Journal of Comparative Economics 39 (2011) 43–64

Contents lists available at ScienceDirect

Journal of Comparative Economics

journal homepage: www.elsevier.com/locate/jce

Forging success: Soviet managers and accounting fraud, 1943–1962

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ARTICLE INFO

Article history:
Received 11 May 2010
Revised 9 November 2010
Available online 8 December 2010

JEL classification:
D21
L51
N44
P21

Keywords:
Accounting fraud
Performance-based incentives
Political markets
Soviet economy

ABSTRACT

Harrison, Mark—Forging success: Soviet managers and accounting fraud, 1943–1962

Attempting to satisfy their political masters in a target-driven culture, Soviet managers had to optimize on many margins simultaneously. One of these was the margin of truthfulness. False accounting for the value of production was apparently widespread in some branches of the economy and at some periods of time. A feature of accounting fraud was that cases commonly involved the aggravating element of conspiracy. The paper provides new evidence on the nature and extent of accounting fraud; the scale and optimal size of conspiratorial networks; the authorities' willingness to penalize it and the political and social factors that secured leniency; and inefficiency in the socialist market where managers competed for political credit. *Journal of Comparative Economics* **39** (1) (2011) 43–64. University of Warwick, Coventry CV4 7AL, United Kingdom; Centre for Russian and East European Studies, University of Birmingham, Birmingham B15 2TT, United Kingdom; Hoover Institution on War, Revolution, and Peace, Stanford University, Stanford, CA 94305-6010, United States.

> I just wanted to say that pripiski are a system. And this system continues to operate despite decades of monitoring and so on. That's the first thing. Here's the second: In practice, criminal penalization of pripiski is a rare event, regardless of the level of the enterprise. And the third is that the gunfire on pripiski is concentrated on petty targets, on enterprises. The enterprises are certainly accountable for it but, as we raise our sights, [our gunfire] weakens when the target becomes more significant. Do you understand? (A Soviet statistical official, interviewed in 1989.[1])

0. Introduction

Soviet managers worked from day to day within a target-driven culture. The Politburo set overarching priorities. From these, planners set ministerial and regional production quotas or "plans." Ministries and local authorities distributed the plans to factories, farms, and offices. In industry, construction, and transport, quotas were usually in rubles at "fixed" plan prices. Procurement quotas for foodstuffs and timber were in units of weight or volume. The ratio of performance to plan formed the rewards and reputations of most officials and managers.

Did managers hide plan failure? That this was commonplace is suggested by the emergence of a specialized Soviet-era jargon. Everyone understood the verb *pripisyvat'*, literally "to add on" fictional goods to the report of plan fulfillment. The noun *pripiska* (plural pripiski) was the value of "add-ons," the fictional goods included in the plan report.

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[1] Hoover Archive, Paul R. Gregory collection, Box 1 (document titled "Nachalo 3-go interv'iu"; the passage cited is on page 9).

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doi:10.1016/j.jce.2010.12.002

Pripiski were a form of accounting fraud or "plan fraud." The accounting manipulations involved were not unobservable or unverifiable. They entailed straightforward lies, punishable in court. There was criminal responsibility because state plans had legal force, making plan fraud "deception of the state." In addition, there was often conspiracy. Deception on the part of any supplier tended to be immediately obvious to the industrial and wholesale buyers that relied on planned supplies to achieve their own quotas. The supplier's deception risked immediate exposure unless the buyer was willing to collude in it.

False accounting in the Soviet economy raises many questions for historians and social scientists. Historians of the Russian and Soviet economy have long been curious to know: How widespread and how serious were cases of pripiski? If widespread and serious, how did they affect measured output, living standards, and growth? How did agents collude, and how widely? And what stopped them from going further?

Questions also arise from a social-science perspective. Game theory tells us that the principal's problem should internalize the problem of the agent. We are studying a command economy under a harsh dictator who demanded truthful accounts from his agents. False accounts cheated him, and collusion among agents undermined his power. How did the dictator respond to the offense, and conspiracies to commit it, and what does this tell us about his rule?

