Shadow Banking and State Terror under Stalin

Abstract: This paper reinterprets the Great Terror (1936–1938) by situating repression within the microeconomics of Soviet industrial finance. Existing scholarship explains the terror primarily as an extension of party purges caused by ideological radicalization, while economic dysfunction is treated either as background or as a rhetorical pretext masking systemic failure. This study advances a different claim: specific monetary and credit-allocation mechanisms generated measurable firm-level distortions that triggered investigative cascades which subsequently escalated into repression. Focusing on the Kirov Plant in Leningrad, the article draws on archival materials from audits conducted by the Commission of Soviet Control and later NKVD investigations. It demonstrates that declining asset turnover, excess working capital, shortages, and the abnormal circulation of settlement instruments were linked to liquidity extraction and arbitrage within a secondary financial sphere operating for private gain. The article challenges two assumptions: that inefficiency was purely systemic and that terror was entirely pre-scripted. Instead, it proposes a sequential mechanism linking monetary hybridization, private arbitrage, investigative audits, and political escalation. Terror thus appears as the radicalization of attempts to discipline a destabilized monetary and informational order within the planned economy.

The Great Terror is most commonly explained as an episode of political consolidation, product of institutional competition, or as the culmination of ideological paranoia. In these interpretations, economic dynamics appear largely as background conditions rather than causal drivers, where the Stalin Terror was an outgrowth of earlier political purges.[1] A related view holds that Stalin deployed the Great Terror to mask mounting inefficiencies and chronic failures to meet unrealistic, top-down production targets with deleterious effects on the economy.[2] By branding bureaucrats, engineers, and workers as “wreckers” or saboteurs, the regime shifted responsibility for the disorder of forced industrialization onto individuals while simultaneously reinforcing political loyalty. However, recent work has highlighted the extent to which the bureaucracy controlled and extracted gain through bribes, clientelism, and

[1] Malia, *The Soviet Tragedy*; Iunge and Binner, *Kak Terror stal “Bol'shim”;* Holquist, *Making War, Forging Revolution*; Hoffmann, *Cultivating the Masses;* Ryan, *Lenin's Terror.*
[2] Katz, "Purges and production: Soviet economic growth, 1928–1940."; Manning “The Soviet economic crisis of 1936-1940 and the Great Purges”; Kotkin, *Stalin: Waiting for Hitler, 1929-1941,* 390.

illicit barter.[3] Yet to argue that specific monetary and credit-allocation mechanisms generated measurable inefficiencies that, in turn, triggered investigative cascades requires a different analytical toolkit, one drawn from economic and financial history rather than primarily political narrative.

Did inefficiencies generated by private gain produce investigations that subsequently metastasized into terror? This paper argues that a "second bank" operating for private benefit and in violation of formal rules did, in fact, exist within the planned system under Stalin. At the level of firm behavior, bureaucratic allocation of money and credit, particularly into a secondary market in money-market instruments, created incentives for private gain and accumulation that misaligned with the planner's preferences for quantity and quality of goods. Declining asset turnover, chronic shortages, and hoarding were not merely abstract features of plan dysfunction but outcomes of monetary mechanisms that allowed actors to extract liquidity and arbitrage administrative pricing structures. In this account, inefficiencies did not simply provide a convenient rhetorical cover for repression. Rather, accounting irregularities and financial imbalances triggered investigations. When these inquiries exposed the extent to which private gain, favoritism, and bribery had compromised both the quantity and quality of output, economic misconduct was reframed as political sabotage. What began as audit and verification metastasized into criminal prosecution under the language of "wrecking."

This hypothesis challenges two dominant assumptions of the terror at once: first, that inefficiency in the Soviet system was purely systemic and impersonal; and second, that terror was entirely politically pre-scripted and detached from economic processes. Instead, it proposes a sequential mechanism. Bureaucratic monetary allocation created arbitrage

[3] Ledeneva, *Russia's economy of favours*; Osokina, *Our daily bread;* Heinzen, *The Art of the Bribe*; Khlevniuk, and Halavach. "Power and Ownership under a Dictatorship: Early Forms of Nomenklatura Privatization in Stalin's USSR."; Cadiot, Lambroschini, and O'Donnell. "Economic histories of the Soviet Union."

opportunities; actors exploited those opportunities for private gain; exploitation degraded plan fulfillment; investigations emerged from economic audits; and political logic subsequently escalated these cases into charges of sabotage. Terror, in this view, was not simply imposed from above nor merely a mask for failure, but the radicalization of attempts to discipline a monetary and informational order that had begun to operate beyond administrative control.

This article focuses on the Kirov Plant in Leningrad during the mid to late 1930s, examining the plant's auditing by the Commission of Soviet Control and the subsequent involvement of the NKVD. The first section provides a historiographical overview, focusing reassessing the viability of the revisionist distinction between purges and terror as well as the role of accounting control as a hidden trigger in the escalation of terror. The second analyzes archival materials on the loss of accounting control and the rising power of auditors, who were implemented to document declining turnover ratios and the abnormal circulation of settlement instruments beyond prescribed norms. The third section demonstrates that key investigations originated in accounting irregularities, thereby distinguishing the dynamics of terror from earlier party purges rooted primarily in ideological verification. The fourth section follows the escalation process to show how auditors discovered a misalignment of incentives for managerial gain and planner preferences for outcomes, where evidence of private gain uncovered through audits gave rise to disciplinary proceedings to enterprises charged with armament production, subsequently reframed in political terms and transferred to NKVD jurisdiction. The fifth section examines how shadow procurement financing misaligned incentives for private gain and actual quality of military goods, showing how both sellers and military buyers arbitraged administrative pricing and settlement mechanisms to extract liquidity. These practices reveal how monetary hybridization created opportunities for private benefit that undermined plan fulfillment. The final section concludes.

Literature Overview

Historians often portray political purges and the Great Terror as continuous processes because they seemingly share similar ideological triggers, allowing historians to treat the latter as the radical culmination of the former. Earlier scholarship emphasized Stalin's deliberate, centralized plan to consolidate power through the elimination of rivals, but more recent work has shown that he did not personally select most victims and that figures such as Georgy Malenkov and Nikolai Yezhov played crucial roles in shaping the dynamics of repression.[4] Even so, many scholars continue to argue that the terror grew directly out of earlier, non-violent party purges (chistki), which initially aimed to remove unreliable or "unworthy" members. Over time, this view holds, the definition of the enemy expanded and radicalized.[5] By 1937, the regime had become ideologically primed to interpret any failure as evidence of hidden internal enemies, thereby justifying a preemptive campaign to purify the state in anticipation of war.

These interpretations, however, often project earlier intentions onto later processes. They overlook the extent to which the terror emerged from concrete administrative and economic breakdowns. The regime did not simply search for enemies; it also searched for missing steel and unexplained discrepancies in enterprise accounts. Even before 1937, audits that uncovered irregularities in accounting and resource allocation prompted the secret police to initiate investigations into party officials and technical specialists.[6] In this sense, the

[4] Traditional accounts that emphasize Stalin as mastermind are Medvedev, *Let History Judge;* Tucker, *Stalin in power;* Conquest, *The Great Terror: A Reassessment* ; On Malenkov, see Oleg Khlevnyuk, "The Objectives of the Great Terror, 1937–1938." In David Hoffman eds. *Stalinism: The Essential Readings* (Blackwell, 2003) 88. On Yezhov's role, see Marc Jansen, and Nikita Vasilevich Petrov. *Stalin's loyal executioner: people's commissar Nikolai Ezhov, 1895-1940*. (Hoover Institution Press, 2002) 44-51; Wladeslaw Hedeler "Ezhov's Scenario for the Great Terror and the Falsified Record of the Third Moscow Show Trial" in McLoughlin, B., McDermott, K. (eds) *Stalin's Terror.* (Palgrave Macmillan, 2003) 34-55.

[5] Malia, *The Soviet Tragedy*; Iunge and Binner, *Kak Terror stal "Bol'shim";* Holquist, *Making War, Forging Revolution*; Hoffmann, *Cultivating the Masses;* Ryan, *Lenin's Terror.*

[6] Argenbright, "Marking NEP's Slippery Path: The Krasnoshchekov Show Trial." Banerji, *Merchants and markets in revolutionary Russia, 1917–30.* 70; Brower, "The Smolensk scandal and the end of NEP."; Ledeneva, *Russia's economy of favours*; Osokina, *Our daily bread;* Heinzen, *The Art of the Bribe*; Khlevniuk, and

escalation to terror cannot be understood solely as a proactive political campaign; it also developed as a reactive process rooted in the investigation of material and financial disorder.

This tendency in the historiography to infer later outcomes from earlier ideological statements reflects a lack of clarity about both the triggers of terror and the mechanisms of escalation. Post-revisionist scholarship often emphasizes a "mentality of the purge"—a top-down shift toward suspicion and paranoia—rather than a "logic of the audit," in which routine bureaucratic procedures identified irregularities that could subsequently trigger intervention by the NKVD.[7] In practice, audits did not merely uncover deviations; they translated accounting discrepancies into administratively actionable problems that could be escalated into political cases. This imbalance in interpretation stems in part from the structure of the archival record. While high-level political archives became accessible in the 1990s, detailed industrial and administrative records, such as those of enterprises like the Kirov Plant, require painstaking, bottom-up reconstruction to connect ledger discrepancies and financial correspondence to subsequent investigations and arrest waves. As a result, scholars have often treated repression under Article 58 of the Soviet criminal code in undifferentiated terms, overlooking the internal distinctions that linked administrative failure to political prosecution even when these distinctions mattered. "Wrecking" (Article 58-7) defined the "undermining" of industry, transport, monetary circulation, credit system or trade for counter-revolutionary purposes and effectively criminalized forms of economic failure revealed through audits. "Political agitation" (Article 58-10) targeted speech acts—propaganda or agitation deemed to weaken Soviet power. "Terrorist acts" (Article 58-8) addressed alleged plots of violence against state leaders, including cases associated with the Ryutin Affair or the Kirov assassination. By collapsing these categories, the historiography has tended to conflate

Halavach. "Power and Ownership under a Dictatorship: Early Forms of Nomenklatura Privatization in Stalin's USSR."; Cadiot, Lambroschini, and O'Donnell. "Economic histories of the Soviet Union."

[7] Lauchlan, "Chekist *mentalite* and the origins of the Great Terror"; Vatlin, *Agents of Terror;* Halfin, *Intimate enemies: Demonizing the Bolshevik opposition, 1918-1928;* Viola, *Stalinist Perpetrators on Trial,* 173.

