

Five-Year Plan*

Administrative plans were one of the instruments by which the leaders of the Soviet Union sought to impose their preferences on the economy. The five-year plans for national economic development were the best known of these, but this reflects their important ceremonial functions; other plans and decisions were often more significant from a practical point of view.

In all, there were thirteen Soviet five-year plans. The first ran from the autumn of 1928 to 1933; at that time the accounting year began in October with the end of the harvest. The third plan (1938-1942) was interrupted in mid-1941 by World War II. Five-year planning began again with the fourth (1946-1960). The sixth (1956-1960) was abandoned and replaced by a seven-year plan (1959-1965). After that, everything went in step until the unlucky thirteenth plan (1991-1995), barely adopted when the Soviet Union collapsed at the end of 1991.

Five-year planning was not limited to the Soviet economy. The socialist economies of Eastern Europe copied it after World War II. The Soviet five-year plans also provided symbolic inspiration for Hitler's two "four-year plans" (1933-1940) for Germany's self-sufficiency and war preparations, but there was little or no similarity in underlying respects.

The First Five-Year Plan

The first "five-year plan of development of the national economy of the USSR" was adopted in April 1929, although it nominally covered the period from October 1928 to September 1933. It called for the country's real national income to double in five years and investment to treble, while consumption per head was to rise by two thirds. There were ambitious targets to increase the production of industrial and agricultural commodities. The purpose of the plan was not just to expand the economy but to "build socialism"; associated with it was a vast programme of new large-scale capital projects that would embody the new society in steel and cement. Indeed a five-year period was chosen partly in the belief that it would allow time to complete these major projects; another motivation was to permit the smoothing of harvest fluctuations.

The character of the first five-year plan reflects complex underlying political and institutional changes. In the 1920s leading Soviet political and economic officials disputed the nature of economic planning. Some believed that the task of administrative plans was essentially to replicate a market equilibrium without the mistakes to which they believed the market mechanism was prone; hence, a planned economy could balance public and private wants more efficiently, eliminate unemployment, and smooth out cyclical fluctuations. More radical figures regarded planning as an instrument for mobilizing resources

* Entry for *The Encyclopedia of Modern Europe. Europe Since 1914: The Age of War and Reconstruction*, pp. 1097-1101. Edited by John Merriman and Jay Winter. New York: Scribner, 2006.

into government priorities, breaking with the limitations of a market economy, and transforming the economic and political system as rapidly as possible. The victory of the radicals was completed at the end of the 1930s by Stalin's left turn in favour of forced industrialization and the collectivization of peasant agriculture.

It took several years for Gosplan, the USSR state planning commission, to prepare the first five-year plan; the growing power of the radicals was expressed in increasingly ambitious targets that were set out in successive drafts. The optimism continued to grow even after the plan had been adopted, and this resulted in further upward revisions to particular targets in the course of 1930. The single most ambitious change was the decision to "fulfil the first five-year plan in four years." Half way through its implementation the Soviet authorities decided to symbolize the country's transition to an industrial basis by replacing the old, harvest-oriented "economic year" with calendar-year accounts. To accommodate this transition a "special quarter" of extra effort was announced for the last three months of 1930. After that, the targets for 1931/32 and 1932/33 were brought forward to 1931 and 1932 respectively.

Judged by its targets, the first five-year plan must be counted a ridiculous failure. The value of national income in 1932 was nearly twice that of 1928, but unacknowledged price increases and other statistical biases accounted for most of the increase. Many of the big projects that had been started remained unfinished. Instead of rising by two thirds, consumption collapsed; by the end of 1932 the country was in the grip of a catastrophic famine. One reason for the famine was that the efforts to industrialize as rapidly as possible had stripped the countryside of food.

On other criteria, however, the same plan was a great success. Real investment had doubled, and under the second five-year plan (1933-1937) the unfinished projects would be completed and pay off. Although many specific targets were not met, industry's results for 1932 still showed remarkable progress over the starting point. Rapid industrialization was under way; it was the collapse of agriculture that was to blame for the disappointing growth of national income and the severe decline in living standards.

Resources were now directed by administrative decrees, not markets and prices. Just as importantly, the critics of planning as all-out economic mobilization had been silenced. As much as anything Stalin used the first five-year plan as a political instrument to flush out moderate opinion, expose critics, taint them with guilt by association with the political opposition to Stalin, and subject them to censorship, dismissal, and arrest. The underfulfilment of detailed targets was only important to the extent that it gave him a weapon with which to beat the oppositionists and fainthearts alike.

Five-Year Plans in Context

In the mid-1930s the Soviet economy overcame the crisis and settled down to a more "normal" style of economic planning. The second and third five year plan were enacted, and by the end of the decade leading officials were thinking in terms of plans with an even longer 15- or 20-

year horizon. But these “perspective” plans did not have much significance for management of the economy; Eugène Zaleski (*Planning for Economic Growth in the Soviet Union*, p. 291) later described them as no more than “visions of growth.” The plans through which the authorities exerted “operational” control over resources were for shorter periods: yearly, quarterly, and monthly.

