

Soviet Entrepreneurs in the Late Socialist Shadow Economy: The Case of the Kyrgyz Affair

James Heinzen

In the summer of 1962, forty-nine highly successful Soviet entrepreneurs, their partners, and their sponsors publicly described the ways in which they had built a thriving business empire over many years manufacturing and selling clothing and household articles in a particularly challenging environment. The featured speakers, from six Soviet nationalities, told their audience in detail how they had evaluated consumer demand, acquired raw materials, manufactured and distributed merchandise, and maximized revenues and profits. They did all this while taking on a great deal of risk and taking steps to mitigate that risk.

It turns out that this public forum was a criminal trial. Between March and December 1962, three traveling panels of USSR Supreme Court judges ultimately sentenced twenty-eight people to death in the case for “serious crimes that pose a special social danger,” in three separate trials.¹ (The cases were heard by the USSR Supreme court as the court of first instance because they were of “exceptional importance” and the cases implicated important government officials.) According to newly-issued Soviet decrees allowing for capital punishment in the worst instances of theft of state property and bribery, the defendants’ activities were crimes that posed an “especially grave threat” to Soviet society and the foundations of the socialist economy. Ultimately, twenty of them were executed before a firing squad in a prison in the city of Frunze (now Bishkek), Kyrgyz Republic.² More than sixty others were found guilty of lesser crimes and sentenced to long terms in prison.

USSR Ministry of Justice reports show that between 1961 and 1965, Soviet courts imposed more than 300 death penalties for egregious cases of theft of state property, bribery, counterfeiting, and speculation in hard currency.³ It has been something of a mystery why so many people were executed for what the criminal code labeled “crimes against socialist property” and bribery. And it is especially puzzling why so many people were sentenced to death in this

For their helpful comments, I would like to thank the reviewers for this journal. I would also like to thank Lisa Kirschenbaum, Adele Lindenmeyr, Robert Weinberg, Benjamin Nathans, and the participants in the Ohio State University Seminar in Russian, East European, and Eurasian History. Research for this project has been supported by the National Endowment for the Humanities, the American Council for Learned Societies, the Kennan Institute of the Woodrow Wilson Center, and L’École des Hautes Études des Sciences Sociales (EHESS).

1. The sentence in the first case can be found in the fond of the USSR Supreme Soviet: Gosudarstvennyi arkhiv Rossiiskoi Federatsii (GARF), fond (f.) 7523, opis’ (op.) 95s, delo (d.) 266, list (ll.) 175–241.

2. The death penalties in this case were all assigned retroactively. The second two trials, mainly of police, procuracy, and judicial officials, were closed and never mentioned in the press.

3. GARF, f. 9492, op. 6, d. 122, ll. 70–71. (Statistics on death penalty compiled by USSR Ministry of Justice.)

Slavic Review 79, no. 3 (Fall 2020)

© The Author(s) 2020. Published by Cambridge University Press on behalf of the Association for Slavic, East European, and Eurasian Studies

doi: 10.1017/slr.2020.157

Published online by Cambridge University Press

one non-violent criminal operation, one that had no obvious victims apart from the state budget. Evidence indicates that this scheme resulted not only in the most death penalties in any case of economic crime in Soviet history, but in the most executions in *any* post-Stalin capital case of any kind, with the possible exception of scattered war crimes cases. (In the late Soviet period, political figures and law-enforcement agencies used the term “economic crime” colloquially to include theft of state property, speculation, and bribery.)

Supported by new archival material drawn from collections in communist party, procuracy, and court archives, this article delves into one landmark case to explore a number of key aspects of the history of illegal production and markets in the Soviet 1950s–80s. This study is not animated by economic questions, as was, for example, the research of the economist Gregory Grossman, the most important specialist on what he called “the second economy.” Grossman’s main objectives were to quantify the output and relative efficiency of unofficial and illegal production and trade, to estimate the prices of various black-market goods, and to establish the proportion of the average household’s income and expenditures related to illegal activities, among other things.⁴ This project does not explore such matters of quantification, but instead looks at several crucial social-historical questions surrounding the illegal economy. The goal of the article (and the larger project from which it draws) is to use deep archival research to shed light on important themes in the history of late Soviet socialism. This research aims to address three driving questions: What were the parameters and dynamics of the shadow economy within the hyper-centralized command economy? What can the shadow economy tell us about aspects of everyday life under late Soviet socialism? And what can a study of illegal economic activity reveal about the history of crime and law in this period?

The shadow economy, or the “left” economy (in the Soviet vernacular), is a subject that is ripe for social-historical study on its own terms, from the inside, on the basis of recently available archival material. The aim is not to add another study to the large stack of convincing analyses of the Soviet economy that conclude that it had many wasteful and inefficient features, was resistant to reform, and was irrationally organized. These flaws, at the heart of the “stagnation” label commonly attached to the late Soviet era, have been analyzed by scores of economists and economic historians.⁵ Instead, I argue

4. Gregory Grossman focused his published research on the late 1970s and 1980s. Among the most important of his numerous articles are: “The ‘Second Economy’ of the USSR,” *Problems of Communism* 26, no. 5 (September–October 1977): 25–40; and “Notes on the Illegal Private Economy and Corruption,” in *The Soviet Economy in a Time of Change*, by US Congress, Joint Economic Committee (Washington, DC, 1979), 834–55.

5. For example, see, among others, Paul Gregory, *The Political Economy of Stalinism* (Cambridge, Eng., 2003); Paul Gregory and Mark Harrison, “Allocation under Dictatorship: Research in Stalin’s Archives,” *Journal of Economic Literature* 43, no. 3 (September 2005): 721–61; Abram Bergson, *The Economics of Soviet Planning* (New Haven, 1964); Joseph Berliner, *Factory and Manager in the USSR* (Cambridge, Mass., 1957); Eugene Zaleski, *Stalinist Planning for Economic Growth, 1933–52* (Chapel Hill, 1980); Janos Kornai, *Economics of Shortage* (Amsterdam, 1980); Alec Nove, *An Economic History of the USSR*, 3rd edition (London, 1992); Mark Harrison, “Prices, Planners, and Producers: An Agency Problem in Soviet Industry, 1928–1950,” *Journal of Economic History* 58, no. 4 (1998):

that completely intertwined within a dysfunctional and even self-destructive command economy were many well-functioning—if improvised—shadow economies with illegal schemes at their hearts. Some of these operations were quite cleverly imagined and realized, despite having their own frailties. Moreover, associated with and permeating the shadow economy one sees varieties of practices, attitudes, informal institutions and agreements, and relationships. Naturally, these could and did vary from place to place, from scheme to scheme, from person to person, and over time.

This article employs a case-study approach, discussing one of the most significant cases of illegal enterprise in the history of the Soviet Union, known in the Central Committee as “the Kyrgyz Affair.” (The associated trials were mentioned at the beginning of this article). Though it was not wholly unique, this highly developed operation, centered in two major textile factories in Frunze, the capital city of the Kyrgyz Soviet Socialist Republic, can be understood as something of a blueprint for major schemes that were born during the boom in shadow economic activity in the final three or four decades of the USSR. This article will focus on Mordko Gol’dman and his colleagues, who can be thought of as prototypical shadow “entrepreneurs” in the late Soviet period. Many of the illegal practices that the Frunze schemers engaged in were widespread in Soviet social and economic life by the 1950s (and scholars have begun to describe prominent cases from the late Stalin period), and would define the more developed shadow economy through the 1970s, 1980s, and later.⁶ From the perspective of the country’s political leadership and legal officials, the case of the Frunze clothing factories produced deeply troubling examples of many of these practices. The operation’s leaders established a juggernaut of linked economic crimes implanted inside the planned economy.⁷

1032–62; Andrei Markevich, “Byla li sovetskaia ekonomika planovoi? Planirovanie v narkomatakh v 1930-e gg.,” in *Ekonomicheskaia istoriia: Ezhegodnik, 2003* (Moscow, 2004). For a survey of the literature, see Michael Ellman, “The Political Economy of Stalinism in Light of the Archival Revolution,” *Journal of Institutional Economics* 4, no. 1 (2008), 99–125.