Show Trials, party purges, and mass terror while obscuring how routine administrative investigations could be reframed as political crimes, thereby providing a pathway from accounting irregularities to repression.

Feature	Industrial "Wrecking"	Purely Political Charges
Initial Trigger	Audits, missed production targets, or equipment breakdowns.	Denunciations, past party affiliations (e.g., "Trotskyite") or social background.
Primary Targets	Engineers, factory managers, and "technocrats"	Former party elites, intellectuals, and "suspect" ethnic minorities.
Charge Context	Sabotaging the Stakhanovite movement; or hiding industrial reserves.	Espionage, plotting coups, or spreading anti-Soviet literature.
Proof of Guilt	Discrepancies in accounting ledgers or inventory.	Confessions (often coerced) or association; with known enemies.

Audits have remained a hidden trigger for the terror because they were themselves not caused by political denunciations, but the failure of accounting control. While purges were about who you were (your political past), it's possible to see that the terror was often about what you did (failing to adhere to accounting rules). Financial irregularities were retroactively reframed as intentional sabotage, turning an administrative error into a capital crime; for example, in Ukraine, from mid to late 1937, the agents of the Soviet state security continuously raided the site of the manganese mining trust "Marganets" in the Nikopolskyy region of Ukraine. 21 members of a Right-Trotskyite organization were arrested, 11 of whom were already sentenced by the Military Collegium of the Supreme Court of the USSR by late 1937. Prior to the raid, three of the 11 leaders were in the People's Commissariat of Heavy Industry and the Main Directorate of the Metallurgical Industry (GUMPa): Kanner, former deputy chief of the Main Directorate; Kondratiev, the deputy chief of the railway sector; Seskutov, chief engineer of the Metallurgical Industry. They were charged as a Right-

Trotskyite group heading a counter-revolutionary organization.[8] These allowed the NKVD access to the ledgers and ministerial accounting records of the enterprise. Additionally, the nature of the target was quite distinct between purges and terror, as traditional purges targeted known political rivals (Trotskyites, Bukharinites) while the audit-driven Terror swept up technocrats and accountants who had no political history but whose ledgers didn't balance. The other 8 deputies of the shock construction and assorted engineers were arrested in September.[9] A further 236 people were repressed at the Nikopolsky Basin, belonging to "*agentura* of the Polish, German and Kulak-Nationalist undergrounds."[10] 42 of those arrested were handed over to the Military Collegium. Ezhov's deputy Alekansder Uspensky stewarded the arrest of more people in the Commissariat of Heavy Industry, many of whom were administrators, factory directors, and foremen charged with machine and factory construction.[11]

This view of the terror, as a response to a perceived systemic collapse shown in the ledgers, complements the revisionist theories of the terror that emerged in the 1970s and 80s (e.g., Sheila Fitzpatrick or Arch Getty). This school argued that purges and terror were overlapping processes, and that the violence was often chaotic and decentralized as a result of bottom-up forces. While these scholars looked at social pressures and "cleansing" from below, they often identified only one mechanism for escalation among an assortment of charges—denunciations. The focus on denunciations ended up being a limitation for their model, as the NKVD rarely responded to them. What was necessary was to provide an alternative concrete mechanism for bottom-up theory of violence that did not rely on random social chaos; it was the formal accounting system that automated the selection of victims,

[8] HDA SBU F.16, op.1, Spr. 0230-0284.
[9] HDA SBU F.16, op.1, Spr. 0230-0285.
[10] HDA SBU F.16, op.1, Spr. 0230-0291.
[11] HDA SBU F.16, op.1, Spr. 0230-0304.

showing “normal” state functions (auditing) became the engine for “abnormal” state violence.[12]

Where this work differs from previous revisionist attempts at a bottom-up approach is that the feedback loop it articulates concerns economic chaos and the consolidation of accounting control over the Soviet economy. Since the archival opening of the 1990s, the Great Terror has often been exclusively interpreted as a mechanism of top-down political consolidation; as Stalin’s personal misperception of threats, a response to elite fragmentation, a product of institutional incentives within the NKVD and party apparatus, or an ideological campaign rooted in Bolshevik political culture. This has motivated major historians to critique the revisionist approach as empirically weak, that repression did not escalate through quota systems and center–periphery feedback loops, and that within this frame, “wrecking” was largely imagined or exaggerated.[13] If we assume the charges were fictitious or politically constructed, then asking whether actors actually generated inefficiencies appears beside the point. According to post-revisionist scholarship, the essence of the terror was that authorities were selecting the victims ahead of time and justifying repressions through the lens of ideology, trusting the ideologically expansive definition of enemies even when it led to blind and random repressions.

While this critique of revisionist scholarship was valid in showing that denunciations did not often trigger escalations of violence within industry, it assumed that Stalin and his subordinates were *not also* reacting to a failure of accounting control over bookkeeping

[12] J. Arch Getty, "State and Society under Stalin: Constitutions and Elections in the 1930s." *Slavic Review* 50, 1 (1991): 18-35; Sheila Fitzpatrick, "Signals from below: Soviet letters of denunciation of the 1930s." *The Journal of Modern History* 68, 4 (1996): 831-866; Sarah Davies, *Popular opinion in Stalin's Russia: terror, propaganda and dissent, 1934-1941.* (Cambridge University Press, 1997); Wendy Goldman, "Stalinist terror and democracy: The 1937 union campaign." *The American Historical Review* 110, 5 (2005): 1427-1453;

[13] Oleg Khlevniuk, "Top Down vs. Bottom-up: Regarding the Potential of Contemporary “Revisionism”." *Cahiers du monde russe* 56, 4 (2015): 837-857; Oleg Khlevniuk, and Simon Belokowsky. "Archives of the Terror: Developments in the Historiography of Stalin's Purges." *Kritika: Explorations in Russian and Eurasian History* 22, 2 (2021): 367-385.

practices from the bottom-up, practices which allowed bureaucrats and managers to access and misallocate credit (and accounting data) on their own while ignoring the planner's preferred allocations. Much of the literature on Soviet industrialization treats inefficiency as systemic rather than agentic; soft budget constraints, unrealistic plan targets, information distortion and principal–agent problems were all automatically given due to the structural flaws baked into the very ideas of socialist planning. Under that logic, inefficiencies were endogenous to the planning system itself.[14] If the system structurally produced chaos, then individual sabotage seemed analytically redundant. But the laws of the planned economy did not negate the existence of entire spheres of informal economic activity that counterweighed those laws. In fact, almost since becoming General Secretary of the Communist Party, Stalin received confidential surveillance information attesting to informal horizontal relations among enterprises.[15] Furthermore, an entire "second economy" in the USSR, most closely associated with Gregory Grossman, defined the illegal or semi-legal private activity coexisting with the planned system.[16]

Recent archival research has shown the second economy was not merely a marginal black market in consumer goods, but an underground credit/financial market embedded inside enterprise accounting relations organized through a "second bank." In that sense, the Soviet banking system shaped financial bookkeeping practices that led to the emergence of a shadow banking sector. This sector consisted of a parallel layer of credit and settlement, in which enterprises generated and circulated financial claims through accounting categories—such as receivables, invoices, and work-in-progress—rather than completed production. Because these claims were recognized and financed within the banking system, they enabled

[14] Janos Kornai, *The Economics of Shortage* (North-Holland Publishing Company, 1980); Eugene Zaleski, *Stalinist Planning for Economic Growth 1933–1952.* (University of North Carolina Press, 1980);
[15] See Bazhanov, *Bazhanov and the Damnation of Stalin,* 23; Davies and Harris, *Stalin's world: dictating the Soviet order.*
[16] Gregory Grossman, "The Second Economy of the USSR" *Problems of Communism*, 26(5) (1963) 525–540

access to and accumulation of resources independently of realized output. In this sense, the system facilitated the accumulation of a distinct form of Soviet wealth, rooted not in private ownership but in institutional access to credit, a form of accumulation that remains largely understudied in the literature.[17]

As a result of ignoring the loss of accounting control by the center over the enterprises as a trigger for the terror, post-revisionist scholarship has underestimated the role of "bottom-up" signals of hidden wealth accumulation among bureaucracy produced by auditors, influencing the selection of victims and the timing of repressions in industry. Commissions of Soviet Control were subordinated to the Central Executive Committee and the Council of People's Commissars; both were officially accountable to the All-Union Congress of Soviets. Commissions were officially established February 11, 1934, replacing the Workers-Peasant's Inspection.[18] Afterwards, Commissars of Soviet Control slowly accumulated significant evidence on mismanagement in economic institutions, gradually attaining legal power to audit enterprises. Resolution 988 of the Council of People's Commissars of the USSR dated April 6, 1936, clarified the role of the Commissions of Soviet Control as first and foremost predicated on processing workers' complaints. The resolution stated that many complaints and statements from workers received by the Commission of Soviet Control and other Soviet bodies "reveal numerous facts of an inattentive, and often callous, bureaucratic attitude towards these statements." The resolution goes on to say that an examination of the work on the analysis of complaints in the people's commissariats, Soviet, trade union and other organizations, such as in the People's Commissariat of Finance of the USSR, the People's Commissariat of Agriculture of the USSR, the Stalingrad Regional Executive Committee, the

[17] Alex Royt, "Shadow Banking in the Soviet Industrial Revolution: An Accounting Perspective" *Capitalism: A Journal of History and Economics* (Forthcoming)
[18] "58. Ob obrazovanii Komissii sovetskogo kontrolia pri Sovete narodnykh komissarov Soiuza SSR" in Sobranie zakonov i rasporiazheniĭ Raboche-Krest'ianskogo Pravitel'stva SSSR za 1934 g (Moscow, 1948) https://istmat.org/node/39815

Western Regional Executive Committee, the Central Council of Trade Unions of Belarus, "shows that often the heads of institutions themselves do not deal with complaints; complaints, even those that deserve great attention, are mechanically sent to local organizations without control over their analysis; sometimes complaints are referred to the resolution of those institutions and persons to whom the complaint is filed. There is completely careless storage and sometimes loss of the complaint; there is no verification of the implementation of decisions made on complaints, as well as verification of the organization of the analysis of complaints in subordinate organizations."[19]

Auditing and the Loss of Accounting Control

The growing power of Soviet auditors emerged as a direct response to the erosion of accounting control at the center. During the 1920s and early 1930s, enterprise managers, military procurers, and regional party secretaries increasingly subordinated bookkeepers and financial controllers to production and procurement priorities. They pressured accounting staff to validate inflated invoices and reconcile balances that did not correspond to physical inventories. In many cases, bookkeepers lost the autonomy to enforce formal accounting rules and instead became instruments of managerial discretion, a shift that weakened the integrity of the reporting system. In response, oversight institutions sought to restore control by expanding the authority of auditors. Bodies such as the Commission of Soviet Control and financial organs within Gosbank sought to strengthen inspection regimes. The rise of auditing thus reflected not merely a bureaucratic expansion, but an attempt to reimpose centralized discipline over a system in which accounting had become increasingly subordinated to local power and informal practices.