How did the operational plans work? In theory there was a process of breaking the perspective plans down into shorter time periods and distributing them across production ministries so that the annual and quarterly branch plans were nested arithmetically within the perspective plans for the economy as a whole. In practice, however, operational plans tended to creep away from perspective targets as the economy evolved. Recent investigations in the Soviet archives of the 1930s have also shown that, even at the “operational” level, the planners’ control over day-to-day transactions was much less than might be expected. Gosplan, the state planning commission, projected supply and demand for a few broad commodity groups in the aggregate, but left it to the ministries in charge of each industry to plan the detailed assortment and distribution of commodities and to link up particular producer and user factories. When there were tens, then hundreds of thousands, and eventually millions of commodities, and tens of thousands of producers, these tasks could not be centralized. Planning was also much less “physical” than the stereotype; planners set targets for the value of industry output using plan prices that were supposedly fixed but in fact the factories themselves exerted considerable influence over the prices, and could push them up under certain conditions to make the plan easier to fulfil. Finally, the plans themselves were relatively fluid; they were subject to continual revision, and secondary targets were often agreed during or after the event when results were predictable or already known. Most detailed plans only existed in draft and were never finalized.

It is not surprising, therefore, to find that the Soviet record of fulfilment of five-year and other plans tended to improve over time. This was for three reasons: first, planners adjusted their expectations to results, and became less likely to set targets that were beyond the capacity or desire of the producers to fulfil them. Second, plans remained negotiable, and producers could often bargain inconveniently demanding targets downwards during the plan period. Third, producers could also fulfil plans for output by manipulating prices upwards, and “hidden” inflation became a persistent phenomenon.

Administrative plans never covered the whole Soviet economy. The labour market was planned, if at all, only on the demand side. For much of the Stalin period the supply of labour was fairly harshly regimented, but these controls had nothing to do with economic planning, even in the loose sense described here. Food supplies were partly planned and partly left to a legal unregulated market in which collective farmers sold their sideline private produce directly to households. Many goods and services were diverted out of the planned economy and retraded in illegal markets.

The planning system on its own does not fully explain the success of the Soviet state in allocating resources to investment and defence. This

is reflected in the fact that, as we now know, Stalin and his immediate colleagues paid relatively little attention to five-year or annual plan figures. They gave much closer consideration to the billions of rubles allocated to investment and defence through the state budget. Plan targets for output helped to ensure that output would be produced and resources would be available for use in the aggregate, but did not determine how these products would be used or by whom. Given this, the cash made available to military procurement departments and construction organizations through the budget was critically important in fixing the pattern of final uses. In short, money was more important in the Soviet economy than has sometimes been recognized and in this sense the role of plans was more to influence the context than to decide outcomes.

The Failure of Soviet-Type Planning

A fundamental problem of planning was the volume of detailed information that it required the planners to acquire and use. To plan the economy efficiently in theory required planners to have accurate knowledge of the specific needs and resources of every firm and household. In decentralized market economies this information does not have to be transmitted or shared directly since it is carried by price signals. In the command system, in contrast, the authorities aimed to direct resources in a comprehensive way despite very limited information and an even more limited capacity to process it.

As a result the planners evolved rules of thumb to take the place of the information they lacked. One such was to plan “from the achieved level.” This rule solved the following problem: planners had to set targets for output, not knowing what industry was really capable of producing. In fact, producers took care to conceal their true resources from the planners in the hope that they would be given an “easy” plan. In turn, the planners knew that every factory was probably capable of more than it would admit, but they did not know by how much more. The standard solution was to set the next target on the basis of the most recent results, i.e. the “achieved level,” plus an increment. The benefit of this rule was that it resulted in plans that were likely to be feasible while also “stretching” the producers a little. But there were also drawbacks. One was that the rule tended to make plans conservative; planning “from the achieved level” inhibited structural change, especially the downsizing of industries that should have been allowed to decline. Another was that the same rule gave the producers an instrument to manage planners’ expectations; by keeping down the “achieved level” today, they could ensure a still easier plan tomorrow. In the 1960s and 1970s the Soviet Union, like other socialist economies, experimented with planning reforms. These reforms typically aimed to motivate producers to tell the truth about their capabilities and to cut costs by working harder without being watched all the time. In practice the experience of reform was almost entirely fruitless. To get incentives right the planners needed to set prices for outputs and inputs that reflected their social value, but this depended on information that producers controlled. But the producers did not trust planners with this

information because it could also be used to make them work harder. Therefore, producers continued to work at concealing the truth from the planners rather than at being more efficient. In turn the planners had to continue to watch and control them with plans.

In the end the failure of this type of planning is symbolized by the declining growth rates of the Soviet-type economies. The lag of productivity and living standards behind Western Europe and the United States, which closed somewhat in the 1950s and 1960s, widened steadily thereafter. While the immediate causes of the collapse of socialism in Europe at the end of the 1980s are debatable, it seems beyond doubt that Soviet planning failed to adapt to changing tastes and technologies at the end of the twentieth century.

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