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**DEVELOPMENT FEATURES OF PRIVATE
ENTREPRENEURSHIP IN MIDDLE OF 1920s**

S.V. Vinogradov (a)*, E.V. Savelyeva (b), Yu. G. Yeshchenko (c), O. A. Dzhagaeva (d),
V.B. Ubushaev (e)

*Corresponding author

(a) Astrakhan State University. 20a, Tatishchev st., Astrakhan, Russian Federation,

(b) Astrakhan State University. 20a, Tatishchev st., Astrakhan, Russian Federation,

(c) Astrakhan State University. 20a, Tatishchev st., Astrakhan, Russian Federation

(d) Kalmyk State University named after B.B. Gorodovikov. 11, Pushkin st., Elista, Republic of Kalmykia,

(e) Kalmyk State University named after B.B. Gorodovikov. 11, Pushkin st., Elista, Republic of Kalmykia, Russian
Federation

Abstract

The private business sector has developed as an integral part of a mixed Russian economy, formed under the influence of many geographic and historical reasons. All attempts to quickly abandon the natural multistructurality undertaken by the new government during implementation of the “war communism” policy led to a serious economic and political crisis of 1920-1921, accompanied by famine. During this period, the majority of the peasantry and the urban population came out against the Soviet government. The new economic policy (NEP), announced at the 10th Congress of the RCP (b) in March 1921, was designed to reassure the indignant population, primarily the peasantry, and to restore the destroyed economy. A return to the settled state of multistructurality soon gave a positive effect. Private enterprise began to revive again. But for ideological reasons, private entrepreneurs, contemptuously named communists nepmen, worked under serious pressure from the authorities.

It seemed that private capital had no prospects for serious development in the USSR at all, even under conditions of a new economic policy. However, supporters of the further movement of NEP towards liberalization received the dominant influence on the economy. Studied archival documents and materials of periodicals of that time allow us to conclude that 1924-1927 was a period of private entrepreneurship maximum development in the economy of the USSR. Private capital achieved significant success in trade, services, fish industry and grain procurements. Private entrepreneurs were much more efficient than state organizations and cooperation in these areas.

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1. Introduction

New economic policy, restoring the mixed structure of the Russian economy, has revived the competition of various economic structures. After the prohibitions of “war communism” period in 1918-1920 private entrepreneurship, foreign concessions, various forms of cooperation, leasing, and mixed capital companies have once again become an integral element of the country economic life. The activity of private entrepreneurship in the period of its maximum development in 1924-1927, and its importance in the development of industry, trade and agriculture of the USSR are considered in the article. The positions of supporters and opponents of the new economic policy are shown. The views of I.V. Stalin, N.I. Bukharin, F.E. Dzerzhinsky, A.I. Rykov and other famous politicians and economists of that time on the development of the market and private entrepreneurship in the USSR are outlined. The reasons for the collapse of the new economic policy and the elimination of private entrepreneurship in the late 1920s are revealed.

2. Problem Statement

The “golden age” period of private entrepreneurship in NEP period or the “spirit of 1925” (N. Valentinov's term) (Valentinov, 1991) lasted a very short time, and the period of civilian world turned out to be fragile and unreliable. Only four years: 1924-1927. At this period the main struggle for power took place inside the top leadership of the RCP (b) - UCP (b), - between power groups of I.V. Stalin on the one hand and L.D. Trotsky and G.E. Zinoviev on the other. Under these conditions, the “right communists” received the maximum influence on the current economic affairs, and the General Secretary of the Central Committee of UCP (b) I.V. Stalin supported some of their economic initiatives (Zhukov, 2017). N.I. Bukharin and the “right-wing communists” advocated for the development of the market and private entrepreneurship in the framework of new economic policy (Latsis, 1989). The famous Bukharin appeal: “Get rich!” became the personification of NEP economic freedom.

3. Research Questions

To explore the period of the new economic policy is difficult because of its deep inconsistency. Hence, the opinion range of various historical schools is observed that seemingly study the same, scientific discussions, polemics. Various directions of social political thought found confirmation of their ideas in NEP. The opinion range was the broadest, from the laudatory: “NEP is amazing breakthrough fragments in something new” (Gefter, 1990), to a critical one: “NEP was a new economic policy only for the Bolsheviks. The majority of people perceived it as a return to the old, well-known order” (Lushin, 1997).

Idealizing NEP as the most successful period in Soviet history, many historians admired the miraculous revival of the economy after the chaos of wars and revolutions. The experience of the new economic policy was offered to apply for a lesson in solving modern problems. “The period of the new economic policy of 1921-1929 is a period without exaggerating the brilliant development of a new society” (Shmelev & Popov, 1989). That is how soviet economists N. Shmelev and V. Popov estimated the 1920s. O. Latsis was close to them in the NEP assessment. His work “Fracture” caused a wide public response, aroused interest in the history of the 1920s. Many other works can be enumerated, reflecting a variety of opinions.