[19] "Postanovlenie snk sssr ot 04.06.1936 n 988 postanovlenie komissiisovetskogo kontrolia͡ pri snk soi͡uza ssr o rassmotrenii zhalob trudi͡ashchikhsi͡a" in *Sobranie zakonov i raspori͡azheniĭ Raboche-Krest'i͡anskogo pravitel'stva RSFSR za 1936 g. № 1-31. Otdel pervyĭ.* (Gos. izd-vo Sov. zakonodatel′stvo,1936) 472-475.

While Soviet auditors were tasked with identifying discrepancies in ledgers and verifying the truthfulness of enterprise financial statements, which official would be the auditor was unclear from the beginning. Originally, the Workers and Peasants Inspection (WKI) was charged with undertaking audits, merging with the Central Control Commission to conduct an "complete or partial revisional-inspectional investigations of all central, regional, and local, state, and communal organs and establishments."[20] However, these organs held relatively little power to audit firms and ministries unless offenses could be proven, and ministries often had jurisdiction to "self-audit" their own enterprises. The loss of accounting control intensified during the rapid industrialization and militarization that followed the 14th Party Congress in December 1925. In an attempt to resolve chronic supply failures, the Red Army High Command reorganized the institutional hierarchy of economic planning. It effectively dominated the Council of Labor and Defense, which in turn directed Gosplan's military expenditure figures and was the cabinet body that oversaw disputes emerging in the Supreme Economic Council. At the same time, Valerian Kuibyshev took the initiative to head a newly strengthened Defense Committee, designed to bridge the gap between armaments production and military demand. Established in June 1926 under the Council of Labor and Defense, the Defense Committee functioned as a transitional body to coordinate rearmament. It supervised a complex network of directorates and subcommittees staffed by military commissars, who exercised direct oversight over procurement and contracting.[21]

Almost immediately, this expanding military-administrative apparatus began to diverge from established planning and accounting norms. A February 1927 report by Grigory Avanesov, former head of the Military-Industrial Administration, highlighted the resulting

[20] Batsell, *Soviet Rule in Russia,* 611.
[21] "Postanovleniya SNK SSSR, STO SSSR i Rasporyaditel'nogo zasedaniya — Komissii oborony STO SSSR. 1927-1932 gg" in *Istoriia sozdaniia i razvitiia oboronno-promyshlennogo kompleksa Rossii i SSSR, 1900-1963: dokumenty i materialy* v.3, 1 (1927-1932) (Novyĭ khronograf, 2008) http://docs.historyrussia.org/ru/nodes/280595#mode/inspect/page/1/zoom/4

difficulties. Writing to Kuibyshev, Avanesov emphasized the obstacles to auditing the defense sector and singled out key institutions for reform. He recommended the immediate replacement of the Military Procurement Committee—an interdepartmental body responsible for setting prices and allocating orders—and the Military Industrial Administration (Voenprom), a trust that centralized procurement across military factories, on the grounds that their operations had become effectively unverifiable. Avanesov recalled that Secret Police chief Felix Dzerzhinsky had already regarded this situation as "completely abnormal" and had instructed him to begin work within Voenprom to unify the activities of its various regulatory bodies. Acting under this directive, Avanesov reported that Voenprom developed a plan for internal consolidation and self-regulation, which it submitted for approval. This plan extended well beyond technical coordination. It encompassed not only the formulation of mobilization strategies but also the authority to "receive, distribute, control, and fix prices for current military orders," as well as to resolve "all issues related to the defense of the country through industry."[22] In effect, the same institutions responsible for procurement and pricing also assumed responsibility for regulating their own activities, further weakening external accounting oversight and contributing to the growing opacity of financial and production processes within the defense sector.

The loss of accounting control over funds stemmed in part from the growing tendency of enterprises, especially in armaments production, to conduct their own internal audits or to submit instead to oversight by local party organs and military bureaucracies rather than centralized financial authorities. This fragmentation of control undermined the coherence of the accounting system and blurred the boundary between financial verification and

[22] "Doklad byvshego nachal'nika Voyenno-promyshlennogo upravleniya V.A. Avanesova predsedatelyu VSNKH SSSR V.V. KuibyshevKuibyshevu ob itogakh raboty upravleniya. za dekabr' 1925 g.-iyun' 1926 g. i o yego dal'neyshikh zadachakh. 3 fevralya 1927 g" in *Istoriia sozdaniia i razvitiia oboronno-promyshlennogo kompleksa Rossii i SSSR, 1900-1963: dokumenty i materialy* v.3, 1 (1927-1932) (Novyĭ khronograf, 2008) 73 http://docs.historyrussia.org/ru/nodes/280401

administrative discretion. Avanesov noted that importance of Dzerzhinskii's wish lay in the "successful restoration of the fixed capital of the military industry and the plan for the development of military production in the next 5 years."[23] Up until 1928, there was no single central administrative body at that time that had an idea of how the entire war industry should develop and how all enterprises should be refitted with modern technology. Avanesov mentions that as a result of chaos and ineptitude, "special state subsidies have been and are being spent at present in a completely random order." Avanesov found that Voenprom used subsidies for the construction of schools, hospitals, residential premises, and even re-equipped such factories that "for defense purposes under modern conditions are redundant. [24] Even after the Council of Labor and Defense and the People's Commissariat of Heavy Industry took responsibility for internally auditing enterprises for misallocation, managers and procurers continued to exercise power over the redistribution of money. Soviet authorities had to introduce organizations such as the Financial and Technical Arbitration Commission (FTK) under the Worker's and Peasant's Inspection in 1932 to try to address price-gouging and illicit contract negotiation practices, originally because the representatives of the buyer, the military inspection cadres, often fell under suspicion for bribery by the secret police. Decrees assigned personal responsibility for quality on the plant director, shop managers, and foreman; from 1934 onward, directors had to analyze the statements of the military representatives and claims against the factory for fulfillment of orders and eliminate any deficiencies in technical conditions.[25]

Due to repeated failures by the center authorities to assert accounting control over economic organizations, a rift emerged between functional and territorial administrative bodies that was spilling over into a fracture at the top of the party leadership. Through back-

[23] Ibid.
[24] Ibid.
[25] Irina Bystrova, *Sovetskii Voenno-Promyshlennyi Kompleks: Problemy Stanovleniia i Razvitiia.* 1930-1980 (RAN, 2006) 134-136.

channels with Gosbank branches and their informant networks, the NKVD-OGPU cultivated an informal surveillance apparatus that allowed them to track financial flows and bureaucratic reliability outside the formal structures of oversight. Such practices contributed to the emergence of a latent division within the Central Committee between "moderates", who favored administrative solutions to problems in armament production and even reconciliation with former specialists (now labeled oppositionists), and hard-liners who treated the regional banking apparatuses as a potential site of disloyalty requiring direct political intervention.[26] The NKVD-OGPU was able to produce evidence that de-legitimized the functional administrations in charge of the industrialization process and threatened the party bosses who were close to them. In other words, the duplication of oversight reflected a deeper split within the Soviet bureaucracy over whether the economy demanded more technical expertise or intensified coercion.

Since auditing enterprises would have triggered denunciations of regional party secretaries as having abetted wealth accumulation among managers, regional secretaries had incentive to block audits. This was especially the case on the back of "Five Year Plan in Four Years" propaganda campaign, which generated surveillance reports of worker discontent provoked by the doubling down on the unrealistic production goals set by Gosplan in the previous years. Lack of housing and low wages saw the spread of conspiracies and death-threats which OGPU agents could not ignore, such as when a worker in Kherson proclaimed at a workers meeting that the "communists are using methods of American systems of

[26] This is not to suggest that the moderates were proposing an alternative platform or had plans to remove Stalin from his position as General Secretary (as suggested by the Ryutin Platform of 1932). However, the evidence presented here broadly corroborates accounts of the period that emphasized fracture rather than unanimity in the Central Committee. For the emergence of the moderate group, see Boris Nikolaevsky, "Letter of an Old Bolshevik" in Janet D. Zagoria, ed. *Power and the Soviet Elite*. (Prager, 1965); The hard-liners were not only Kaganovich, Molotov and Ezhov, but those deputies organized around the former OGPU boss Efim Evdokimov. Evdokimov was patron to Ezhov, rival to Yagoda, and architect of both the Shakhty trials and the mass killings of 1937. See Abdurakhman Avtorkhanov, *Tekhnologiia Vlasti* (Frankfurt-Main Posev, 1983) 70; Stephen Wheatcroft, "Agency and terror: Evdokimov and mass killing in Stalin's great terror." *Australian Journal of Politics & History* 53, 1 (2007): 20-43.

fascism. The communists do not have the courage to speak frankly about the reasons for the poor supply and place all the blame on the switchman. Kosior and Stalin are to blame. The whole policy of the Central Committee of the Party is to blame. You want to build socialism on our bones."[27] The workers knew the risk, that they might be arrested by OGPU, but decided to create a strike. Greater amounts of workers walked off the factory floor. In a factory in Ivanovo, workers called to "hang all the communists. All around there is deceit, they rip us off with loans, starving us to death."[28] Workers mocked, through verbal or non-verbal gestures, the cruel simulation of scarcity and abundance that was their three-shift workday.