6. Two recent articles have examined individual cases of major shadow economy activity in the late Stalin period. Juliette Cadiot has written on the Khain Affair, tried in 1952, which, while smaller, bore similarities to the Kyrgyz Affair, including an intricate web of relationships with local elites, suppliers, and law enforcement. Both operations focused on the theft of textile production. The Khain case, which centered on embezzlement of clothing at an operation run out of a fabric warehouse, featured five people on trial (though many others were implicated), rather than more than 80 in the three main Kyrgyz Affair trials. Unlike the Kyrgyz Affair, the Khain case was tried in a military court and the defendants were convicted of “counter-revolutionary sabotage.” Juliette Cadiot, “L’affaire Hain, Kyiv, hiver 1952,” *Cahiers du monde russe* 59, no. 2–3 (2018): 255–88. Oleg Khlevniuk has written about the case of N. M. Pavlenko, who created a sprawling private construction enterprise that operated between 1948 and 1952. “The Pavlenko Construction Enterprise: Large-scale Private Entrepreneurialism in Stalin’s USSR,” *Europe-Asia Studies* 71, no. 6 (July 2019): 892–906. See also Heinzen, *Art of the Bribe*.

7. This study draws from a number of archival collections, especially those located in the State Archive of the Russian Federation (GARF), including the USSR Procuracy, the USSR Ministry of Justice, the Supreme Court of the USSR, the USSR Supreme Soviet, and the Ministry of Internal Affairs’ police force responsible for rooting out economic crimes (OBKhSS). Other material is located among communist party documents in the Russian State Archive of Contemporary History (RGANI), including the collections of several departments of the Central Committee of the CPSU.

A central precept that has framed my work and shaped my method is the notion that many types of crime and corruption could be highly creative activities.⁸ I would argue that shadow economies exhibited a number of unexpectedly adaptive and even innovative elements that came to fruition in a risky environment. Such an approach to the subject—highlighting signs of success in the shadow economy rather than further elaborating the clear signs of failure in the command economy—can be more revealing than attempts simply to account for the shadow economy’s “functionality”—that is, the “lubricating” or “wheel greasing” role that it played to “get things done” in chaotic conditions.⁹ Conceptualizing the shadow economy as purely functional can render bland and mechanistic the actions of people who were often quite agile and inventive actors. This article is not concerned with managers who produced fraudulent statistics to disguise chronically inadequate production and falsely show that they had fulfilled plan quotas (a widespread phenomenon known as *pripiski*—report padding or “eyewash”).¹⁰ The focus of this article lies rather with those people who went to great lengths to hide their absolutely *amazing* production.

The economist Dinko Dubravčić has advanced one traditional interpretation, arguing that communist states eradicated entrepreneurship. As he put it in a 1995 article, “the entrepreneurial system has been destroyed in communist economies.”¹¹ The present research, by way of contrast, argues that many shadow economy actors can be seen as a variety of illicit entrepreneurs, albeit operating illegally and in conditions of significant risk. In the field of Soviet studies, the term “entrepreneur” is normally used in a quite focused way to describe the important phenomenon of small-scale black marketeers or profiteers who earned some extra money “under the table,” petty private traders, including peasants dealing in food, or the enterprise managers who bartered among themselves to obtain needed materials that were in short supply. Most scholarly work has focused on the small-scale schemes that Soviet people dabbled in, largely involving the pilfering of merchandise or raw materials in retail trade or at one’s place of work, and the illicit provision of services.¹² Typical shadow economy activities focused

8. James Heinzen, *The Art of the Bribe: Corruption under Stalin* (New Haven, 2016).

9. James Millar, “The Little Deal: Brezhnev’s Contribution to ‘Acquisitive Socialism,’” *Slavic Review* 44, no. 4 (Winter 1985): 694–706.

10. On the massive fraud in meat production statistics at the heart of the Riazan Affair, see Oleg Khlevniuk, “The Economy of Illusions: The Phenomenon of Data-Inflation in the Khrushchev Era,” in Melanie Ilič and Jeremy Smith, eds., *Khrushchev in the Kremlin: Policy and Government in the Soviet Union, 1956–1964* (London, 2011), 171–89; Yoram Gorlizki, “Scandal in Riazan: Networks of Trust and the Social Dynamics of Deception,” *Kritika* 14, no. 2 (Spring 2013): 243–78.

11. Dinko Dubravčić, “Entrepreneurial Aspects of Privatisation in Transition Economies,” *Europe-Asia Studies* 47, no. 2 (March, 1995): 305.

12. On food distribution, shortages, black markets, and “speculation,” from the end of NEP to the start of World War II, see Elena Osokina, “*Za fasadom ‘Stalinskogo izobilija’: Raspredelenie i rynek v snabzhenii naseleniia v gody industrializatsii, 1927–1941* (Moscow, 1998), published in English under the title “*Our Daily Bread: Socialist Distribution and the Art of Survival in Stalin’s Russia, 1927–1941*,” trans. Kate Transchel and Greta Bucher (Armonk, 2001). Osokina also writes about shadow structures in the trade network. On corruption, law, and daily life in late Stalinism, see Heinzen, *The Art of the Bribe*.

on relatively minor theft of retail goods, small-scale unlawful production, or foreign currency transactions and resale of scarce goods (known in the criminal code as “speculation”) practiced by so-called *fartsovshchiki* (black market traders).¹³

I do not simply mean that people figured out ways to pilfer or resell goods with the goal of making a profit. I would echo those scholars who understand the term “entrepreneur” as flexible and elastic.¹⁴ The idea of entrepreneurship contains elements of risk-taking and innovation, of maneuvering within existing structures and institutions in pursuit of financial gain.¹⁵ Organizers of very large schemes often possessed broad vision and deep ambition, demonstrating flexibility and adaptability as they took the measure of—and responded to—popular demand. In capitalist societies, the term entrepreneur

On policing the shadow economy, mainly in the Perestroika period, see Gilles Favarel-Garrigues, *Policing Economic Crime in Russia: From Planned Economy to Privatization*, trans. Roger Leverdier (London, 2011). On the growth of state-sponsored consumerism, see among others Vera Dunham, *In Stalin's Time: Middleclass Values in Soviet Fiction* (Cambridge, 1976). For research on Brezhnev-era corruption, based mainly on reports in the Soviet press, see, among others, William Clark, *Crime and Punishment in Soviet Officialdom: Combating Corruption in the Political Elite, 1965–1990* (Armonk, NY, 1993); Nick Lampert, “Law and Order in the USSR: The Case of Economic and Official Crime,” *Soviet Studies* 36, no. 3 (July 1984): 366–85; Aron Katsenelinboigen, “Coloured Markets in the Soviet Union,” *Soviet Studies* 29, no. 1 (January 1977), 62–85. On other types of crime in the Khrushchev period see, for example, Brian LaPierre, *Hooligans in Khrushchev's Russia* (Madison, 2012); and Miriam Dobson, *Khrushchev's Cold Summer: Gulag Returnees, Crime, and the Fate of Reform after Stalin* (Ithaca, 2009). On informal bartering in industry in the 1930s, see David Shearer, “Wheeling and Dealing in Soviet Industry: Syndicates, Trade, and Political Economy at the End of the 1920s,” *Cahiers du monde russe* 36, no. 1–2 (1995): 139–60. On small-time “entrepreneurs” see Shearer, *Policing Stalin's Socialism: Repression and Social Order in the Soviet Union, 1924–1953* (New Haven, 2009). For legal, semi-legal, and illegal markets under Stalin, including arrests of those engaged in shadow trade activities and small-scale private production, see Julie Hessler, *A Social History of Soviet Trade: Trade Policy, Retail Practices, and Consumption, 1917–1953* (Princeton, 2004); on *pripiski*, Mark Harrison “Forging success: Soviet Managers and Accounting Fraud, 1943–1962,” *Journal of Comparative Economics* 39, no. 1 (November 2010): 43–64.

13. The pursuit of small-scale private profit by individuals and— to some extent—by economic managers seems to have been widespread and mostly tolerated or only lightly punished by the authorities, especially in the Brezhnev period. See, among many others, James Millar, “The Little Deal.” Aleksei Yurchak has written about young people (mostly), including collectors, buying western goods on the black market from *fartsovshchiki*—in particular clothing, record albums, and radios. Yurchak, *Everything Was Forever Until It Was No More: The Last Soviet Generation* (Princeton, 2013).