4. Purpose of the Study

The aim is to study the role and characteristics of the private entrepreneurship development in 1924-1927, in the period of its maximum development for the USSR economy.

5. Research Methods

The methodological basis of the study was the fundamental principles of historicism, objectivity and consistency in the material coverage.

The objectivity principle allowed the most balanced approach to the source analysis of research base and avoid ideological preconception when assessing the new policy effectiveness to restore the economy and social stability.

The historicism principle enabled to consider the role of private entrepreneurship in the USSR economy in a historical retrospective.

The systemic principle involved the consideration of a scientific problem in the totality of its components, such as the private farming development, competition emergence, the growth of private and retail trade, and the subsequent start of strict regulation of private capital and industry monopolization.

The authors used a set of specifically historical and general scientific methods when working on the study. Causal relationships and patterns in the development of the private capitalist sector in 1924-1927 were identified with the help of the historical genetic approach. The comparative historical method allowed us to analyze the changes in the country economy with the introduction of a new economic policy. The problem chronological method enabled to identify the main issues that the party leadership had to face, both with the introduction of NEP and throughout the entire period of the implementation of the new economic policy.

Such general scientific methods as analysis, synthesis, induction, deduction, systematization were used in the study.

6. Findings

New economic policy contributed to the rapid recovery of the Russian economy. Competition was revived in some industries, concession capital came in, cooperation worked effectively, joint-stock companies were formed, leasing, intermediary entrepreneurship, and handicraft industry were restored. All this again became an integral part of economic life (Shmelev, 1989).

The private capitalist structure of the Russian economy, even in the face of oppression and restrictions on the part of the authorities, demonstrated considerable creative potential. For instance, at NEP beginning, the brewery in Samara was in a destroyed state. The equipment of the enterprise was plundered. After NEP announcement, the enterprise, or rather what was left of it was rented by its pre-revolutionary owners. They invested in the purchase of new equipment, and were able to quickly revive the production of “Zhigulevskiy” beer, which was popular not only in Samara, but also in other regions. Entrepreneurs invested almost 500 thousand rubles in the reconstruction of production (prices of 1924). There were many similar cases of the private capital effective work in industry in the 1920s.

Focusing mainly on the needs of citizens, the owners of private entrepreneurship filled those segments of the market with a shortage of certain goods. These products became a complement to the

limited range offered in government stores. The winner turned out to be a simple Soviet citizen - a buyer, for whom previously scarce goods became available at an inexpensive price. The study of archival documents shows that private industrial entrepreneurship overtook state factories in terms of productivity and wages (Shmelev & Popov, 1989).

In order to achieve good results, the nepmen tried to squeeze the maximum, both from equipment and from workers. The labor inspectorate and trade unions during inspections recorded numerous violations by private entrepreneurs. The nepmen were severely punished for that. But violations of labor laws in the public sector took place, and the demand from the inspection bodies was different. Private entrepreneurs were much more often brought to justice than the heads of state factories and plants. Newspapers often published reports from court hearings, where nepmen were judged for “brutal exploitation” of workers, but they preferred to ignore violations by “red directors”.

The strengthening of the private capital position in trade was going at an especially fast pace. In 1922, a year after the start of operations, private capital controlled most of the retail trade and half of the wholesale trade operations. But here, his role was largely positive. Even leading government economists admitted that in the early years of NEP, private commercial entrepreneurship was an important link that connected urban industry with private farming (Kron, 1926). The skillful use of market conditions, the high efficiency of managers and the salesperson competence guaranteed high profits to private entrepreneurs in their trading operations (Koritsky, Lavrikov, & Omarov 1990).

The restoration of multistructurality led to competition in a number of sectors of the NEP economy. The results of our research allow us to conclude that in those areas of economic activity where competition was revived, the recovery took place much faster. A convincing example of this statement is the rapid rise of the Volga-Caspian fishing industry, which surpassed its prewar indicators in 1926.

Sociological and economic institutions were preserved and continued to function in many provincial cities since the pre-revolutionary period, receiving new impetus for development during the NEP years. Now they were taken under the wing by the governorate executive committee, economic meetings, etc. Research and materials of such institutions (and this is a large reservoir of sources that are poorly covered in the scientific literature) recorded improvements in the lives of ordinary citizens during the period under study (Turitsyn, 1998). An important element in improving the living conditions of the working people was the increase in social protection from the state, which, was undoubtedly brought by Soviet power. Researchers of the 1920s came to the conclusion that the workers lived better under NEP than in 1913 (Likholet, 2009). Owing to the effective social policy of the Soviet state, the workers and their families not only began to eat well, but were given the opportunity to provide children with education. Medical services, clubs, libraries, theaters became accessible to workers, which was almost impossible to imagine in the pre-revolutionary times. An important element in maintaining social stability in production, the atmosphere of creative initiative and the search became production meetings, well proven in the NEP period (Likholet, 2014).