Since regional secretaries had incentive to block audits of enterprises in fear of political spillover, their support concentrated on Sergei Kirov, the Leningrad Party Boss who was the only party secretary (next to Stalin) that was a full member of the Politburo. Regional secretaries fomented alliances with enterprises in order to enact increasing investments from Gosplan, since elites in various macro-regions (and smaller territorial units like military districts) needed to cooperate in order to mobilize resources and pull their weight.[29] Within Leningrad, wealth accumulation concentrated among the military, heavy industry, and the Party. Various segments of Soviet government tended to push and prioritize financing long-term economic projects, under the guise of which the regional party secretaries could place pressure on Gosbank branches to subsidize enterprise accounts and military procurers, whose expenditures often surged above the sums written in the national five-year plan.[30]

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[27] *Sovershenno sekretno. Lubianka Stalinu o polozhenii v strane.* Vol. 8, 1930. (Moscow: Institut Rossiskoi Istorii RAN, 2014), 252.
[28] Ibid, 503.
[29] Vsevolod Holubnychy, "Teleology of the Macroregions in the Soviet Union's Long Range Plans, 1920-1990" in *Soviet regional economics: selected works of Vsevolod Holubnychy.* (Canadian Institute of Ukrainian Studies Press, 1982) 274
[30] Matthew Lenoe notes that Sergei Kirov serves as a good example of a secretary that sought to fast-track regional plans for investment, that "during the First and Second Five Year Plans competition for central investment and resources between different industrial regions of the Soviet Union was savage. The Leningraders, whose region manufactured approximately 15 percent of the Soviet Union's industrial product by value, constantly lobbied VSNKh and other organs for investment. In 1927, for instance, Kirov requested the

Under the guise of accelerating the fulfillment of long-term economic plans, party committees and enterprises were often colluding to extract bigger funds out of local bank branches, essentially extorting banks by threatening bank workers with expulsion from party ranks. Stalin's deputy in the State Bank, Grigory Pyatakov, wrote in a letter to Stalin in April 1928 that "the Board of the State Bank has encountered a number of actions by local governing Soviet and Party organizations that hinder the overall work of the State Bank in conducting a correct credit policy and regulating money circulation."[31] Pyatakov said that party officials were coercing bank workers, by allowing resolutions to be passed through local party conferences, "obliging, by way of a party directive, under threat of expulsion from the party, the responsible managers of our institutions, who in their practical economic work are subject exclusively to the directives of the Board of the State Bank, to issue from the cash desk of the State Bank for one purpose or another certain sums of money in the presence of a prohibition from the center."[32] Pyatakov advocated that only the will of Stalin could normalize these relations between bank branches and party officials.

We can infer that the long-standing dispute in the Soviet state over implementing greater accounting controls in the armament production process was a vital pretext for the Kirov assassination. Leningrad Party Secretary Sergei Kirov was indeed a moderating force on the Politburo, who tended to challenge the efficacy of hardline reactions to persistent "bottom-up" signals of wealth accumulation among bureaucratic elites. In a speech at the 17th Party Congress, he noted that socialist commerce was a sphere of activity "where a kind of

Council of Labor and Defense to fund tractor production at Red Putilov. In 1928 he lobbied VSNKh for money to investigate methods of mass-producing synthetic rubber. In 1930 he initiated another petition to VSNKh, ostensibly from workers at the Metallist factory, asking for a contract to construct hydro-turbines for the gigantic Dnepr hydroelectric dam project. Yet these efforts never seemed to yield enough—Kirov and his subordinates regularly complained that their city was not getting a fair share of the center's investment funds." See Matthew Lenoe, *The Kirov murder and Soviet history.* (Yale University Press, 2010) 115.

[31] "Pis′mo «O deistviiakh mestnykh rukovodiashchikh sovetskikh i partiĭnykh organizatsiĭ, meshaiushchikh rabote Gosbanka», 8 aprelia 1928" *Po stranitsam arkhivnykh fondov Tsentral'nogo banka Rossiiskoi Federatsii* 15 (TSentral′nyi bank Rossiiskoi Federatsii, 2014) 20

[32] Ibid, 20

alliance is often observed between our business executives and party officials. 'If they offer 100, let's take 50. This is a more reliable way, and then we say: overfulfilled.' And if so, then the proper mobilization of all internal resources does not function properly."[33] This speech was not evidence of Kirov's agreement with informal practices, but the fact that Kirov did not advocate for harsher punishment against them also suggests that Kirov's position as Leningrad party boss put him in tension with security apparatuses enforcing harsher oversight. A month prior to the 17th Party Congress, the OGPU Deputy and Prosecutor General Ivan Akulov wrote to the Central Committee on proposals regarding the criminalization of enterprises for economic mismanagement. His proposal was to the Presidium of the Central Committee of the Union Republics, urging to supplement the criminal code with a new article, that "release of inferior or incomplete goods at industrial or commercial enterprises, by managing trusts, directors of enterprises or administrative personal, carry a deprivation of freedom for a minimum of five years."[34] Akulov distributed a note to regional prosecutors on December 4, 1933, which acknowledged that prosecutor offices in the center and provincial districts receive "a huge number of complaints and statements from economic organization regarding the failure of other organizations to fulfill contractual obligations for the supply of raw materials, to settle payments, and so on.[35] All of these statements "are accompanied by requestions to 'influence suppliers, ensure uninterrupted supply, oblige payment, etc."[36] As a result, the regional prosecutors accepted these requests rather than moving them to various bodies designated for the task, including the state arbitration courts, regulatory bodies, and the Worker and Peasant's Inspection.[37]

[33] "Rech' tovarishcha Kirova" in *XVII s"ezd Vsesoiuznoi Kommunisticheskoi partii (b), 26 ianvaria-10 fevralia 1934, stenograficheskiĭ otchet.*(Partizdat, 1934) 257.
[34] GARF R-8131, Op.11, D.118, 3.
[35] GARF R-8131, Op.11, D.119, 1
[36] Ibid.
[37] Ibid, 2.

Regional party secretaries that were heavily involved in armament production felt increasing pressure to account for enterprises that had seemingly reneged on their contractual commitments. In a closed session of the Presidium of the Central Executive Committee on December 9, 1933, Leningrad boss Sergei Kirov provided a testimony which served as a reply to Akulov's advocation of harsher punishment. Kirov felt personally offended, as he was the party boss in Leningrad where the factories for tank and artillery production held a key importance in militarization: he addressed the Presidium on "the main issue of our Leningrad industry—1 or 2 questions on this industry which are relevant, in my opinion, to the work of the entire industry of the Union. The first is the quality of our work in our factories; this is a sore spot. It's all very good that the quantity is growing, but the quality leaves much to be desired."[38] Kirov echoed worries that the some in the state were planning to indict much of the industrial commissariats, that "after all, we have reached a point—I run a little ahead of myself here—that recently the Soviet government needed to issue a decree, a law, according to which we, the party, the executives, the workers, whoever, will be held criminally liable for the poor quality of goods. Such a decree, to put it mildly, is humiliating."[39]

[38] GARF R-8131, Op.11, D.118, 10.
[39] GARF R-8131, Op.11, D.118, 10.

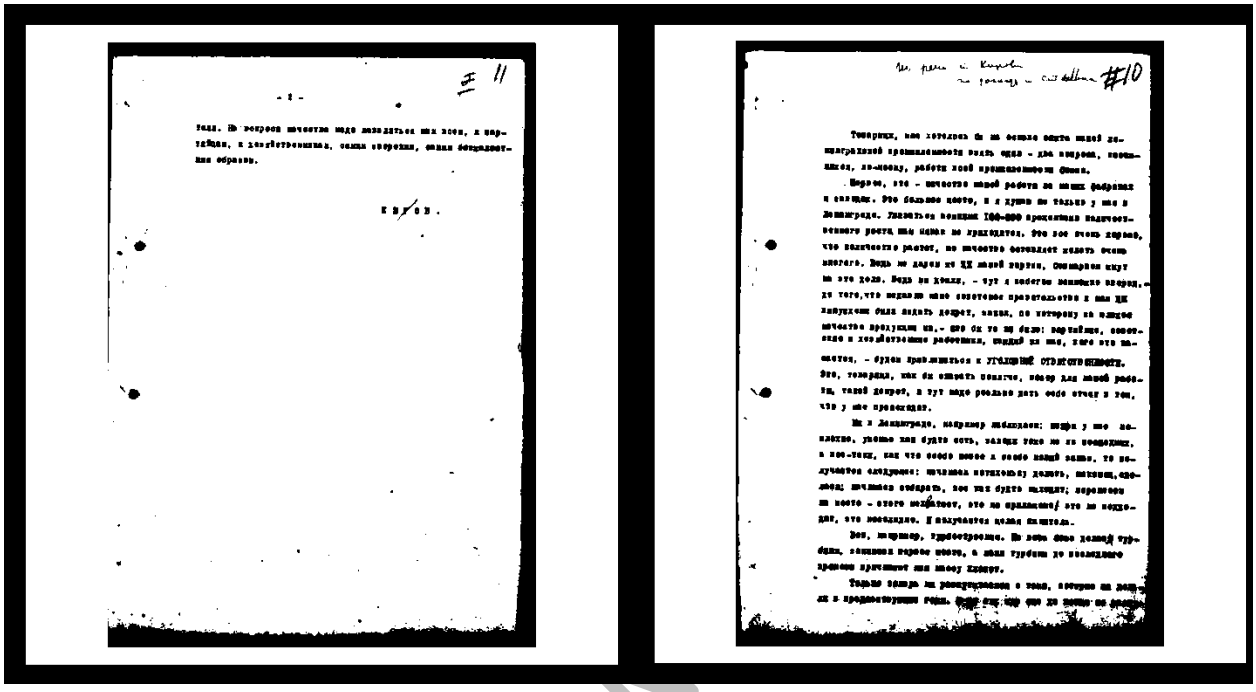

Figure 2:Sergei Kirov's Statement at the Closed session of the Presidium of the Central Executive Committee. December 9, 1933.

We can suppose that for his delays in voicing support for these investigations (including his refusal to leave Leningrad), and his past disputes with certain actors within the security apparatuses who were pushing for investigations that Kirov's life was threatened.[40] It is not at all necessary for us to decide between the two standard versions of the Kirov assassination, that either Stalin ordered a hit on Kirov, or a gunman acted alone out of jealousy and spite—a third option exists, wherein certain groups within the territorial administrative bodies had enough motive and resources to organize the assassination without Stalin's direct involvement or knowledge.[41] Stalin had no personal motive to assassinate

[40] Matthew Lenoe notes an episode where Kirov's OGPU Deputy Medved clashed with Evdokimov in 1931, and how this clash extended to include OGPU chief Yagoda's people in Ukraine, Balitsky and Leplevsky. When Stalin tried to transfer Medved to Belarus and place Evdokimov in Leningrad, Kirov intervened. As head of the personnel department of the Communist Party, Ezhov helped Evdokimov move from the OGPU to the North Caucuses Party Apparatus following the clash with Medved. He became a party secretary. See Matthew Lenoe, *The Kirov Murder and Soviet History,* 120-123; Wheatcroft, "Agency and Terror", 28-30.

[41] Arguments for Stalin's personal involvement often focus on circumstantial evidence. See Medvedev, *Let History Judge;* Conquest, *Stalin and the Kirov Murder*; Tucker, *Stalin in Power: The Revolution from Above 1928-1941* 271-303; Knight, *Who killed Kirov? the Kremlin's greatest mystery*; Arguments that argue in favor of the lone gunman theory often focus on the equally dubious forced confessions of the gunman Nikolaev to prove their argument. See Getty "Appendix: The Kirov Assassination" in *Origins of the Great Purges* 207-210; Lenoe, *The Kirov Murder and Soviet History;* Kotkin, *Stalin: Waiting for Hitler, 1929-1941.* 191-194, 202-203.