14. Thomas Eisenmann, “Entrepreneurship: A Working Definition,” *Harvard Business Review*, January 10, 2013, at hbr.org/2013/01/what-is-entrepreneurship (accessed June 30, 2020).

15. Gabor Rittersporn uses the term “entrepreneurial folkways,” to describe ways in which Soviet people, mainly in the 1930s, reconfigured their environment to create informal networks to help them accomplish many tasks; Rittersporn, *Anguish, Anger and Folkways in Soviet Russia* (Pittsburgh, 2014), 217. Joseph Berliner used the term entrepreneur to refer to enterprise and collective farm managers who used *blat* (an exchange of favors) and swapped on “grey” markets to obtain scarce materials. Berliner, *Factory and Manager*. The present study is about illegal activity undertaken by people acquiring, producing, and distributing goods at least partially for the goal of self-enrichment, not simply to fulfill plan quotas.

is normally associated with people who find novel ways to pursue profits within the parameters of existing law.¹⁶ Entrepreneurs in capitalist systems enjoy distinct benefits. Private business activity is protected by the state, through a thick web of overlapping laws, regulations, and institutions that guarantee the enforcement of contracts, allow coordination among private enterprises, and encourage business success and growth in myriad ways. Soviet law, to the contrary, prohibited and punished the pursuit of the kinds of ambitious money-making activities described in this article.

This article interprets a phenomenon that is typically thought of as static—illegal economic activity in late Soviet socialism—in a more nuanced way, as complex, varied, and intentional, albeit operating in a highly constrained and uncertain environment. Conceptualizing participants in major shadow economy schemes as flexible organizers maneuvering in precarious conditions (rather than simply as “criminals,” “deviants,” or “anti-social parasites,” terms that Soviet authorities used) has been a fruitful way of exploring the social history of the illegal economy as an important dimension of daily life in the post-Stalin period. The activities of these actors feature a kind of social dynamism amid dictatorship and stultifying rules.¹⁷ Using this approach, one can explore the development of robust economic and social relationships among people knowingly producing and distributing goods in ways that violated the law with the purpose of self-enrichment.

Draconian Decrees

Evidence indicates that the procuracy, the courts, and Nikita S. Khrushchev himself were quite concerned about the growing number of very large operations the police were uncovering in the late 1950s and early 1960s. These large operations often combined the production of goods with their distribution and sale through the retail network. Some went on for years before the authorities broke them up. The organizers frequently misappropriated hundreds of thousands or even millions of rubles worth of raw material and merchandise. The Kyrgyz Affair was one such scheme. Indeed, information reached the party leadership between the late 1950s and early 1960s about what seemed to be a major upsurge since Stalin’s death of large-scale theft of state property and grandiose embezzlement schemes. Such activities, quite often with the

16. Eisenmann, “Entrepreneurship: A Working Definition.”

17. On changes in public consciousness with respect to discussions of literature and culture during the thaw, see Denis Kozlov, *The Readers of Novyi Mir: Coming to Terms with the Stalinist Past* (Cambridge, Mass., 2013). On complicating the myth of the Thaw, see Stephen Bittner, *The Many Lives of Khrushchev’s Thaw: Experience and Memory in Moscow’s Arbat* (Ithaca, 2008). On atheism and ideology, see Victoria Smolkin, *A Sacred Space Is Never Empty: The Spiritual Life of Soviet Atheism* (Princeton, 2018). On religion and sectarians, Miriam Dobson, “The Social Scientist Meets the ‘Believer’: Discussions of God, the Afterlife, and Communism in the Mid-1960s,” *Slavic Review* 74, no. 1 (Spring 2015): 79–103. On University students and intelligentsia identity, see Benjamin Tromly, *Making the Soviet Intelligentsia: Universities and Intellectual Life under Stalin and Khrushchev* (Cambridge, Eng., 2014). For a collection of articles that reconsider the “stagnation” paradigm, see Dina Fainberg and Artemy M. Kalinovsky, eds., *Reconsidering Stagnation in the Brezhnev Era: Ideology and Exchange* (Lanham, MD, 2016).

participation of leading officials prominent in local or republic-level power structures, were well-documented in retail trade, state and economic administrations, and collective farms.¹⁸ Between the mid-1950s and mid-1960s, the USSR Procuracy was investigating shadow economy cases that were similar to the Frunze operation (if smaller and less elaborate) in Leningrad and Moscow, and in nearly every republic. Some of the most glaring examples were schemes exposed in Karelia, where the participants in embezzled metal and automobile parts; operations involving collective farm managers absconding with huge quantities of food and dairy products in Uzbekistan; and ambitious operations involving mass theft and resale in the alcohol and fruit industries in Georgia.¹⁹

Schemes of this type struck Khrushchev as roadblocks along the inevitable forward march toward the construction of communism. He publicly framed these cases as examples of the stubborn persistence of “private property psychology.”²⁰ Privately, Khrushchev was especially infuriated by the involvement of “trusted people” in positions of authority who “deceived” him while enabling—and profiting from—these schemes. The so-called Riazan’ Affair (in which authorities fraudulently inflated meat production in one province) and Tadzhik Cotton Affair (when officials did the same thing with cotton statistics) enraged Khrushchev. He was angered both because top party leaders were involved and because he felt himself duped by rosy—but phony—statistics designed to instill confidence that the economy was making great progress in key areas.²¹ On the basis of multiple reports from the MVD and Procuracy, Khrushchev almost surely understood that the exposure of these grand cases was simply the tip of the iceberg, representing just the most egregious examples of widespread phenomena.

Against the backdrop of this urgent desire to protect state property and the national economy from the disease of insider theft and the officials who engaged in it, the Supreme Soviet in 1961 and 1962 issued high-profile decrees that allowed for the death penalty in the worst cases of economic crime. In an unexpected twist, Soviet law now punished the most serious economic crimes (which often lay at the heart of major shadow economy operations) as severely as it did the planned and malicious killing of an innocent person.

18. For a major underground scheme in a Moscow clothing factory uncovered in 1956, see GARF f. 9415, op. 5, d. 135, ll. 136–39 (Report of OBKhSS). On March 29, 1962, the Central Committee sent all regional party organizations a closed letter on “Strengthening the struggle with bribery and theft of the people’s property,” which detailed numerous large-scale theft cases. Oleg Khlevniuk, ed., *Regional’naiia politika N. S. Khrushcheva* (Moscow, 2009), 199–209.

19. Karelia case: Rossiiskii gosudarstvennyi arkhiv noveishei istorii (RGANI), f. 5, op. 47, d. 429, ll. 41–44 (Report by local party organs to Central Committee, 1962–63: Cases in Uzbekistan: RGANI, f. 2, op. 1, d. 590, l. 128. Transcript of November 1962 Central Committee Plenum, including sections marked “not for publication”); Georgia cases: GARF, f. 9474, op. 16, d. 719, ll. 1–11 (Joint report by Gorkin, Rudenko, and Denisov, sent to Supreme Court).

20. See Khrushchev’s comments at the November 1962 Party Plenum in RGANI, f. 2, op. 1, d. 590, ll. 128–30; and N. Mironov, “Nasushchnye voprosy dal’neishchego ukrepleniia sotsialisticheskoi zakonnosti,” *Kommunist*, no. 1 (1963), 49–59.