A significant achievement of the new economic policy was the cease of peasant uprisings and the establishment of civil peace, owing to which the energy of people discontent was redirected to a positive direction of the country creation and restoration. With the proclamation of NEP, citizens were again given the opportunity to return to their usual ways of life: handicrafts, small businesses, trade in newly opened

markets. Many started “their own business”, concerns about “daily bread”; and citizens could only meet with government officials at the time of paying taxes.

As state industry strengthened, some of the top party leaders and the leaders of state enterprises supporting them, the so-called “red directors,” began to express their negative opinion on the desirability of further using private entrepreneurship in the country economy. Striving for complete control over economic life, the NEP opponents in power explained the effectiveness of private entrepreneurship in small and medium-sized industries, as well as in trade only by “brutal exploitation of workers”, which surely took place in reality, but was presented by state propaganda in a hypertrophied form. It was necessary to somehow justify the inefficient work and failures in the state industry work.

Such reasoning could not cause a response not only among entrepreneurs but also part of the party and state leaders, supporters of the NEP. This is explained by the presence of a number of discussions with the participation of Government members, nepmen economists, economic managers, as well as representatives of private capital, held in 1924-1926. (Ehrlich, 2010; Valentinov, 1991).

A.I. Rykov, CPC Chairman, speaking at the sixth congress of trade unions in November 1924, was in favor of ending “unlimited lending to the co-operation to the detriment of a private merchant”, citing the receipt of extra funds for restoring state industry. He called administrative practice “a crime” in which “private traders were eliminated, and no other trade was organized” (Rykov, 1924). The government head was supported by industrialists. F.E. Dzerzhinsky, the Chairman of the UCNE, spoke out against “excesses” in relation to private capital at the Presidium meeting of the UCNE USSR and the Union Republics in December 1924. In February 1925 V.N. Mantsev, the Chairman of the Trade Commission of UCNE fixing the inability of the state and cooperative network to the rapid trade turnover, spoke in favor of the long-term use of private commercial capital (Mantsev, 1925). From the point of view of the new economic policy supporters in the UCP (b) leadership, the efficiency of private merchants work brought significant benefits to the state industry, and it was inappropriate to oust it. Representatives of the government economic block (in modern terms) in the studied period adhered to a close point of view in relation to private entrepreneurship. “The trade link between town and country is impracticable without a broad participation of private capital”, I.T. Smilga the Deputy Chairman of the State Planning Committee, concluded. G.Ya. Sokolnikov, People's Commissar for Finance of the USSR believed that “private capital should be given a proper place in our economy, ending the confusion caused by the very fact of private turnover (Sokolnikov, 1925).

Well-known economists G.I. Krumin, E.P. Milyutin and others reasoned similarly. G.I. Krumin, for example, connected directly the crowding out of a private wholesaler with the product shortage (Krumin, 1925a). He spoke in favor of creating conditions for private capital that “would not expel him from industrial goods trade” (Krumin, 1925b). In this regard, the “Economic Life” edited by him advocated the establishment of a long-term and sustainable state policy in relation to private capital. “It’s time to stop rushing from one extreme to another,” the newspaper wrote (Krumin, 1925c). Surveys among commercial directors of trusts and syndicates, published in the spring of 1925 in the “Trade and Industrial Newspaper”, showed their support for private trading business. They preferred to do business with private entrepreneurs rather than with cumbersome state and cooperative organizations, and spoke in favor of creating economic and legal guarantees under which “private firms could work without fear of any surprises”. But at the same

time, these representatives of state industry were against the “excessive strengthening” of a private trader, limiting his participation in the trade turnover to a maximum of 35% (Valentinov, 1991).

I.V. Stalin tried to bypass the topic of private entrepreneurship in his speeches of mid.1920s, as far as possible. As noted above, he needed the support of N.I. Bukharin and other right communists while there was a struggle of the Trotsky-Zinoviev group for power in UCP (b). But from the beginning of 1927, his position began to change as the positions of the Central Committee Secretary General of the UCP (b) and his supporters in the highest party-state structures of the Soviet Union were being strengthened. On I.V. Stalin initiative government authorities began to take tough measures against private capital. He resolutely spoke out for the elimination of the elements of capitalism in industry and commerce, noting that now this question was of fundamental importance at the XV Congress of the UCP (b) in December, 1927 (Stalin, 1952). The elimination of these capitalist elements, that is, the private entrepreneurship, was carried out with the help of administrative measures.