Kirov even if he later capitalized on his death politically, but there were enough links between the gunman Nikolaev and the NKVD-OGPU to suggest that the territorial apparatuses were involved in planning the assassination.[42] As for why Kirov was targeted had to do with latent bureaucratic struggles over who shared blame for the growing kleptocracy within Soviet industrial management. With Sergei Kirov's murder a year later, Leningrad factories lost their patron and increasingly felt pressure from the leadership; the Kirov Plant, the surrounding Izhorsk machine-building plant, as well as Factories No.174 and No.185, experienced numerous purges and production bottlenecks. The Kirov Plant was originally named the Putilov Iron and Steel Works, the famous industrial complex that was the site of worker's strikes in 1905 and 1917. It was the Red Putilov until 1934, when it was renamed in honor of Kirov, and promptly fell under suspicions of the NKVD and later Commission of Soviet Control, which became the main body for checking the implementation of decisions of the Council of People's Commissars of the USSR and the expenditure of funds and material assets. While it was not officially subordinated to any ministry, the Commission, as an all-Union governing body, carried out its activities through a central office for the purpose of investigating crimes on an inter-departmental basis.

Timing of the Kirov Assassination and the subsequent reforms in bodies in charge of accounting control correlate to significant progress in territorial organizations such as Commissions of Soviet Control, Commissions of Party Control, and the NKVD-OGPU in being able to audit the firms independently of military procurement, ministries, or local party organizations. Their authority had been sharply constrained by the contemporary leadership of Soviet industrialization, above all by the military-industrial bureaucracy that coalesced

[42] In the speech at the 20th Party Congress, Nikita Khruschev said that "the circumstances surrounding the murder of Comrade Kirov still conceal a lot of incomprehensible and mysterious things and require the most thorough investigation." See "O kul'te lichnosti i yego posledstviyakh; Doklad Pervogo sekretarya TSK KPSS tov. Khrushcheva N. S. XX s"yezdu Kommunisticheskoy partii Sovetskogo Soyuza 25 fevralya 1956 goda" in *Izvestiya TSK KPSS,* 3 (1989) 138.

around the Defense Committee of the Council of Labor and Defense. This apparatus, dominated by figures such as Kirov, Ordzonikidze, Kuybyshev, and Tukhachevsky, enjoyed both political prestige and institutional autonomy. Its operations were shielded by the confidentiality of military contracts, which insulated the defense sector from the ordinary mechanisms of financial oversight. Gosbank could not easily audit or penalize enterprises involved in military production; payments and supply irregularities were absorbed within a closed circuit of privileged ministries. These networks of protection, linking suppliers, commissariats, and regional party organs, functioned as a system of mutual guarantees that effectively neutralized fiscal discipline.

A case in point was the Kirov Plant in Leningrad; political denunciations did not initially trigger investigations at the plant, but rather economic irregularities prompted audits that exposed a widening pattern of plan deviations. Between March 1936 and April 1937, inspections revealed that the plant's working capital at the end of 1936 stood at approximately 145,137,000 rubles, exceeding its planned norm by roughly 53,765,000 rubles. This surplus did not signal financial strength but slow turnover of circulating funds. The resulting decline in asset turnover reflected delayed deliveries and unfinished production, contradicting official reports of plan overfulfillment.[43] Such imbalances were not confined to a single enterprise. On April 9th 1937, the head of the Leningrad Regional State Bank, Fatyanov, informed Commissioner Antselovich that only 142 of 306 enterprises in the region maintained unfrozen accounts without sanctions.[44] Only subsequently did political escalation follow. Party elections in May 1937, ostensibly intended to renew local and regional leadership, coincided with mounting scrutiny of enterprise finances. In September 1937, on the initiative of F. Kapustin, N. D. Eskov, and I. M. Zaltsman, a party committee meeting

[43] TsGIA SPb. F.P-960, Op.7, D.5, 4.
[44] TsGIA SPb F. 960, Op.7, D.388, 88.

retroactively approved a change in plant management. In coordination with the NKVD, the operation removed the plant's leading "triangle": director M. L. Ter-Asaturov, party secretary A. N. Tyutin, and factory committee chairman D. A. Podrezov.[45]

Private Gain under Stalin

While previous work on Soviet shadow banking system and accounting-based credit expansion showed how both created uneven access to resources, it's necessary to extend this insight into showing how shadow banking generated hidden redistribution and paved the way for a class of bureaucratic elites—"Soviet kleptocrats"—who accumulated a distinct form of wealth within the formal socialist framework. A parallel system of credit within Soviet accounting and banking practices not only redistributed resources across enterprises but also created the conditions for private gain, leading to the emergence of bureaucratic elites who could accumulate wealth, revealing an institutional pathway to inequality under socialism. Since wealth was channeled through these parallel systems and accounting books, they were largely invisible to workers and thus did not trigger denunciations.

What distinguished the Great Terror from earlier party purges was not simply its scale, but the triggers of violence. The pre-1936 purges generally proceeded through party verification and rectification campaigns: they were administrative-political processes designed to assess ideological reliability and cleanse the ranks of unreliable members. By contrast, the terror metastasized from investigations that often began with accounting irregularities, which were subsequently reframed as evidence of criminal intent. Prior to 1936, the executive party committee of the Kirov factory in Leningrad was responsible for the political reliability of 30,000 workers. Between 1933 and 1936, the heads of the plant, in particular, the secretary of the party committee, I. I. Solovyov; the director of the plant, K. M.

[45] Mullek Gaėl′-Zhorzh, "Smutnye vremena na Kirovskom zavode (1933–1938)" *Peterburgskiĭ istoricheskiĭ zhurnal* 3 (27) (2020): 89.

Otts, and two of his deputies were transferred to the nearby Izhorsk machine-building plant. In total, according to the results of the purge, out of 5,323 party members and candidate members who worked at the plant, 779 people were expelled from the party, which accounted for 14.6%. 234 communists were transferred to the category of candidates for membership of the CPSU(b), and 174 candidates were transferred to the category of sympathizers.[46] On May 26, 1936, the factory newspaper *Kirovets* announced the appointment of a new director, M. L. Ter-Asaturov, who had been the former chief engineer under Director Otts.

Rather than expulsions from the party ranks, reshuffling of cadres, or denunciations, what triggered arrests of Kirov Plant managers and technical staff were audits which exposed a widening pattern of plan deviations. Between March 1936 and April 1937, inspections revealed that the plant's working capital at the end of 1936 stood at approximately 145,137,000 rubles, exceeding its planned norm by roughly 53,765,000 rubles. This surplus did not signal financial strength but slow turnover of circulating funds. The resulting decline in asset turnover reflected delayed deliveries and unfinished production, contradicting official reports of plan overfulfillment.[47] Party elections in May 1937, ostensibly intended to renew local and regional leadership, coincided with mounting scrutiny of enterprise finances. In September 1937, on the initiative of F. Kapustin, N. D. Eskov, and I. M. Zaltsman, a party committee meeting retroactively approved a change in plant management. In coordination with the NKVD, the operation removed the plant's leading "triangle": director M. L. Ter-Asaturov, party secretary A. N. Tyutin, and factory committee chairman D. A. Podrezov.[48] All were subsequently arrested and executed; Ter-Asaturov was arrested in November 1937 and

[46] Mullek Gaėl′-Zhorzh, "Smutnye vremena na Kirovskom zavode (1933–1938)" *Peterburgskiĭ istoricheskiĭ zhurnal* 3 (27) (2020): 81.
[47] TsGIA SPb. F.P-960, Op.7, D.5, 4.
[48] Mullek Gaėl′-Zhorzh, "Smutnye vremena na Kirovskom zavode (1933–1938)" *Peterburgskiĭ istoricheskiĭ zhurnal* 3 (27) (2020): 89.

executed in February of the following year, while his former director Otts had been executed in February of the previous year.

Audits were not triggered by generalized worker complaints but through whistleblowers from within the enterprise itself, particularly from members of the technical and accounting staff. In many cases, plant financial controllers, those responsible for maintaining ledgers and reporting to the State Bank, identified discrepancies between reported output and inventory. Following the appointment of the new director, economic irregularities were voiced in an audit report to the Commission of Soviet Control on gross violations of government directives on the practice of bonuses, which implicated the Chief Accountant Burov in fraud and sparked a new wave of investigations. The whistleblower report, written by the plant financial controller Nuzhena, accused Director Ter-Asaturov of "huge overruns in payroll during 1936. The cost of the payroll amounted to 117 million rubles against the plan of 88 million, an overspending of 29 million rubles."[49] Nuzhena attested that more than 6 million rubles fell "on overspending of the wage fund for engineering and technical workers of the plant," before noting that it was completely illegal to pay the plant apparatus for ensuring the plant's accountability before the planning agencies, "to consider the payment of the engineer-technical bonus (premiums) for *khozraschet."* She added that for 1936, the administrative technical workshops of the plant "were paid by the decree of the director without the approval of People's Commissariat of Heavy Industry, due to saving 25% on the fulfillment of the technical-production-financial plan."[50] The decree for the payment of premiums/bonuses from the wage fund was done by Director Ter-Asaturov on May 13, 1936, after a Sovnarkom decree from April 19, 1936 forbade the director's paying out illegal bonuses from his own fund.[51] Nuzhena's inspection of the plant revealed a much more

[49] TsGIA SPb. F.P-960, Op.7, D.2, 37.
[50] Ibid.
[51] TsGIA SPb. F.P-960, Op.7, D.2, 37.

damning fact, namely that the director paid out bonuses while the plant produced more and more unfinished goods. As shown by the inspection, “the plant grossly violated the principles of bonuses…the growth of work-in-progress goods, which is growing systematically from quarter to quarter, is not in any correspondence to the production plan.”[52]