21. Gorlizki, “Scandal in Riazan’.”

This draconian new legislation should primarily be seen as a way of battling the serious problem of these increasingly bold shadow economy operations. On May 5, 1961, the Presidium of the USSR Supreme Soviet published an all-Union decree (*ukaz*) that declared that the theft and embezzlement of state property in particularly large amounts, repeatedly, or in other aggravating circumstances was punishable with death by firing squad, alongside other crimes including treason, sabotage, terrorism, and premeditated murder. Later that summer, a decree of July 1, 1961 made heinous cases of speculation in foreign currency subject to capital punishment. On February 20, 1962, a third *ukaz* added the most serious cases of bribe-taking to the list of crimes eligible for the death penalty.²²

Paradoxes of Soviet Consumerism

With the country's material recovery from World War II and the gradual growth in living standards, Soviet people overall were becoming more educated and urbanized. The proportion of the workforce who were white-collar employees was growing, including engineers, technical specialists, and full-time party cadres. People had more cash in their hands and savings in the bank.²³

By the second half of the 1950s, a significant part of the population was also becoming more knowledgeable about superior living standards in western Europe and (more commonly) in eastern Europe, thanks to a growing ability to travel and a somewhat more open press and cultural life. Many Soviet people aspired to a relatively comfortable, "middle-class" lifestyle, complete with a single-family apartment stocked with household goods, nice clothing, and labor-saving home appliances. Authorities promised that socialism would soon provide abundance for all. Amid the postwar "baby boom," families needed to clothe their children and buy furniture and school supplies. People wanted televisions, washing machines, refrigerators, record players, children's toys, and costume jewelry. Good-quality products, including the occasional "luxury" item, provided a certain social status for the Soviet middle class and elites.²⁴ In light of the decline in fear of repression

22. *Izvestiia*, May 7, 1961, 5; *Izvestiia*, July 2, 1961, 2; *Vedomosti Verkhovnogo soveta*, no. 8, article 85, February 21, 1962, 221–22. Stalin had abolished the death penalty in May 1947, though it was reintroduced in 1950 for certain anti-state crimes such as treason, espionage, and the murder of Gulag employees. Between 1953 and 1961 the death penalty was gradually reintroduced for a number of crimes, including banditry, counterfeiting, premeditated murder, and rape in aggravating circumstances. Jeffrey S. Hardy and Yana Skorobogatov, "We Can't Shoot Everyone: Supreme Soviet Discussions of Death Row Pardons, 1953–1964," *Cahiers du monde russe* 59, no. 4 (2018): 473–98; Ger P. Van den Berg, "The Soviet Union and the Death Penalty," *Soviet Studies* 35, no. 2 (April 1983): 154–74.

23. For an overview of the "growing expectations gap," see Timothy Colton, *The Dilemma of Reform in the Soviet Union* (New York, 1986), 47–50. See also Moshe Lewin, *The Gorbachev Phenomenon: A Historical Interpretation* (Berkeley, 1988), 46–52; Jakob Feygin, "Reforming the Cold War State: Economic Thought, Internationalization, and the Politics of Soviet Reform, 1955–1985" (PhD diss., University of Pennsylvania, 2017), 129–30.

24. Dunham, *In Stalin's Time*. On consumerism, see among others Susan E. Reid, "This is Tomorrow! Becoming a Consumer in the Soviet Sixties," in Anne E. Gorsuch and Diane P. Koenker, eds., *The Socialist Sixties: Crossing Borders in the Second World* (Bloomington, 2013); Natalya Chernyshova, *Soviet Consumer Culture in the Brezhnev Era* (London, 2013).

since Stalin's time among this stratum of upwardly mobile office workers, elites, and sub-elites, some were willing to dabble in the shadow economy, even to take bribes, in order to earn some extra money, or to buy those goods on the black market.

A new emphasis on consumption (as enshrined in the Third Communist Party Program, published by the Twenty-Second Party Congress in October 1961) helped to drive demand by explicitly connecting the country's "transition to communism" to rising living standards and consumption. Khrushchev naively predicted: "In the coming ten years all Soviet people will be able to obtain amounts of consumer goods in sufficiency, and in the following ten years consumer demand will be met in full."²⁵ For both the USSR and the United States, the success of the national mission rode in part on ideas of the growing availability of food and goods for their citizens. Khrushchev declared that a socialist country that could not provide its people with enough clothing—a "communism without trousers"—would be "a perversion."²⁶

Party leaders did not, however, understand the structural challenges the command economy faced (and had often itself created) in fulfilling mounting expectations. Shortages of manufactured consumer goods remained rampant throughout the Soviet period, of course. The command economy, which always prioritized heavy industry, was not set up to shift investment to consumer production quickly, to mass produce consumer items in sufficient quantities, to decentralize decision-making, to distribute goods effectively through retail channels, or to guarantee quality in any meaningful way. Confused price policies and constant campaigns to increase consumption contributed to keeping many goods scarce, as Kristy Ironside shows.²⁷ The post-Khrushchev enterprise reforms of 1965 (the so-called "Kosygin reforms"), which aimed to redirect more central resources to light industry, were in part a response to criminal operations that underscored the poor performance of consumer production. The Soviet military-industrial complex argued that such a change

On the gendering of Soviet consumerism by Soviet and American authorities, see Susan E. Reid, "Cold War in the Kitchen: Gender and the De-Stalinization of Consumer Taste in the Soviet Union under Khrushchev," *Slavic Review* 61, no. 6 (Summer 2002): 211–52; and Susan E. Reid and David Crowley, eds., *Style and Socialism: Modernity and Material Culture in Post-War Eastern Europe* (Oxford, 2000). For the centrality of consumption as a marker of success for both capitalism and socialism, see Kate Brown, *Plutopia: Nuclear Families, Atomic Cities, and the Great Soviet and American Plutonium Disasters* (Oxford, 2013), 148–49, 255–67. On housing, see: Christine Varga-Harris, "Homemaking and the Aesthetic and Moral Perimeters of the Soviet Home during the Khrushchev Era," *Journal of Social History* 41, no. 3 (Spring 2008): 561–89; Steven Harris, *Communism on Tomorrow Street: Mass Housing and Everyday Life after Stalin* (Baltimore, 2013).

25. Khrushchev made these remarks at the 22nd Party Congress, on October 17, 1961. *Documents of the 22nd Congress of the CPSU, vol. 2. Report on the Programme of the Communist Party of the Soviet Union* (New York, 1961), 85.

26. Khrushchev quoted in Choi Chatterjee, Lisa Kirschenbaum, and Deborah Field, *Russia's Long Twentieth Century: Voices, Memories, Contested Perspectives* (Abingdon, UK, 2016). On the Third Party Platform, see Alexander Titov, "The 1961 Party Programme and the Fate of Khrushchev's Reforms," in Melanie Ilic and Jeremy Smith, eds., *Soviet State and Society under Nikita Khrushchev* (London, 2008), 8–26.

27. Kristy Ironside, "The Value of a Ruble: A Social History of Money in Postwar Soviet Russia, 1945–1964" (PhD diss., University of Chicago, 2014), chapter 2.

in investment priorities would discourage the development of essential weaponry. Heavy industry retained its superior position politically.²⁸

A fundamental and ultimately damaging paradox of late socialism was that the state encouraged consumption and promised material plenty, even as the command economy could not come close to meeting the blooming demand that the state itself helped to generate. In the arena of light industry, shadow economic activity was a response to these perpetual shortages of consumer goods. The Kyrgyz Affair was a startling example of an alternative system of shadow production and distribution that reacted to growing, and changing, consumer appetites. One category of merchandise that consumers craved but was in very short supply was good-quality clothing and household goods made of wool, rayon, cotton and other fabrics.

The Case of the Frunze Clothing Factories

Pent-up consumer demand provides part of the context for one remarkable criminal operation that was designed with two aims in mind—to produce popular merchandise for ordinary consumers and to generate enormous quantities of cash for the operation’s coordinators. It succeeded on both fronts. Judging by Soviet archival sources, the Kyrgyz Affair was the most shocking economic crime and corruption case that came to the authorities’ attention in the Khrushchev years. It combined prodigious amounts of theft and unlawful production with a wide net of payoffs to key officials. Indeed, it was one of the two or three most notable such cases in all of postwar Soviet history. What can the case tell us about the plans, practices, and vision of people who ran an extraordinary shadow economy scheme?

The operation was centered in two clothing factories in Frunze, one of which (the Alamedin Textile Factory) was the largest in the republic, and the second of which (the 42nd Anniversary of October factory) was among the largest.²⁹ Investigators opened the case at the beginning of 1961. Due to the scale of the operation and the alleged participation of a number of high-ranking officials, the KGB bypassed local Kyrgyz authorities and took charge of the investigation. Most of the participants were arrested between January and May 1961.

