differentiated from those that evaluate the Gulag as productive (or not) in its own right.

Historians in Russia have debated whether the Gulag was necessary to settle remote regions, extract timber and minerals, and build facilities; they have also discussed whether Gulag labour was more or less productive (in gross or net terms) than “free” labour (e.g. Borodkin et al., 2013). In the framework of this paper, in contrast, whether the Gulag produced anything or nothing internally is not the key. Its main function was to produce an externality: to be a terrible place that ordinary workers wished to avoid, so they worked harder for less. An analogy may be useful to illustrate this type of externality – namely the Debtor’s Prison, a well-known and much-feared institution in Victorian England. As a mechanism for securing the payment of debts, it is surely the *ex-ante* incentive effect that matters: the productivity of the debtor in prison is largely irrelevant.

This analysis faces the same challenge as Shapiro and Stiglitz’s (1984) ‘efficiency wage’ account of the unemployment as a discipline device⁴ to prevent shirking: if the threat is fully credible, *there should be no shirkers in equilibrium*. How then to account for the observed unemployed? In the Western case, they argued, unemployment should be attributed not to shirking, but to on-going random job break-ups – the flux of capitalism. To account for the extent and persistence of the Gulag in the Russian case, we appeal to the politics of repression. In the absence of a legitimate process for assured succession, the Gulag served a key political objective: that of maintaining the dictator in power by random imprisonment for political reasons.⁵

The paper proceeds as follows. In Section 2, a stylised ‘efficiency wage’ model is used to consider how incentive constraints facing a dictator determined to catch up with the West may be addressed by the threat of incarceration in a labour camp. The reality of this threat is borne out by recently available data on the custodial population in Soviet Russia from 1917 to 1953, which is presented and discussed in Section 3.

In Sections 4 and 5 the Shapiro and Stiglitz approach is adapted to fit Soviet objectives and forms of coercion. Thus we assume that dictator aims to maximise the investible surplus, subject to an *efficiency wage* constraint on the supply of labour and a *survival* constraint on his hold on power. Random incarceration helps achieve survival, while harsh prison conditions help keep down the cost of civilian labour. This provides a stylised account of Stalin’s system⁶; and the role of harsher punishment is re-examined in this framework in Section 6.

While it is not our objective to estimate an econometric model of the system, in Section 7 we use the Stalin era data now available to calibrate key accounting parameters determining the size of the Gulag; and we discuss informally how shifting views of the productivity of prison workers will affect this. We also discuss how, when the Gulag system was dismantled, the command system was exposed to existential challenges – including especially societal pressures imposed by the campaign for universal Human Rights. Section 8 concludes.

2. Efficiency wage theories

How was Stalin to motivate industrial workers in the new Soviet system? ‘Efficiency wage’ theories developed for Western economies may provide some insights. Akerlof and Yellen (1990), for example, emphasise how worker motivation depends on *fairness*: so workers’ effort depends positively on the wage (or the consumption level) they receive, up to the point where they are paid the ‘fair wage’ and supply ‘full’ labour effort. This approach is used by Gregory (2004) to explain the trade-offs involved in choosing between consumption and investment in a command economy. The dictator, wishing to maximise investment, will pick a wage lying below the ‘fair wage’, but above a ‘strike wage’ at which workers will withdraw

² Gulag is the Russian acronym for the Chief Administration of Corrective Labour Camps and Colonies.

³ This calls for a two-sector analysis, with the choice of terms of trade between sectors known as the ‘scissors problem’.

⁴ Where the ‘efficiency wage’ is the minimum that has to be paid to avoid ‘shirking’.

⁵ Kornai (1992) likewise argues that the collectivisation of agriculture, in Soviet Russia and elsewhere, also showed political imperatives being given precedence over economic objectives.

⁶ Skidelsky (1995), Wintrobe (1998) and Gregory et al. (2006) provide more developed political economy perspectives.

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