The plant distributed payroll bonuses during quarterly quality inspections and internal audit cycles, and technical personnel reciprocated by colluding in what contemporaries described as “window dressing” the enterprise—presenting inflated indicators of efficiency and cost control. In a memorandum dated 27 March 1936, director M. L. Ter-Asaturov justified the expansion of these bonuses as a measure to improve product quality, increase the throughput capacity of the Quality Control Department (OTK), and reduce both payroll costs and losses from defective output. To achieve these aims, management introduced a new compensation scheme for engineering and technical staff within the OTK. First, it paid personnel on a piece-rate basis tied to the reported reduction of defects, calculated from accounting data on internal and external claims. Second, it awarded higher bonuses for “economizing” on the wage bill, measured by reductions in claims lodged against the Quality Control Department. Third, it implicitly incentivized the acceptance of defective goods by tying compensation to the recorded absence of faults attributable to the factory. Under this system, improvements in recorded quality—rather than actual production outcomes—generated higher earnings for OTK staff. [53] Decree no. 216 further authorized the head of the OTK to draw directly from the enterprise wage fund to finance these payments. In practice, bonuses were deducted from the overall salary pool, with a formal allocation of 20 percent to the head of the department. However, the OTK imposed deductions at a significantly higher rate—effectively a 50 percent premium—of which 20 percent accrued to the “central

[52] Ibid.
[53] TsGIA SPb. F.P-960, Op.7, D.2, 3.

apparatus," while the remainder was distributed among technical compliance personnel. This structure embedded financial incentives for misreporting within the very department responsible for verifying product quality, reinforcing the cycle of accounting manipulation and administrative collusion.[54]

In the process of investigations, numerous overhead costs were discovered that were being paid prior to payment for invoices and bank loans; management was holding itself above the needs of the bank. The commissioner discovered that if there was a complaint from customers about their order, these entailed additional costs from the workshops and departments of the plant that were decided by the head engineer of the plant.[55] The source of these was the plant committee's decree no.216, which was issued on June 25, 1935, by the previous director Otts to address "downsizing the plants technical apparatus."[56] Recognizing that "achieving the higher profitability of the plant requires austerity in all areas of factory work," Otts issued several goals for restructuring the work of management.[57] Among these were intensification of work, replacing less skilled workers, ridding the department of parallelism, and reducing excessive communication. Under the guise of reducing overhead, the director's personal fund was slashed in April 1936.[58] But this austerity regime only reinforced uneven budgetary restrictions for the various bureaus of a plant.[59] Chief accountant Burov's note dated April 5, 1937, explained that illegal bonuses "continued after the law on the fund of the director was issued, because the procedure for bonuses that existed earlier was left intact, and bonuses were allocated to the wage fund…bonuses were made even in the presence of large salary and overhead costs."[60]

[54] TsGIA SPb. F.P-960, Op.7, D.2, 4.
[55] Ibid,4.
[56] TsGIA SPb. F.P-960, Op.7, D.2, 11.
[57] TsGIA SPb. F.P-960, Op.7, D.2, 10.
[58] TsGIA SPb. F.P-960, Op.7, D.2, 12a.
[59] TsGIA SPb. F.P-960, Op.7, D.2, 12.
[60] TsGIA SPb. F.P-960, Op.7, D.2, 12a.

These findings were corroborated during an interview between the chief accountant, Burov, and the Commissioner of Soviet Control, Naum Antselovich. The exchange revealed how the widespread use of bonuses inflated the plant's overhead and relied on systematic manipulation of financial reporting. Burov openly acknowledged that the enterprise financed these bonuses through practices that effectively defrauded the bank, while also creating a self-reinforcing dynamic of collective complicity: as irregular payments expanded, so too did the network of individuals who had to be compensated or silenced. When Antselovich pressed him directly—"Is there wrongdoing here?"—Burov replied without hesitation: "Yes." He specified that the wrongdoing lay in the allocation of "arbitrary bonuses," which violated formal regulations. These bonuses, he explained, were "not always based on results," since each workshop operated under its own internally defined conditions, allowing management to adjust performance criteria ex post. As Antselovich summarized, "crudely speaking, bonuses were calculated arbitrarily," to which Burov conceded: "In many instances, yes." The discussion also implicated senior management. Burov confirmed that these practices took place under directors K. M. Otts and M. L. Ter-Asaturov, although he claimed that they did not formally inform him of their decisions. Only recently, he noted, had he "signaled it" in writing. Most revealing was the discrepancy between reported plan fulfillment and actual performance. Burov stated that the plant had fulfilled the plan at 114 percent, but immediately qualified this figure: it depended on "those add-ons" embedded in accounting practices. When Antselovich asked whether the figure would fall below 100 percent once corrected, Burov admitted that while output by volume might approach 100 percent, performance measured by realized sales would fall below it. In effect, the enterprise calculated profits on the basis of reported production rather than realized output. Accounting records reflected the ruble value of invoiced goods, not the physical inventory actually delivered. By inflating reported costs and output, the plant increased its working capital

position with the bank, generating apparent losses that justified additional credit. This practice not only distorted financial reporting but also embedded accounting manipulation within the routine operation of the enterprise.[61]

Did Sellers Deliver Quantity?

While overhead costs and discrepancies had been somewhat tolerated up until 1936 as "accidental" costs or growing pains in the process of learning production techniques, Soviet authorities exhibited a lowered tolerance for accounting failures as opposed to prior years because audits revealed that payroll invoicing had created a persistent discrepancy between the bonuses paid for reported production and the physical inventory actually delivered. At the Kirov Plant, the gap between reported and actual production was not incidental: the enterprise recorded sales at planned values while concealing shortfalls in completed or deliverable output. The resulting imbalance demonstrated that producers were neither strategically withholding finished goods to extract better terms nor overfulfilling the plan.[62] Rather, monetary settlement had become decoupled from material realization and was serving to generate excess payroll invoices. The resulting credit and cash excess pointed to managerial incentives for private gain that were misaligned with planner's preferred outcomes in quantity. Audit investigations, initially focused on discrepancies in inventory and settlement, uncovered a systemic decoupling of financial valuation from material performance, conditions that could readily be reframed as "wrecking" once subjected to political scrutiny.

Managers responded rationally to the incentives built into the system, optimizing for reported production rather than actual production: they focused on reported output (invoice values, plan fulfillment figures), financial indicators (turnover, wage savings, and reduced "defects" on paper), and access to liquidity (credit, cash via financial instruments). With

[61] TsGIA SPb F. P-960, Op.7, D.388, 14.
[62] See Andrei Markevich and Mark Harrison. "Quality, experience, and monopoly: the Soviet market for weapons under Stalin" *The Economic History Review* 59, 1 (2006): 113-142

regards to defense goods, the production history of the T-28 medium tank is illustrative. Designed in the early 1930s as a breakthrough medium tank, roughly 500 units were reportedly produced. In practice, production was plagued by chronic design flaws and post-delivery rework: engines overheated, transmissions failed, turrets malfunctioned, and armor specifications were repeatedly revised. However, authorities did not see this process; a January 1935 production summary described the development of T-28 medium tank manufacturing as a success: the plant slightly exceeded its annual target, delivering 51 tanks against a planned 50. Ongoing design modifications during production were acknowledged, but these were presented as evidence of technical progress rather than dysfunction. According to the report, the plant undertook a large-scale technological reorganization to ensure interchangeability of major components and shorten the production cycle. This included the design and introduction of more than a thousand fixtures and several thousand specialized tools. Officially released vehicles were described as free from earlier defects; accidents were characterized as rare exceptions rather than systemic problems. Field testing during the 1934 maneuvers reportedly confirmed the tanks' "excellent tactical qualities," including speed performance that exceeded initial design specifications. Taken at face value, such reports suggest that the post-crackdown regime of inspection and quality control was functioning as intended: targets were met, defects corrected, and production stabilized.[63]

The misalignment of managerial incentives and planner's preference in outcomes that the accounting system tended to produce became clear during the auditing process. Although the T-28 program was formally reported as advancing, it became evident that the tank required extensive post-delivery modification to be operational, and that most units counted as "produced" had to be repaired before they could function at all. By the time these

[63] "Raport rukovodstva Kirovskogo mashinostroitel′nogo i metallurgicheskogo zavoda sekretariu TSK VKP(b) I.V. Stalinu ob osvoenii proizvodstva tanka T-28. 4 ianvaria 1935" in *Istoriia sozdaniia i razvitiia oboronno-promyshlennogo kompleksa Rossii i SSSR, 1900-1963: dokumenty i materialy* v.3, 2 (1933-1937) (Novyĭ khronograf, 2011) 340-341.

problems surfaced openly, Director Ots had been reassigned to another enterprise and replaced by his former chief engineer, Ter-Asaturov. In early 1937, Deputy Chairman of the Commission of Soviet Control Makhnev submitted a sharply critical report to the new director. Despite nearly five months having elapsed since the start of the fiscal year, he noted, "the Kirov Plant has not delivered a single T-28 tank—neither repaired nor newly produced." Nor had it produced any of the T-29 tanks slated for the previous year: "not a single one has been completed, although the plant was supposed to deliver ten units already in 1936." As a result, Makhnev warned that the situation "realistically threatens the fulfillment of the government's tank production plan for 1937." Rather than framing the failure as a breakdown of contracting or incentives, the report emphasized organizational and administrative disorder. According to Makhnev, plant management had failed to give sufficient priority to restoring production capacity after the purge of alleged "counter-revolutionary elements." Until very recently, there had been no concrete repair plan for the T-28s—no clear delineation of tasks, responsible personnel, or deadlines. Workshop MX-2, which handled critical stages of repair and assembly, was described as fundamentally disorganized: contrary to the earlier reports by Otts, tool provision was unplanned and quality control of instruments was weak. The plant directorate, Makhnev concluded, "provides little assistance in eliminating the confusion and irresponsibility that continues to prevail."[64]

Financial inspections reinforced the picture that the system was not rewarding managers for actual production and timely delivery. In correspondence with Makhnev, Inspector Kuznetsov reported that of 101 T-28 tanks recorded as produced under the plan, not a single unit passed final acceptance. Of approximately 250 artillery systems, only one was deemed operational. None of the ten experimental T-29 tanks functioned as intended. In other words, formal plan fulfillment and reported output masked a near-total failure of realized,

[64] TsGIA SPB F.P-1788, Op. 27, D.12, 3

usable production.[65] Taken together, these reports show that compliance with inspection and delivery procedures did not reflect timely deliveries. Instead, output continued to be recognized administratively despite pervasive technical failure. What appeared ex ante as bargaining or adjustment was, ex post, the continuation of production claims without realizable output, sustained by accounting recognition and repeated repair cycles rather than by credible acceptance or rejection.

Did Buyers Hold Out for Quality?