Like most shadow economy operations, this one started quite modestly, at first involving only small-time production and sale of clothing. Mordko Gol’dman was a Romanian Jewish refugee. He had lived his whole life to that point in the market town of Bairamcha, Romania, in the Bessarabia region, where he worked as a salesman for a person he called “a wealthy merchant.” Although the details are sketchy, he told investigators that he suffered violent anti-Jewish attacks in Romania until the Red Army occupied his region in the

28. On the Kosygin and Liberman reforms, see Feygin, “Reforming the Cold War State,” 100–262; Philip Hanson, *The Rise and Fall of the Soviet Economy: An Economic History of the USSR since 1945* (New York, 2003), 98–108; Colton, *The Dilemma of Reform*, 57. See Feygin on debates over the unexpected consequences of shifting investment priorities and economic reform in the Khrushchev period, as well as inflationary pressures and price increases. See also Ironside, “The Value of a Ruble.”

29. Transcript of trial of Mor’dko Kh. Gol’dman, et al., tom. 4, 1. 32.

summer of 1940 as a consequence of the Molotov-Ribbentrop pact. Between 1941 and 1947 he was mobilized to work in Soviet military construction.³⁰

In 1948, amid postwar deprivation, Gol'dman landed in the city of Frunze, a regional textile center. The ethnic composition of Frunze after the war provides important local context for the case. As Moritz Florin shows, Frunze was a multiethnic, heterogeneous city in the two decades after World War II. The elites were mostly Russian and Ukrainian or Russified Kyrgyz. A fairly substantial Jewish population was composed largely of war refugees and people seeking employment in industry after the war. Frunze was also the destination for some wartime deportees, such as Tatars, North Caucasians, and others.³¹ This diversity is important because, although major Soviet shadow economy schemes often had ethnic networks at their core (in the case of the Kyrgyz Affair the chief organizers of the operation were mostly Jewish), such operations nearly always required collaboration across ethnic lines as they grew. In this case, Kyrgyz, Jews, Russians, Ukrainians, Uzbeks, and others all participated in the scheme. The city of Frunze was a good urban environment for such cross-ethnic cooperation.

Seeking steady work in Frunze, Gol'dman lived on the margins of urban society. A self-described illiterate person (he could not read Russian), he bounced around from menial job to menial job. By early 1950, however, he had become the foreman of the knitwear workshop in a clothing factory, soon to be renamed the Alamedin Knitwear and Cloth Factory. It was in this factory that he and his associates learned the ins and outs of how the planned economy's ungainly machinery really worked at the ground level.

Informally excluded from many positions in the economy (and from some positions of power and status in the party and ministerial bureaucracies and in law enforcement), many Jewish migrants gravitated to Frunze's sizable textile industry with its clothing factories and workshops. People from small towns and urban areas alike brought traditions and practices of craft production, including from the textile and garment industries, together with their experience in small trade and manufacturing.³² Artemy Kalinovsky has noted that growing quantities of consumer goods available in the major cities of the RSFSR served to emphasize the gap in light manufacturing between Russia and the Central Asian republics.³³ This was a void that shadow providers of consumer goods served to fill.

30. Transcript of trial of Mor'dko Kh. Gol'dman, et al., tom. 2, ll. 84–5.

31. Moritz Florin, "Becoming Soviet through War: The Kyrgyz and the GreatFatherland War," *Kritika* 17, no. 3 (Summer 2016): 495–516; Florin, "What is Russia to Us? Making Sense of Stalinism, Colonialism and Soviet Modernity in Kyrgyzstan, 1956–1965," *Ab Imperio*, no. 3 (2016): 165–89.

32. Anna Kushkova, "Navigating the Planned Economy: Accommodation and Survival in Moscow's Post-War 'Soviet Jewish Pale'" (PhD diss., University of North Carolina, 2017).

33. Artemy Kalinovsky, *Laboratory of Socialist Development: Cold War Politics and Decolonization in Soviet Tajikistan* (Ithaca, 2018), 75–76. Kalinovsky's work demonstrates that Khrushchev's drive to "catch and overtake" the western economies created incentives for authorities in Central Asian republics (among other areas) to cheat and pad statistics, Kalinovsky, *Laboratory of Socialism*, 38. Officials claimed to have fulfilled targets, and in exchange they received investment for local projects from Moscow.

Within just a few months of the creation of the workshop, Gol'dman became the shop's chief. In a story that could have been told by thousands of industrial managers across the Soviet Union, Gol'dman told investigators that he immediately came to understand that regional planning agencies would never allocate his workshop enough fabric and thread to meet its production quotas. He testified that the local party boss verbally assailed him for failing to fulfill his plan quotas, albeit with non-existent or poor-quality cloth. Gol'dman's initial motivation for entering into shadow economic activity, then, developed from a desperate need to figure out a way to obtain adequate raw materials and meet unrealistic targets. The command economy's perverse matrix of incentives began to serve as a guide for how to navigate this environment, revealing opportunities in the shadows. These incentives taught him how to acquire things on the side to relieve some of the pressure to meet targets while getting the bosses off his back. It was a relatively small step from Gol'dman making deals "in the interest of production" (Soviet parlance for managers' informal bending of the rules as they traded with each other to obtain scarce resources, an activity that was almost never prosecuted) to the creation of an complex alternative economy inside the factory, with the goal of enriching himself and his colleagues.

To address the shortages of cloth, Gol'dman and his brother Usher bought up waste fabric, in both large and small amounts. Sometimes these pieces of cloth were dozens of meters long; in other cases, just a meter or two. Every factory's plan target had built into its projections the assumption that a certain proportion of raw material would be unusable. In textile industries, plan norms allowed that from 0.5 to 2 percent of all fabric would be written off as "waste" that was too flawed to be used in production.³⁴ Under the cover of the disposal of a factory's waste, Gol'dman re-purposed the tossed cloth to manufacture new clothing. Such recycling was but one important way that plan norms fueled the shadow economy, enabling enterprising—if desperate—managers to "create surpluses" (as prosecutors disparagingly referred to it) out of thin air.

From these discards, Gol'dman and his colleagues used the factories' outdated machines to make items of clothing. He testified that every month between early 1950 and September 1953, he and his brother could fashion between 700 and 1,000 shirts and pairs of women's pants, worth perhaps 7,000–9,000 rubles at retail prices, from cast-off but still serviceable cloth and yarn. In this way, they were able to meet their production quotas and still have some money left over. They spent some of the extra cash they earned on simple but necessary tasks, such as repairing machinery. But they also failed to report all of the clothing they made in the official accounts. This hidden output was called "unreported production" by prosecutors. Indeed, this "unreported" or unregistered production of finished products was the life's blood of the shadow economy in Soviet consumer goods manufacturing. Instead of tallying the surplus goods in the enterprise's books, the organizers paid salespeople in Frunze's regular stores and kiosks to sell their

34. GARF, f. 7523, op. 109, d. 288, l. 123. (Report on the struggle against theft of state property, authored by Karpets, sent to Presidium of the USSR Supreme Soviet.)

illegally-produced merchandise, an action that made them guilty of the crime of “theft of state property.” They sold the shirts for ten rubles and pants for eleven rubles, ninety kopecks, the regular retail price for these items, so as to not draw unwelcome attention with varying prices. Hand-picked salespeople were rewarded for selling unreported items, either with a piece-rate bonus of between 12 and 17 percent of the retail price, or with a monthly stipend (both illegal). In case the police checked the origin of the salespeople’s merchandise, they maintained an elaborate system of phony receipts and parallel account books, with the help of the factory’s bookkeeper, who was in on the scheme. Mor’ dko Gol’ dman split the profits with his brother. This “left” income added several thousand rubles a month to their official salaries, which amounted to about 700 rubles a month.

After experiencing some success with this venture, the Gol’dmans expanded their operation to include several of their relatives or friends, many of whom had also been refugees from Romania. In its early stages, then, the Frunze scheme was a standard, low-level shadow-economy operation based on small-scale illicit production and secret sale of those items manufactured at one’s workplace. It was a small, family affair. At this point, the group included two brothers, two brothers-in-law, and a nephew. They also brought in the factory’s bookkeeper, Ivanets, a Russian by ethnicity. The operation required little capital beyond a couple of the factory’s machines, some surplus cloth, and a car to haul the goods to Frunze’s kiosks and stores. Around the country were many similar, localized small-scale operations that illicitly produced goods. Between 1950 and 1954, according to prosecutors, this group sold unreported merchandise that the authorities valued at about 650,000 rubles, a sum that increased their annual incomes manifold.³⁵

After Stalin’s death, however, the operation expanded steadily over the next several years until it reached a quite remarkable level. It evolved to a size and scope that was far beyond the typical off-the-book operations that the police frequently encountered in production facilities around the country. As the scheme grew, beginning in the fall of 1953, Gol’dman sought and found additional partners in the factory. They even found new collaborators in a nearby clothing factory (the 42nd Anniversary of October factory) who had constructed a similar scheme. Ultimately, the entrepreneurs in the two enterprises combined forces, pooling resources in a kind of merger. One important consequence of this cooperation is that it helped to avoid potentially violent turf battles among competitors.

