Name of practice: *pripiski* (plan fraud)
Where found: Soviet Union
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Pripiski ('add-ons') is a Russian word denoting plan fraud—a form of accounting fraud that was specific to command economies under Communist rule.

Accounting fraud is found in all economic systems that separate the ownership of business assets from their management, so that managers must report performance to the owner or to superior officers. By falsely overstating performance, the manager is able to extract a benefit from the enterprise—directly, through a performance-based incentive, or indirectly, by creating a cover for some other criminal activity. The victim of accounting fraud is the owner or shareholder, whose true residual income from the enterprise is less than reported in the accounts. Because the fraud is not victimless, there is generally someone who has an incentive to expose it.

In Communist command economies, accounting fraud had specific features. First of these was the form of the fraud. Under the command system, managers' performance was evaluated by the degree of fulfilment of a plan, which specified the quota of output to be delivered to the state. Plan fraud involved falsely claiming fulfilment of the quota, and *pripiski* denoted the non-existent output 'added on' to true output to make up the false claim. By overstating performance, the manager could obtain promotion, or a bonus, or reduced oversight. Such gains were generally shared with others: the management team, and sometimes the entire workforce, would enjoy public recognition or private rewards.

Plan fraud came to light if a victim or someone with inside knowledge blew the whistle. In principle the enterprise was state-owned, so the state was the legal victim, but this does not tell us who suffered directly. Suppose the plan required 100 tons of steel. When the enterprise claimed to have produced 100 tons, but delivered only 70, the immediate victim was the state purchaser, now short of 30 for use or further distribution. Downstream were more victims: the steel-users that would be short of steel and who shared an incentive to expose the crime.

This indicates another feature of plan fraud: it relied on informal networks. A strong network based on mutual obligation and collective responsibility (see *krugovaya poruka*) was needed to co-opt victims and silence whistle-blowers. Such networks were easily formed. Inside the enterprise, colleagues and subordinates stood to gain from the manager's deception. Ministerial superiors could also share the credit. Outside the enterprise were the victims, who would suffer losses. Therefore, the victims also had to be brought into the venture because, if left outside, they might expose it.

During the Communist period, evidence on plan fraud was anecdotal, based on press reports and the recorded impressions of emigrants. The Soviet press offered selective reporting of particular cases. Expert evaluation suggested that this was the tip of an iceberg (Nove 1957; Berliner 1957; Grossman 1960; Shenfield 1983; Shenfield and Hanson 1986; Linz 1988; Gregory 1990). Beneath the waterline lay undetected (but probably minor) offending on a wide scale.

Since then, more evidence has come from former Soviet archives (Harrison 2011; Harrison and Markevich 2016). The core evidence comprises records of 59 trials involving 163 defendants convicted on charges of plan fraud between 1943 and 1947, and 88 Communist Party investigations of 454 Party members involving proven cases of plan fraud between 1943 and 1962. The archival records differ from Soviet-era press reports in that they are uncensored: they were selected as typical, for the information of Party leaders, whereas press reports were limited to what was thought suitable for public education.

Archival documents reveal a range of offenders. The most organised fraudsters systematically hid poor results to show loyalty, win reputation, and obtain bonus payments. Some managers did the same in order to be left alone while they carried out other crimes, for example embezzlement or asset stripping. In a third category were managers promoted above their capability, whose work was so chaotic that they were unable to do anything without breaking rules. These engaged in plan fraud to postpone the discovery of their other shortcomings.

The more common methods of plan fraud may be ranked in order of increasing risk of exposure. The safest method was to meet the plan by running down inventories, keeping the planner in ignorance. This was the only method that did not require the collusion of outsiders. Typically it came to light only when the plan fraud was used to cover crimes such as asset-stripping that others with inside knowledge found to be too risky.

Next was reporting work-in-progress as finished output. This stratagem required the collusion of the buyer, who had to sign for products not yet delivered. In effect the buyer 'loaned' the missing products to the seller, trusting the latter to make the arrears up in the next period. The buyer's incentive was usually the need to keep the seller's goodwill, backed by the seller's implicit threat to treat the buyer even worse in future. Such threats and promises could work for a while, but fell apart if arrears accumulated, so that downstream plans were threatened.

Another scam, widely practised in industry, construction and agriculture, was 'quality shading.' The seller met the quota, but with products made from inferior materials or to inferior standards. Here the buyer's cooperation was based on their inability to prove a deficiency or, again, fear of yet worse treatment in future.

The largest frauds took place in agriculture, where local Party organisations shared farmers' incentives to report success. When harvests fell short, everyone in the local administration was under pressure to hide the shortfall 'for the good of the cause.' To make up the quota, farms sold crops that were allegedly standing in the field to state distributors based on a promise to deliver the harvest later in the year. When the harvest failed, they would quietly buy the missing produce back. They also sold produce to the state, then bought it back and sold it to the state again; on occasion they recycled produce that they bought back from their own members. In this way, farms, distribution agencies, and retail stores could count the same grain and butter against the plan several times over. Such scams were particularly risky because, when the harvest failed across a region, many agencies were trying to do the same thing in competition with each other, making concealment more difficult.

Economists seeking to measure the real growth of command economies were interested in whether the incidence of plan fraud varied over time. Optimistically, Alec Nove (1956) proposed a law of 'equal cheating': if fraud was equal over time, measures of real year-on-year growth would be unaffected. Stephen Shenfield (1983) took a gloomier view, suggesting that fraud was likely to rise and fall with plan tension. On the archival evidence, Shenfield was on the right track. The distribution of Party investigations from 1943 to 1962 (the only continuous period for which we have data) shows several waves. A positive correlation between the annual value of cheating and the number of reported offenses suggests that the waves were caused by variations in the level of crime, not of policing. On that basis, the extent of plan fraud rose and fell from year to year, making it harder to trust reports of the annual change in output of command economies.

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