The party leaders, most of them had been appointed by Stalin, taught by previous experience to be vigilant about the “fluctuations” of party politics, began to demand tough measures to oust private capital from industry and commerce. Demonstration trials under private entrepreneurs began in the provincial centers, and they were denied loans under any pretext (Turitsyn, 2013). “At the last party conference, we criticized the State Bank”, was stated at the XI Astrakhan Provincial Party Conference on December 15, 1922, “because nepman has a considerable percentage of its capital. To date, these errors in his activities have been fundamentally corrected. 72% of the capital is now working for state-owned factories and plants, 20% is for the co-operators, and only 8% is still for the nepmen” (State Archive of Modern Documentation of the Astrakhan Region (SAMD AR), D.101, L.15).

In November 1926, the Information Department of the Central Committee of the UCP (b) in its reports recorded the question statement on establishing the administrative regulation of private capital in trade by provincial committees to the Central Committee (Russian State Archive of Social Political History, p. 44). In the summer of 1926, the Astrakhan Provincial Department of Internal Trade decided to stop issuing loans to private grain producers (SAMD AR, D.131, L. 119). On April 6, 1927, the Astrakhan Governorate Committee of the UCP (b) decided: “To offer the heads of cooperatives and state enterprises (party members) to solve all questions on the procurement of products produced by the artels of the union only with state supply organizations and not to deal with private capital” (SAMD AR, D. 176, L. 77). At the same meeting, the Bureau of the Governorate Committee of the UCP (b) made a decision to limit the receipt of loan by private entrepreneurs operating in the fishing industry as much as possible (SAMD AR, D.131, L.78).

In the autumn of 1926, the order of the People's Commissar for Trade of the RSFSR “On the regulations for the manufacture provision to private retailers” was issued, forbidding the regional offices of the All-Russian Textile Syndicate (RTS) to sell the manufacture to private traders.

Position of N.I. Bukharin and the other right differed from Stalin one. So, Bukharin, in a speech before Leningrad communists in October 1927, touching the theme on the state attitude to private entrepreneurship, reported “we drove the private owner to the “pocket”, our industry, our economy became the locomotive of the national economy, private owner now plays a completely secondary role in the industry”. But Bukharin still believed that ousting should not be forced, by administrative measures, but as

a result of a victory in the competitive struggle, due to more efficient work of state and cooperative enterprises (Bukharin, 1988).

Formally, N.I. Bukharin and A.I. Rykov held high party and state posts before 1930 and were members of the Central Committee Politbureau of the UCP (b), but, in fact, they were pushed aside from taking important decisions and could not influence the development of the country.

It should be noted that the leadership course of the UCP (b) to liquidate the capitalist elements in the city and village taken in the late 1920s was popular and found a response among ordinary party members, and ordinary citizens. So, in February 1927 at a meeting of the Saratov party cells to the question of why the worker baker submitted an application for admission to the party after 4 years of candidate work experience, the worker answered the following: “There was no time, I worked a lot. There was no time to go to meetings. But now the hosts have come again. They offend the workers, they profit from them. Women are forced to work for days. The workers have constant conflicts with them. I struggle for justice with the masters and can only achieve this with the help of the party. Therefore, I decided to become a member of the party”.

7. Conclusion

The party-state leadership of the Soviet Union, in a politically complex period of the late 1920s, could not objectively recognize the fact that a quick way out of the economic chaos of the early 1920s was achieved, including the activities of “capitalist elements”. Their experience, capital, knowledge and work have become a significant contribution to economic recovery. Private entrepreneurs, with their tireless energy, set in motion the tight, mass-bound bureaucratic restrictions, the mechanisms of state industry, accelerated the transition of public sector enterprises to cost accounting (Batrašev, 2014). But as the documents show, this did not add nepmen sympathy and respect among the people. In addition, the communist propaganda through periodicals, the work of primary party organizations, using the means of literature and art, introduced a negative image of the capitalist exploiter into the mass consciousness, in every way preventing the industrialization of the USSR.

Since 1927, the policy of ousting private capital through administrative measures, and not as a result of a victory in economic competition, as proclaimed when NEP was declared, became dominant in the leadership of the UCP (b).

The historiography of the Soviet period focused its attention on the victory over the capitalist elements of the city and the countryside, over nepman and kulaks, who were almost the main obstacle to industrialization. Our study shows that the private entrepreneur activity has been positive in many areas of the country economic life. However, the USSR significant lag behind economically advanced countries in an increasingly complex international situation forced the leadership to take drastic measures to accelerate the industrialization and concentration of all internal reserves for its implementation (Turitsyn, 2014, p. 94-95). Under these conditions, the activity of private entrepreneurship had been largely curtailed by 1930.

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