This ethnic trust network was similar to large-scale shadow economy operations that were exposed by prosecutors between the mid-1950s and mid-1960s. Although organizers had to reach across ethnic lines, the core group was quite often of one ethnicity. Several major cases that were prosecuted by the procuracy or the KGB and reported to party leaders can serve as examples. The organizers of a scheme in Karelia that embezzled metal and auto parts were ethnic Russians, as were the leaders of a 1955 operation to divert fur from a cloth and sewing factory in Leningrad and sell it through speculators

35. GARF, f. 7523, op. 95s, d. 266, l. 184.

and in commission stores.³⁶ Several major operations that manufactured unregistered products from surplus raw material for sale in retail stores featured ethnic networks. A scheme similar to the Kyrgyz Affair, involving the theft of wool cloth, in the Armenian textile industry had Armenians as its core organizers, while in a major embezzlement scheme at a shoe-making factory in Gori, Georgian Republic, the main planners were Georgian.³⁷

In Frunze, the operation continued to expand during the second half of the 1950s. By necessity, Gol'dman and his colleagues had made connections and developed relationships both inside and outside the factory. They found sources for cloth, thread, and new machinery. More efficient equipment helped them save cloth, which they redirected to yet more "unreported production."³⁸ Through their contacts and well-placed intermediaries, and with the help of bribes, they illicitly acquired huge stocks of yarn and fabric and more than one hundred pieces of modern equipment.³⁹ They paid bribes to obtain or expedite purchase orders, mainly through well-placed contacts at the republican offices of Gosplan and the Ministry of Light Industry, or by going directly to textile factories in Moscow, Tver', Poltava, and other cities to obtain material illegally.

Investigators found that the schemers operated within two established factories for at least five years. In several of the factories' workshops, the organizers produced goods that they understood were in short supply and keenly sought after by shoppers: well-made, stylish shirts, socks, dresses, pants, underwear, shawls, curtains, carpets, and other items. In 1957, they decided to organize a rayon workshop, equipping it with new machinery to take advantage of consumers' desire for fashionable clothing made of lightweight and colorfast synthetic fabric. Rayon could be hand-washed easily, an important consideration in light of the shortage of washing machines. The rayon workshop ended up being the most profitable of all (thanks to "huge demand," as Gol'dman told the court). Investigators calculated unreported production just in the rayon workshop at the astronomical sum of more than 4 million rubles for the period between 1957 and 1960.⁴⁰

At the same time, other workshops in these factories were using similar methods to produce and sell goods of cotton, wool, and other material, worth over 5 million rubles. In terms of output and revenue, the operation peaked in 1959–60, when, as one bribed auditor told the court, unreported production

36. GARF, f. 9415, op. 5, d. 135, l. 140 (Report of OBKhSS.)

37. On the 1958 case of Sarkisian, Chmbtian, and Mnatsakanian, see GARF, f. 9415, op. 5, d. 178, ll. 50–52 (May 15, 1959 report sent to the Central Committee from Dudorov, head of MVD). For the case of the operation led by Shatashvili and Dzorelashvili, see GARF, f. 9474, op. 16, d. 719, ll. 2–3.

38. For an example of how shadow economy operators in the leather and shoemaking industry in Ukraine and Georgia took advantage of new machinery to economize on raw material in light of outdated norms, see GARF, f. 9415, op. 5, d. 178, ll. 36–41.

39. GARF, f. 7523, op. 95s, d. 266, l. 186.

40. GARF, f. 7523, op. 95s, d. 266, l. 184.

grew to “impossible levels” that shocked even him.⁴¹ By way of comparison, the pay of a skilled worker averaged between about 600 and 800 rubles a month. In 1960, a “Zil” refrigerator cost about 200 rubles, and the list price of a Znamia television was 260 rubles. The retail price of a Moskvich automobile was about 40,000 rubles before 1961.

Various workshops in the factories used different methods to create surpluses. One incorrectly labeled clothes made of cheaper half wool and half cotton thread as more expensive, all-wool products.⁴² Another might take advantage of the inflated official production norms, claiming to use more cloth than they needed, and then use the extra to make clothing. A third workshop made items using a weave that used less yarn, which contributed to stockpiling cloth. Investigators pointed out that few consumers could tell the difference, and sales were always brisk. USSR Procuracy reports observed that shadow organizers in the textile, meat, fish, leather goods, wine, and other consumer and food industries used similar techniques for creating surplus stocks of raw material to produce unregistered products for retail sale, and then directing them into the regular retail chain.⁴³

Although it is impossible to give precise figures, it is clear that over the course of six years, the Frunze organizers illegally manufactured and sold at least four hundred thousand items of clothing and household goods, and possibly twice that many or more. They essentially created the equivalent of a medium-sized apparel company inside the command economy. All told, forensic investigators calculated that the perpetrators had embezzled state property worth more than 30 million rubles (in pre-reform currency) from 1950 to 1960.⁴⁴ Prosecutors estimated at trial that they had misappropriated 60 to 65 percent of the factories’ overall production for their own benefit.

The scheme was extremely profitable for many of the participants. Factory bookkeepers were paid under-the-table monthly stipends of between 500 and 2,000 rubles to doctor the accounts.⁴⁵ By 1959, the Kyrgyz D. T. Talasbaev, the director of the Alamedin factory and an active participant in the operation (and the former Minister of Light Industry of the Kyrgyz SSR), was earning 18,000 rubles a month. According to testimony at trial, the head of one workshop, Ivan F. Tatarenko, a Russian from Dnepropetrovsk, received 80,000 rubles per month by 1959, about 100 times the average wage of the employees in his workshop. Several of the organizers flaunted their wealth. KGB investigators calculated that nine of the leading figures in the operation accumulated forty-eight dachas and other buildings and sixteen automobiles among them. Ten of sixteen convicted bribe takers had built themselves private homes.⁴⁶

41. Transcript of trial of Mor’dko Kh. Gol’dman, et al., vol. 4, l. 29. Testimony of Narodnitskii.

42. A January 1959 report from OBKhSS chief Koveshnikov to the Central Committee complained that it was quite easy to mislabel items. GARF, f. 9415, op. 5, d. 178, ll. 5–11.

43. GARF, f. 9474, op. 16, d. 760, l. 24. (Report of USSR Supreme Court on theft of state property, January 19, 1962, by G. Anashkin.)

44. GARF, f. 9474, op. 16, d. 760, l. 14.

45. Transcript of trial of Mor’dko Kh. Gol’dman, et al., tom. 5. Testimony of Shtramvaser.

46. GARF, f. 9474, op. 16, d. 760, l. 55.

How Did the Scheme Work?

A critical feature of the operation's success was the use of official channels for unofficial commerce. It is most important to emphasize that this was not a venture that operated *separately from* and completely *outside* the command economy. Instead, they wove their operations into the command economy's institutions, agencies, norms, and mechanisms, both formal and informal. As such, the scheme sheds further light on the always-porous boundaries between the official and unofficial economies. The organizers of the Frunze scheme used the workshop's state-owned machines, which should have been devoted to producing goods for *official* sale. They sent the unlawfully produced merchandise to *official* warehouses (with bribes going to the warehouse manager). To distribute the goods widely, the Frunze entrepreneurs fed their products straight into the *official* supply system. Employees of the *official* warehouses (who had been paid off) dispensed the clothing to salespeople in the far-flung *official* retail network, who sold the goods in *official* stores and kiosks.