One might suppose that the escalation of terror in 1937, rather than earlier, reflected a partial alignment between buyers and planners around product quality. If military procurers had genuinely enforced quality standards, then the misalignment of incentives that produced shortfalls in quantity might not have appeared in measures of quality. In this view, even if output targets were distorted, procurement practices could have preserved a degree of coherence between enterprise behavior and planner priorities. Therefore, the escalation of terror in the Soviet military and the subsequent repression of military officers would appear to be triggered by a shift in political mentality rather than a loss of accounting control.[66] However, archival evidence suggests that military terror emerged not only from political suspicion, but from the investigation of a shadow financial system embedded in procurement. This shadow financial system in military procurement created incentives for accumulation of wealth and resources among military procurement staff, thus leading outcomes to diverge from the planners' preference for reliable and high-quality defense goods. Rather than acting as strict enforcers of quality, procurers frequently colluded with enterprises in ways that bypassed central monetary and accounting control. Audits of military procurement exposed

[65] TsGIA SPB F.P-1788, Op. 27, D.12, 16.
[66] Rittersporn, "The omnipresent conspiracy: on soviet imagery of politics and social relations in the 1930s." 101-120; Harris, "Encircled by enemies: Stalin's Perceptions of the capitalist world, 1918–1941." 513-545; Whitewood, "Subversion in the Red Army and the Military Purge of 1937–1938." 102-122.

these practices, revealing that the misalignment of incentives affected not only quantity but also the verification of quality itself. In this context, the auditing of procurement networks became a critical trigger for the expansion of investigations, contributing directly to the military purges of May 1937. The escalation of terror thus cannot be explained by earlier alignment around quality, but rather by the delayed discovery of distortions within the institutions responsible for enforcing it.

Following the audits and investigations of the Kirov Plant in April 1937, the NKVD-OGPU arrested many members of the Military High Command organized around Marshall Tukachevsky circle in May 1937. Part of the justification for the arrest and summary execution of many leading members of the high command was the charge that the cost and outcome of the armament plan had essentially collapsed, and that the high command had "wrecked" the armament industry, although the mechanism (be it monetary or otherwise) by which they did so remained unclear. With regards to the mobilization directorates, it was clear by July 1937 that the functional administration had failed to implement the armament plan of 1931. A top-secret memorandum of the Commission of Party Control, a commission headed by Lazar Kaganovich and Nikolai Yezhov, reported to Stalin on the situation in the tank industry. The report noted that as a result of the sabotage carried out in the tank industry, "the leadership of the head office and tank factories is in a position of confusion and inability to eliminate the consequences of sabotage in the shortest possible time."[67] We can infer, based on the archival evidence available, that the audits spread to the military procurement apparatus following the arrest of Tukachevsky; the Red Army mobilized the army servicing officers through the Armored Force Directorate (ABTY) of the Red Army, the Military

[67] "Dokladnaya zapiska voyennoy gruppy Komissii partiynogo kontrolya sekretaryu TSK VKP(b) I.V. Stalinu o polozhenii v tankovoy promyshlennosti. 17 iyulya 1937" in *Istoriia sozdaniia i razvitiia oboronno-promyshlennogo kompleksa Rossii i SSSR, 1900-1963: dokumenty i materialy* v.3, 2 (1933-1937) (Novyĭ khronograf, 2011) 678-680 (http://docs.historyrussia.org/ru/nodes/280795-dokladnaya-zapiska-voennoy-gruppy-komissii-partiynogo-kontrolya-sekretaryu-tsk-vkp-b-i-v-stalinu-o-polozhenii-v-tankovoy-promyshlennosti-17-iyulya-1937-g)

Council, and the Defense Committee of the Council of Labor and Defense; the dynamic of terror affected the mass of these officers under their control, with 18,000 officers discharged in 1937 alone.[68]

While it is clear that not all commanders and serving officers were discharged as a result of "economic" issues related to procurement, all military commanders were formally obligated to the party leadership to inspect the quality of goods delivered to military districts, and this inspection process not only included commanders but also included army servicing officers. Within the army, the brigadier commander within military districts was responsible for identifying the part in the machine that had wear, a breakdown, or an accident. They were to then send a written notice to the military representatives of the supplier, officers who acted as insurers for the quality of all military items purchased for defense purposes. This report had to call on a representative to visit the site, indicating the number of the machine, its date of release, and the nature of the wear. The representative was then obligated to arrive to inner districts in 12 days, and more remote districts in 25 days. Upon the meeting of representatives, they established the guilt of the parties. If the guilt of the supplier was proven, a complaint was drawn up which indicated the part or unit which the supplier was responsible for replacing. Then came the process of determining how the supplier would pay for the additional labor that was required to create a replacement, deliver it, and provide installation. The buyer also provided their consent to partial payment of the invoice issued by supplier.[69]

If the buyer was committed to quality, then we would expect to see high reported rates of rejected purchases. However, reported rejection rates in the military industry were low, not because quality problems were minor, but because rejection itself was an administratively

[68] Reese. "The Impact of the Great Purge on the Red Army: Wrestling with Hard Numbers." 78.
[69] TsGA SPb F. P-5350. Op.6, D.21, 9a.

costly and risky action. In Gosplan statistics, “rejection” referred to formal non-acceptance at inspection points under prevailing specifications, not to the absence of defects or operational failure. Thus, even as official data recorded only modest increases in rejection, rising, for example, from 6.3 percent in January to 7.1 percent in August 1936 in the Main Directorate of the Military Industry, with individual plants such as Kirov averaging 12.8 percent over eight months, the same reports acknowledged that “the main causes of rejections in 1935 largely continue to operate in 1936.”[70] In practice, military buyers frequently accepted output provisionally even when performance was unsatisfactory, addressing defects through post-acceptance rework, specification revision, and additional financing rather than through outright refusal. As a result, quality failures were displaced temporally and contractually rather than registered as rejects at the point of delivery. The growing gap between relatively low reported rejection rates and the extensive evidence of post-delivery malfunction and repeated reworking documented by the Commission of Soviet Control thus reflects a system of iterative acceptance and repair, not effective quality enforcement.

With regards to the mobilization directorates, surveillance reports and audits reduced the credibility of rejection rates, which were simply too low for the leadership to believe. Two structural factors explain this gap. First, the military high command consistently prioritized quantity over quality, a bias that encouraged the acceptance of defective output. Marshall Tukhachevsky’s November 1935 letter to Stalin illustrates this pressure vividly. He reported that the People’s Commissariat of Defense had ordered 6,340,100 artillery shells for 1935, consisting of “4,093,000 small-caliber, 2,234,600 medium-caliber, and 12,500 large-caliber shells”, a figure that amounted to “less than 10 percent of the Main Artillery Directorate’s

[70] “Ob”iasnitel′naia zapiska spetsial′nogo otdela Tsentral′nogo upravleniia narodnokhoziaĭstvennogo ucheta Gosplana SSSR o khode vypolneniia voennoĭ promyshlennost′iu proizvodstvennogo plana 1936 g. Ne pozdnee 5 noiabria 1936” in *Istoriia sozdaniia i razvitiia oboronno-promyshlennogo kompleksa Rossii i SSSR. 1900-1963: Dok. i materialy. T. 3. Stanovlenie oboronno-promyshlennogo kompleksa SSSR (1927-1937).* (Moscow, 2011) 547-548.

mobilization plan 'M-3.'" Yet even these reduced targets were not being met: after ten months, the Main Artillery Directorate had delivered only "30.3 percent of the rounds due for that period and only 16.7 percent of the annual plan." No large-caliber shells had been supplied at all, while deliveries of medium-caliber shells reached only 14.4 percent of the ten-month target, or 6.9 percent of the annual order.[71] Second, audits showed that formal rejection statistics were too narrow and procedural to capture the pervasive technical defects. In a top-secret July 1937 memorandum of the Commission of Party Control, Lazar Kaganovich and Nikolai Yezhov pointed to the lack of specific and operational leadership in tank building which led to the disruption of the tank program, that "panicked managers in the factories say: 'if the coming days do not give a significant shift in production and output, then we will find ourselves in a dead end. The completely unacceptable situation that has arisen in the tank industry can be characterized by the example of the Leningrad factories."[72] The report had verified that the Voroshilov Plant, one of the plants composing the Kirov Plant complex, handed over only 17 T-26 tanks in the first five weeks of 1935 instead of 400-500 according to the plan.[73] The plant also did not fulfill the rapid turnaround for constructing new tanks, creating only a defective model of the new T-46. As a result, the implementation of the 1937 program for the production of "600 T-26 tanks and 100 T-46 tanks is under threat of collapse."[74] Even the experimental Plant No. 185 named after S. M. Kirov, being the only plant for experimental tank building in the Union, turned out to be "in the hands of counter-

[71] "Dokladnaia zapiska zamestitelia narkoma oborony SSSR M.N. Tukhachevskogo sekretariu TSK VKP(b) I.V. Stalinu o neobkhodimosti reorganizatsii mobilizatsionnoĭ podgotovki promyshlennosti. 15 noiabria 1935" in *Istoriia sozdaniia i razvitiia oboronno-promyshlennogo kompleksa Rossii i SSSR, 1900-1963: dokumenty i materialy* v.3, 2 (1933-1937) (Novyĭ khronograf, 2011) 425-426

[72] "Dokladnaya zapiska voyennoy gruppy Komissii partiynogo kontrolya sekretaryu TSK VKP(b) I.V. Stalinu o polozhenii v tankovoy promyshlennosti. 17 iyulya 1937" in *Istoriia sozdaniia i razvitiia oboronno-promyshlennogo kompleksa Rossii i SSSR, 1900-1963: dokumenty i materialy* v.3, 2 (1933-1937) (Novyĭ khronograf, 2011) 678-680 (http://docs.historyrussia.org/ru/nodes/280795-dokladnaya-zapiska-voennoy-gruppy-komissii-partiynogo-kontrolya-sekretaryu-tsk-vkp-b-i-v-stalinu-o-polozhenii-v-tankovoy-promyshlennosti-17-iyulya-1937-g)

[73] Ibid

[74] Ibid.

revolutionaries, Trotskyists and wreckers—foreign intelligence agents who built a nest under the auspices of the factory director Barykov, a former Trotskyist."[75]

It is likely that the excessive claims generated by a shadow financial system embedded in procurement contributed the poor result and delays of the tank production. As iterations of military goods multiplied across enterprises, claims on banks grew without an increase in the actual quality of goods. Because the tanks were formally completed but functionally deficient, contracts were revised with new specifications rather than voided. Completion and acceptance required additional work, financed by new loans. Both seller and buyer relied on further refinancing, justified by the same planned output. Enterprise took the contract and changed the specification according to the buyer. The seller of the tank needed an additional loan to finish and the buyer needed an additional loan to afford the tank. Makhnev, for example, described the management of T-28 technical drawings as deeply deficient. Production relied on outdated drawings from 1936 that were altered and repeatedly modified without documentation of who made changes or when. He warned that the absence of a strict procedure for handling and revising drawings created an environment vulnerable to sabotage. The technological, planning, and distribution functions within the workshop were described as confused and poorly coordinated: parts were produced out of sequence, regulation of the production process was inconsistent, and work proceeded in a largely ad hoc manner.[76] Yet the report also noted that workshop management's primary concern was not output or quality per se, but keeping workers continuously employed. Crucially, compliance with new or revised specifications required additional financing. Each round of specification revision implied higher labor and material inputs that had to be paid for ex ante. This is visible in the rapid expansion of auxiliary functions tied to specification management rather

[75] Ibid.
[76] TsGIA SPB F.P-1788, Op. 27, D.12, 3

than physical production. In early 1937, the Special Design Bureau responsible for tank construction was relocated to improved facilities and substantially reinforced with personnel, expanding from 42 staff in March to 82 by late June, with plans to reach 122.[77] They illustrate how enforcement and quality demands translated into escalating claims on labor and credit, reinforcing the accumulation of receivables rather than disciplining costs or resolving underlying coordination failures.