In this paper, I first review the historical literature on Soviet managers. Second, I describe data now available from once closed Soviet-era archives. Third, I classify the types of fraud that they reveal. I consider, fourth, what we can infer about undetected crime; and fifth, about the fit between crime and punishment. Sixth, I discuss Soviet managers as rational agents, operating in an inefficient political market. The final section concludes.

1. The literature

Rule breaking has been a persistent theme in research on managers in the Soviet command economy.[2] Soviet managers pursued multiple goals including personal income, promotion, and autonomy. Implicitly or explicitly, however, most of these resolved into one objective: Fulfill the plan (Kontorovich, 1986). For monthly output to fall short by a single percentage point meant loss of a bonus ranging from 20 to 50 (and in individual cases up to 200) percent of the factory director's basic salary (Berliner, 1957: pp. 30–32). Plan success built incomes and promotions. Other members of the management team shared the gains, so plan success built loyalty and mutual obligation. Plan failure guaranteed negative attention; repeated failure could lead to reprimands, reassignments, and long-term career damage.

Whether managers wanted to "sleep peacefully" or climb the greasy pole, they had to show consistent compliance with the plan. A complex, unforgiving rule book was one of many obstacles. To fulfill the plan, honest and dishonest managers alike had to know which rules to break (Berliner, 1957; Gregory, 1990; Belova, 2001). They also needed to know who would cover for them if detection threatened, particularly because the authorities could not readily tell the difference between loyal and disloyal motivations for rule breaking (Gregory, 1990). A crucial factor was *ZiS*, an expression with a double meaning: It was a brand of luxury automobile, and also an abbreviation of *znakomstvo i sviazi*, networks of "acquaintance and contacts." Such networks were vulnerable to the prisoner's dilemma, but could be defended by traditional norms of mutual responsibility and risk sharing (Berliner, 1957; Ledeneva, 2006).

The Sovietological literature studied accounting fraud from press reports and informants among former Soviet economic personnel that emigrated to the West (Nove, 1957; Berliner, 1957; Granick, 1960; Grossman, 1960; Shenfield and Hanson, 1986; Linz, 1988; Gregory, 1990). A shared view emerged that small deceptions were widely practiced, but large ones were laden with risks of exposure and punishment and consequently rare. Joseph Berliner's respondents suggested, for example: "Taking a figure out of the air" was "a great crime and was rarely risked," but decisions were "frequently" taken to "prolong the day" (and month), which meant to "borrow" output from the next reporting period to fulfill this period's plan. From interviews with former statistical personnel, Stephen Shenfield and Philip Hanson concluded: "Pripiski are indeed widespread, but not as a general rule large." A former ministry official told them: "A serious person does not falsify report data, because falsification is very dangerous. Everyone is checking up all the time." Susan Linz came to a similar conclusion: Nearly all respondents (but not accountants!) "were quite familiar with falsified reports" but "uniformly describe falsifying only marginal magnitudes": "Nobody complains about small errors," but "Falsification on a grand scale is dangerous." At the end of the Soviet era, Paul Gregory surmised that the authorities "tolerate small deceptions, but they are unwilling to accept large ones."

Was plan fraud time-varying? In relation to the problem of measuring Soviet economic growth, Nove (1956) famously proposed his law of "equal cheating." While undetected fraud would surely lead to overstatement of the *level* of Soviet output, he wrote: "Over the economy as a whole, there is no reason to suppose that Soviet managers and their accountants falsify more in one year than in another, and so the *rate of growth* is unlikely to be exaggerated on that account."

This law was never tested against hard evidence, however. Convenience and the lack of alternatives granted it what Gregory Grossman (1960: p. 133) called an "unmerited throne." Both Grossman and Shenfield (1983), another dissenter, speculated that plan fraud might vary in response to contingent factors such as varying plan tension: The more ambitious the plan, the more likely it was to be fulfilled with false reports.

[2] By manager, I mean primarily the factory director or farm chairman (or woman, but women were few). Under the Soviet system of unified personal leadership, the director bore undivided responsibility for all aspects of the production establishment. Under the director were deputies, functional chiefs, and section heads (e.g. Berliner, 1957: p. 13). These often played a supporting role in accounting fraud, but the director was nearly always the central figure.