Organizers essentially created their own private systems both enmeshed and masked within state-controlled channels of acquisition and dispersal. The operation was well disguised for years, and this required a great deal of both active and passive complicity among people in positions of authority in the factories and in supervisory agencies. It would not have been possible for a scheme like this to have gone on for so long without cooperation by numerous important officials. Among those criminally active in the scheme were more than two dozen employees of the two textile factories, including the directors of both factories, twelve shop chiefs and foremen, three bookkeepers, and the heads of warehouses for raw materials and finished goods. In the city of Frunze's retail network, at least ten store directors and kiosk managers were involved, as were several officials in the city's retail trade administration.

Critically, organizers developed relationships with numerous well-positioned party and government officials based on joint profiteering and enabled by bribes. These arrangements held up surprisingly well. As the scheme grew, the organizers bribed about twenty-five people, either to cooperate or to look the other way. To secure the equipment and materials and to cover their tracks, the organizers paid bribes to buy complicity both horizontally—to people in the factory administration, accountants, and engineers—and vertically up the power hierarchy, all the way to individuals in the republican ministries who guaranteed that the scheme stay supplied. At the republican level, they bribed senior officials in the Kyrgyz Gosplan, Ministry of Local Industry, Ministry of Trade, and Council of Ministers, most of whom were of Kyrgyz or Russian nationality. Additionally, they paid off over a dozen law enforcement officials, most of whom were Russian, Kyrgyz, or Ukrainian.

Three Key Elements of this Major Shadow Economy

The operation in the Frunze knitwear factories was characterized by several aspects of what I call a shadow Soviet entrepreneurialism. An exploration of three of the most significant features is illustrative.

The first crucial element of the operation was the *binding and durable oral agreements* that the organizers made among themselves. As they expanded their commercial network, the participants in the Kyrgyz Affair established arrangements bordering on contractual or quasi-contractual relationships. The Frunze schemers organized what they called a “*chernaia kassa*” (literally a black account or black cashbox) made up of the nine (later eleven) main leaders of the operation. The group included the factory directors and the chiefs and foremen of several workshops, in addition to bookkeepers and warehouse managers. (Eight of the eleven were Jewish.) The term *chernaia kassa* is difficult to translate, and its meaning depends on a given situation. But in this case, it referred to a secret agreement among the top managers of the scheme, centering on a negotiated series of surreptitious financial arrangements. They made comprehensive agreements about how to share costs and spend the profits generated in the operation. Each of the eleven people who comprised the *chernaia kassa* received a specified proportion of the profits, from 13 to 17 percent for Gol’dman and other heads of workshops, to 7 percent for the chief accountant, 5 percent for the head of the finished goods warehouse, and 3 percent for a person responsible for procuring raw material.⁴⁷

The members of the *chernaia kassa* held regular “stakeholders’ meetings” to plan their moves (they used the term *sbor paishchikov*).⁴⁸ They created detailed pacts about how much to pay their employees and to bribe “necessary people,” many of whom ended up receiving monthly stipends. The *chernaia kassa* decided, for example, to combine two workshops, the knitwear and rayon workshops, as a way of increasing revenue. This unification of two production units worked brilliantly, contributing to more sales. They collectively pooled their money and decided where to acquire raw materials, how to arrange for equipment repair, and how much severance pay to give to people whom they removed from the operation.⁴⁹ They established a kind of safety net for anyone involved in the scheme who got fired from their job at the factory. Their concern was that a person who had been dismissed might inform the police about the scheme out of spite. Moreover, in cases when members of the operation were arrested (and this happened several times), they jointly decided how much to pay the police to gain their release from custody. For example, the organizers testified that when a number of insiders were arrested in 1958 they gathered 50,000 rubles from the members of the *chernaia kassa* to pay bribes to a procuracy investigator. He eventually saw to it that all charges were dropped.⁵⁰

They established non-violent ways to settle disagreements. The eleven people who made up the *chernaia kassa* created a private, binding arbitration tribunal (“*treteiskii” sud*—literally a “third party court”), which was intended to mediate conflicts. (Official versions of such arbitration bodies existed in many factories in the USSR.) As the operation grew rapidly, the creation of this

47. Trial of Gol’dman et al., tom 2, l. 112.

48. Ibid., l. 95.

49. Trial of Gol’dman et al., tom 4, l. 78.

50. Trial of Gol’dman et al., tom 2, l. 78.

ad hoc, voluntary mediation body was an attempt to resolve the inevitable disputes among the organizers. The goal was to protect the leaders of the operation from exposure if one of the participants went to the police. In one case, the director of the planning and economics department of the Kyrgyz republican Sovnarkhoz (economic council) complained that his share of the profits was not generous enough. He brought his complaint to the leaders of the operation, who hastily put together an arbitration tribunal of three members. The tribunal heard testimony in an apartment and after some deliberation awarded him 80,000 rubles to guarantee his silence. There are no cases of the mediation process failing. Its success likely contributed to the surprising absence of violence among those involved in this illegal business venture.⁵¹

A second major element of this and other shadow economy operations is the organizers' *flexibility and adaptability*. The entrepreneurs in the Frunze scheme were able to succeed in areas where managers in the "official" command economy could not, because the latter were severely restricted from acting independently. For example, the Frunze organizers could identify market niches and then quickly produce for them. When they heard from salespeople that consumers were developing a taste for certain goods—attractive curtains, stylish sweaters, or scarves made of desirable fabric, for example—they could steer production toward them. They gauged consumer interest and quickly adjusted production to meet demand. When demand for their tulle products waned, they switched to rayon goods, such as rugs, slippers, and blouses, which enjoyed enormous popularity.⁵² They had the advantage of gathering immediate customer feedback from store managers and salespeople who told them which items consumers wanted and in which colors, sizes, and designs.

They cared about quality and controlled for it. One shop chief boasted at trial that their unlawfully produced goods were always cut properly and to the right size. When he was on trial for his life, a chief of the cloth workshop testified with pride that the scarves that he and his colleagues manufactured sold quite well in several republics.⁵³ He told the court that consumers wanted well-made goods and would notice if the merchandise were not up to snuff. As evidence, he bragged that his workshop had sent a shipment of 10,000 scarves to Kiev and buyers only returned 113 to stores as unsatisfactory.

The managers of the scheme had the ability to reward productive employees with substantial cash bonuses. They could hire as needed. They could employ people they trusted, including family and friends. They could cut through layers of irrational bureaucracy quickly and efficiently (albeit unlawfully) with bribes, enabling them to sidestep foolish and counterproductive procedures and rules. And they could more easily obtain scarce materials and replace outdated machinery. Critically, they could neutralize corrupt law enforcement with more corruption—when investigators threatened the organizers with exposure, they simply paid them off.

And third, the Kyrgyz Affair highlights that these schemes could be *transnational across the Soviet space*, in the sense of interactions across union

51. *Ibid.*, I. 118.

52. *Ibid.*, I. 107.

53. Trial of Gol'dman et al., tom 5, I. 6.

republican borders involving people of many ethnicities. The organizers acquired raw materials in multiple republics (including Russia, Kazakhstan, and Kyrgyzstan), they bypassed Moscow and obtained machines in four republics (the RSFSR, Ukraine, Kyrgyzstan, and Kazakhstan), and paid bribes across republican lines. They sold their wares across republican borders, in Kazakhstan, Ukraine, Armenia, and as far away as Leningrad and Novosibirsk in Russia.⁵⁴ In this way, socks produced illegally in the Kyrgyz Republic were a big hit in Novosibirsk, and their scarves made a splash in Poltava. A similar transnational dimension contributed to the success of other major shadow schemes that operated at the same time. Some prominent examples investigated by the KGB in this period included schemes involving wine and rugs produced in Georgia, soap from L'viv, and contraband Azeri scarves.⁵⁵ And, perhaps appropriately, people from six Soviet nationalities were sentenced to the firing squad in the Kirgiz Affair, including high ministerial employees. This and other major operations underline that in the Soviet Union, cross-ethnic cooperation in shadow economy activity was almost always necessary.

It lies well outside the parameters of this article to examine the extent to which prosecutions under the 1961–62 decrees had an ethnic focus, though it was present to a degree. The available party and legal archives do not provide much insight into the question.⁵⁶ Some political leaders and

54. As a police report from 1959 put it, intermediaries traveled to Moscow from all over the country and paid bribes to obtain supply orders for raw materials, including rayon, wool, and other material. GARF, f. 9474, op. 16, d. 744, ll. 23–4. (Supreme Court survey of court practice in cases of bribery.) See also the letter from the USSR Minister of Internal Affairs to Sovmin, in GARF, f. 9415, op. 5, d. 178, ll. 99–103, 107–8.