The failure of military procurers to enforce quality standards cannot be explained solely by ideological or organizational breakdown. It also reflected a structural misalignment of incentives caused by shadow finance sector. The proliferation of additional and frequently revised technical specifications created opportunities not only to manage production uncertainty but also to extract liquidity through procurement channels. In this context, military representatives did not simply tolerate poor quality; they often participated in practices that decoupled reported and actual quality. This dynamic complicates interpretations of the military purges of 1937 as purely the result of paranoia or political consolidation. Audits of the procurement apparatus frequently appended economic charges—such as "wrecking" under Article 58—to political accusations, indicating that investigations into financial practices played a significant role in the escalation of repression. Cases involving figures such as Iona Yakir and Yan Gamarnik illustrate how financial irregularities could be reframed as political crimes; both were charged with "financial sabotage" in a bid to undermine the Commissar of Internal Affairs Nikolai Yezhov by instructing the Chief of the Department of Savings Bank (Sberbank) Anatoly Ozeryansky to fund a "terrorist act." Audits of the procurement apparatus revealed that between 1934 and 1937, Yan Gamarnik and Iona Yakir had extracted large sums of cash and credit from Savings Banks in order to subsidize the burgeoning procurement apparatus above their credit and expenditure limit. While the

[77] Ibid, 5-6

charges of "financial sabotage" and terrorism must be treated with caution, archival evidence suggests that both men participated in systems of shadow procurement financing that relied on extracting cash and credit beyond formal limits.[78]

Due to the nature of archival access to still-confidential military sources, we can only infer how this shadow procurement financing worked at the level of tank production. Once tank specifications were accepted by the seller, additional repair costs (e.g. labor, material) would invoiced to the enterprises and suppliers. These repair costs could be paid through partial acceptances, while the remainder of the invoice could be re-diverted as a bill of exchange or check to the procurers—a form of illicit kickbacks. The procurers would then discount the bill or deposit the check in the savings bank system; to the extent that the sources permit us to see, the charge against Yakir and Gamarnik that they used a savings bank to finance "terrorism" obscures the shadow procurement structure by conflating political charges with charges of economic wrecking. No evidence of "terrorism" was brough forth, but a revealing example of "wrecking" concerned Yan Gamarnik, who often put pressure on the State Bank to subsidize the region with banknotes to help finance the ten-year development plan for the Far Eastern region. The charge of "financial terrorism" brought against him stemmed from a letter he wrote to Moisei Kalmanovich, the Chairman of the State Bank. Gamarnik reported that, according to information he had received from RVS member Roman Muklevich during an inspection of a construction site in the Grodekovskii district, "there are absolutely no banknotes, the workers have not been paid for two months already."[79] Although the head of Gosbank's Emissions Department, Korolev, assured him that the invoices from Far Eastern branches had been processed that same day, a subsequent inquiry into the OKDVA engineering construction administration revealed otherwise: on

[78] Robert Conquest, *The Great Terror: A Reassessment* (Oxford University Press, 2008), 188.
[79] "№ 18. Pismo YA.B. Gamarnika «O pereboyakh v obespechenii denznakami», 16 dekabrya 1932 goda" in *Po stranitsam arkhivnykh fondov Tsentral'nogo banka Rossiiskoi Federatsii 15* (Moscow: InterCrim-press, 2014) 27.

November 27, Dalkraigosbank requested 900,000 rubles, but the State Bank Board did not confirm the dispatch of even 400,000 rubles until December 2. Gamarnik added that he had "similar information about interruptions in the supply of banknotes from Komtroysk BVO in the Slutsk and Bobruisk garrisons. There are interruptions in Moscow as well." Citing the joint directive obligating the financial authorities to meet the Red Army's monetary needs, Gamarnik demanded "categorical instructions" to Gosbank's Issuing Department, and to its Far Eastern and Belorussian offices, to ensure the unconditional fulfillment of the NKVM's requirements for banknotes.[80]

Likely as a result of failure to enact greater cash from the State Bank, the military procurement apparatus began to go around the bank and utilize Savings Banks for their liquidity needs. It is necessary to note that this practice was not exclusive to military commanders and that part of this utilization was likely the result of laxness among district financial departments of the party, which were in charge of supervising the district branches of the savings banks.[81] The widespread nature of this practice was attested to by a senior consultant of the Planning and Economic Sector of the State Savings Bank, who noted how savings accounts were increasingly being used for financing city budgets in 1932, that a "direct financing of the local budget and local economy due to the influx of deposits in savings banks began to be used by the savings bank system on February 1, 1931 in order to increase the interest of local organizations in the successful implementation of plans to attract funds from the population through the savings bank deposit operation."[82] While the consultant does not speak about the Red Army, we can infer that the commanders in the districts and regions were able to take advantage of these deposits to finance their operations.

[80] Ibid.
[81] See John Armstrong, "Administrative apparatus in the rural Ukraine." 20.
[82] "Finansirovaniye mestnogo byudzheta i mestnogo khozyaystva za schet priliva vkladov v sberkassy, 1932 god" in *Po stranitsam arkhivnykh fondov Tsentral'nogo banka Rossiiskoi Federatsii 13* (Moscow: InterCrim-press, 2012), 61.

The consultant report goes on to say that financing with deposits came in the form of loans "issued at 9% per annum for a period of 10 years and are repaid on time depending on the purpose of the loan. A high interest rate is one of the significant factors affecting the degree of utilization of the loan fund, but the question of lowering the interest rate encounters difficulties due to the high cost of capital for savings banks."[83]

Through their attempts to subsidize the army with cash, Red Army commanders utilization of these loans involved paying for additional technical specifications or repairs, and the multiplication of claims for these iterations created an uneven access to and accumulation of credit and cash among the military procurers. A bank circular sent by Gosbank deputy Grigory Arkus to Molotov and Zhdanov on 19 October 1934 described the Far East as "the most tense area of money circulation" in the entire country. According to the circular, fully 80 percent of the State Bank's total cash emission for the first half of 1934 had been absorbed by the region. Attached materials from a special investigation highlighted the main symptoms of monetary disorder and proposed urgent corrective measures. Gosbank deputy Arkus requested the formation of a commission—including Gamarnik, Grinko, Veitser, Mikoyan, Ukhanov, and Arkus himself—to review and implement these proposals.[84] The implications for the financial system were significant. Administrators of the savings-bank network reported that the expansion of loan operations within savings banks had undermined their ability to attract deposits and, in many regions, had even triggered withdrawals. The explosive rise of short-term lending ultimately forced the cancellation of the savings-bank lending program in 1935, citing how the "General Agreement" that had earlier authorized these operations became a conduit for the illegal accumulation of large cash sums in cities

[83] Ibid.
[84] "№ 21. Spravka «O sostoyanii denezhnogo obrashcheniya na Dal'nem Vostoke», 19 oktyabrya 1934 goda" in *Po stranitsam arkhivnykh fondov Tsentral'nogo banka Rossiiskoi Federatsii 15* (Moscow: InterCrim-press, 2014) 30

and military districts.[85] At the All-Union Workers' Conference for Savings Banks in 1936, Anatoly Ozeryansky outlined the structural flaws exposed by this experience. Although savings banks were intended to operate as institutions that mobilized household savings, the lending program had demonstrated "the complete unsuitability of betting on chance in the savings business," especially the fiction that deposit inflows would occur spontaneously or that deposit-attraction plans could be met without active coordination.[86] Ozeryansky declared that the 1933 General Agreement, originally concluded between the Savings Bank Main Directorate and the State Bank, was now obsolete. It had assigned to savings banks an array of cash-service functions on behalf of enterprises and state bodies, far beyond their core purpose of attracting and safeguarding deposits. The revised policy under consideration would abolish these auxiliary operations entirely, freeing the savings-bank system from handling store proceeds, pharmacy takings, and other cash flows transferred through the State Bank. Only the crediting and debiting of depositors' accounts would remain.[87]

Conclusion

The Great Terror at the Kirov Plant and similar enterprises cannot be understood solely as a product of political consolidation, ideological paranoia, or systemic inefficiency. This article demonstrates that firm-level economic dynamics played a critical and underappreciated role in the escalation of repression. Monetary and credit mechanisms, particularly the circulation of acceptances and bills of exchange, enabled enterprises to extract liquidity and engage in private gain, producing measurable inefficiencies such as declining asset turnover, excess working capital, and delayed deliveries. Audits and financial inspections detected these distortions, and what began as administrative verification rapidly

[85] "Vypiska iz protokola № 20 Soveta Narodnykh Komissarov SSSR «Ob otmene vydachi ssud mestnym sovetam i kolkhozam iz sredstv sberegatel'nykh kass», 4 dekabrya 1935 goda" *Po stranitsam arkhivnykh fondov Tsentral'nogo banka Rossiiskoi Federatsii 13* (Moscow, 2012), 62.
[86] "Materialy Vsesoyuznogo soveshchaniya rabotnikov sberegatel'nykh kass, 21–26 aprelya 1936 goda" in *Po stranitsam arkhivnykh fondov Tsentral'nogo banka Rossiiskoi Federatsii 13* (Moscow, 2012), 64.
[87] Ibid.

escalated into political prosecution once irregularities were reframed as “wrecking.” This sequence challenges two dominant assumptions about the terror: that inefficiency was merely the result of planner’s misallocations, and that repression was entirely pre-scripted according to flawed ideology. By connecting microeconomic behavior, financial instruments, and investigative escalation, this analysis highlights how the intersection of economic and political processes shaped the trajectory of repression in the late 1930s Soviet Union.