55. See for example, GARF, f. 7523, op. 109, d. 22, ll. 37.

56. The former defense lawyer and émigré Evgenia Evel'son made the strongest case that Jews were overrepresented in the imposition of the death penalty for economic crimes. She did this by counting names in newspaper coverage of death penalty cases. Evgeniia Evel'son, *Sudebnye protsessy po ekonomicheskim delam v SSSR* (London, 1986). Evel'son could not have accounted for the fact that the names of law enforcement and high party people convicted of economic crimes (very few of whom were Jewish) were nearly always kept out of the newspapers to try to preserve popular trust in the police and party leaders. In the Kyrgyz Affair, for example, only one of seven people sentenced to death in the two closed trials of law enforcement personnel was Jewish. In his study of “the Jewish question” under Khrushchev, Gennadyi V. Kostyrchenko concludes that antisemitism was not the fundamental motive for the anti-corruption campaign and corresponding arrests. Khrushchev launched the 1961–62 campaign against economic crime and party corruption because he believed that corruption would erode popular faith in the party and damage the economy and social cohesion by diverting public resources, which would slow society's inexorable advance toward communism. Kostyrchenko argues that Khrushchev went on the attack to get rid of the final remnants of capitalism and those who practiced any kind of illegal profit-making activity (and other socially dangerous actions like “parasitism”). Kostyrchenko argues that this campaign was not aimed at certain ethnic groups, even if the result was a disproportionate number of Jews being prosecuted. G. V. Kostyrchenko, *Tainaia politika Khrushcheva: vlast', intelligentsiia, evreiskyi vopros* (Moscow, 2012), 434–35. See also Benjamin Pinkus, *The Soviet Government and the Jews, 1948–1967* (Cambridge, Eng., 1984), 201–8; Nora Levin, *The Jews in the Soviet Union since 1917: Paradox of Survival*, vol. 2 (London, 1988), 615–18; Ya'acov Ro'i, “Economic Trials,” in Gershon D. Hundert, ed., *The YIVO Encyclopedia of Jews in Eastern Europe*, vol. 1 (New Haven, 2008), 454; Kushkova, “Navigating the Planned Economy,” 340.

prosecutors undoubtedly had antisemitic attitudes, and Jewish people were over-represented in the application of the death penalty, as well as sometimes scapegoated in press coverage at the time.⁵⁷ It is also the case that prosecutors' efforts to rein in the theft of state property and eradicate the "remnants of capitalism" focused on people who occupied positions that were key in these embedded profit-making schemes—workshop chiefs and foremen, the heads of supply sections and warehouses, bookkeepers, and so on. For various reasons, including patterns of unofficial discrimination in hiring and diverse levels of education, Jewish people were over-represented in these positions and in other relevant areas of Soviet economic life, such as petty commerce and textile production.

Ultimately, however, the Kyrgyz Affair was a multi-ethnic operation (as were most other major operations). Jews, Kyrgyz, Russians, Ukrainians, and others were involved in the scheme in critical roles, as producers or managers in the factories, in retail trade and administration, in law enforcement, or as well-positioned government or party officials who profited by using their power to facilitate supply, distribution, or "protection."

Stephen Kotkin notes in *Magnetic Mountain* that in the 1930s stores and other retail trade outlets were akin to "schools" for employees who wanted to learn how to enrich themselves.⁵⁸ I agree with this observation, but one could take this idea quite a bit further. It was not only the retail trade sector that provided an education for insiders willing to take advantage of opportunities to dabble in the shadow economy. The entire command-administrative economy, from Moscow planning agencies to the factory floor, was a training ground for illicit entrepreneurs. And it was not just a school but a multi-tiered network, a scaffolding of institutions, organizations, and personnel. The Soviet command economy did not simply teach ambitious people like Gol'dman and his associates how to profit illegally from the retail trade network. It provided the road-map and the infrastructure—the supply and distribution networks, the power (through the machines), the labor, the incentives to cheat and to succeed, and the informal mechanisms and intermediaries like *tolkachy* ("pushers") that made things happen in an economy of permanent shortage. Even the planned economy's vast quantities of in-built waste fueled the shadow economy. The state promised its population that their desires for consumer goods was important, a natural aspiration for a modern Soviet citizen, although the command economy could not come close to fulfilling their demand.

I once read an interview with a Soviet defense attorney done in the late 1970s. He shared his opinion that the most successful shadow economy operations that he had come across in his career were "like any innovation, both simple and brilliant." Of course, the Kyrgyz Affair was far from "simple" if one takes into account the intricacy of its execution. Yet there was a certain simplicity in the

57. The closed letter of March 1962 sent by the Central Committee to ranking party leaders all over the USSR instructing them to fight the theft of state property and bribery named dozens of alleged criminals of multiple ethnicities, including Russians, Ukrainians, and others. Oleg Khlevniuk, ed., *Regional'naia politika*, 199–209.

58. Stephen Kotkin, *Magnetic Mountain: Stalinism as Civilization* (Berkeley, 1995), 254.

fundamental vision, which grew organically from circumstances. The scheme that Gold' man his associates put together was "both simple and brilliant" in its vision of producing quality consumer goods in high demand by building transnational, informal systems that were completely intertwined with and, one could say, even mimicked those of the command economy, using them as something akin to a vessel for their operations. The operations incorporated embedded systems of production, supply, distribution, accounting, storage, and even security (meaning the "purchase" of police and procuracy officials). The literature on shadow economies in late socialism has captured neither the vibrancy of many of the schemes that linked production and retail sales, nor the creativity of many of their practitioners. The planned economy helped to develop a type of shadow entrepreneur who came to understand Soviet production and retail systems and their special vulnerabilities, and who, despite considerable peril, was able to operate in an economic universe where profit was a driver and production responded to demand in a kind of market.

The decrees of 1961–62 that instituted the death penalty for economic crimes represented an incongruous twist, recognition of signs of danger amid the generally positive outlook of the Khrushchev era. The Kyrgyz Affair (and other shadow economy cases like it) epitomized several worrisome trends. Even as Yuri A. Gagarin became the first person in space in April 1961 (just weeks before the decrees introducing the death penalty for non-violent economic crime were published) and enormous optimism about Soviet achievements and progress abounded, these ominous trends may have seemed permanent. Troubling to leaders were not just the "functional" aspects of the shadow economy, with its siphoning off of merchandise, labor, and embezzled materials to produce consumer goods "on the left." It was not simply that some actors had acquired outrageous wealth. The shadow economy also had unsettling social and cultural dimensions, including the un-socialist (if not intentionally anti-socialist) shared attitudes and practices undergirding it all, such as the notion that it was morally acceptable for ordinary people to steal and profit from state property and to pay and accept bribes. The sprawling operation reflected a degree of coordination of shared attitudes and practices (not to mention sheer, unbridled greed) that were simply grander versions of phenomena present all over the country. I would argue that the scope, sophistication, and objectives of this operation (and others that were similar, if not as elaborate) help us understand a significant reason why Khrushchev decided to introduce the death penalty for aggravated cases of theft of state property and bribery in 1961–62.

The increasingly interdependent, intermeshed nature of the command and shadow economies is one reason why anti-corruption efforts were unsuccessful, and why Khrushchev resorted to increasingly draconian measures to punish some of the most visible practitioners. Furthermore, the thunderous nature of the prosecution was a sign that the authorities considered that such operations were likely to be repeated in other places. The Frunze scheme very well may have appeared to party leaders as the type of underground criminal enterprise that posed the most danger to the Soviet economy, especially considering the unwillingness of elites to reform it. And, of course, it was just that. Party leaders understood that it would be very

difficult to stop these networks of self-dealing manufacturers and distributors, allied with and protected by law enforcement and elite insiders who had been paid off. This would be the pattern for the kinds of criminal operations that would be the bane of the command economy until the collapse of the USSR (and beyond). A sign of desperation rather than strength, the introduction of capital punishment for crimes that lay at the heart of the shadow economy and the selective fury of the executions seems to have been an unwitting acknowledgement that such activities were getting out of control, and that there was no end in sight.