

Development of Entrepreneurship During the Nep Years: Innovation, Forms, Technologies



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Abstract: *This paper is concerned with studying the evolution of entrepreneurship during the NEP (New Economic Policy) years and the establishment of new forms of social stratification in Russia. The authors discuss the specifics of entrepreneurship, its scope and sources of capital accumulation in 1921-1925. The proportions of public sector vs. private entrepreneurial enterprises in 1923 are profiled. The evolution of entrepreneurship in urban and rural areas in 1925-1926 is described.*

Keywords: *entrepreneurship, New Economic Policy, socialism, private and public ownership, private capital.*

I. INTRODUCTION

Analyses of socio-economic development of countries suggest entrepreneurship as an economic form has been and continues to be an integral economic element. Particularly, free entrepreneurship is the primary component of highly efficient market economies. It is exactly the establishment of the free entrepreneurship system that ensures equal opportunities and rights for economic subjects. Countries, where this goal is achieved, maintain optimal employment levels and prosperity for a majority of its population. For this reason, Russia, amid its current market transformation, has embarked on the course to revive private, joint-stock, cooperative and other types of entrepreneurship. However, the newly established and reorganised economic subjects are still extremely inefficient.

The relevance of this paper also owes to the socio-economic experience of economic self-realisation of the society in production and consumption during the NEP (New Economic Policy) years. Understanding the

socio-economic aspects of the operation of the private entrepreneurship system in key sectors of production and social services (commerce, manufacturing and agriculture), its relations with public authorities and public associations will be helpful in detecting the contradictory factors of economic development and avoiding errors in setting up modern production relations in Russia.

Therefore, the purpose of this paper is to study the evolution of entrepreneurship in the NEP years and the establishment of new forms of social stratification in Russia.

II. LITERATURE REVIEW

The establishment of entrepreneurial subjects and their performance is addressed by researchers such as S.V. Vinogradov, Iu.G. Eshchenko, N.I. Kulakova [1], Iu.A. Uzlov [2], S.V. Bogdanov [3], D.K. Batrashev [4], Iu. Zhukov [5], A. Erlikh [6], M.A. Matveeva [7], M.N. Dudina [8, 9], V.M. Repnikova [10] and many others. Generally, the problem of efficient operation of entrepreneurial movement potential is not yet sufficiently researched. In many respects, it reflects a failure to fully accommodate the historical experience of the development of entrepreneurship in economic transition, particularly in a mixed economy of the NEP period.

In early 1921, the policy of "war communism" based on total state control over all economic elements and command-repressive management methods was replaced with the NEP. The development and implementation of the latter brought about the government's focus on collective ownership and collective entrepreneurship. Collective entrepreneurship, in fact, amounted to cooperative and joint-stock entrepreneurial enterprises based on collectivist principles. As it developed its version of socialism, the Bolshevik leadership opted for full state control of the factory-and-works industry. It significantly hindered the expansion of entrepreneurship in large-scale industrial production. Counterinitiative activity in this direction was viewed as a phenomenon of anarcho-syndicalism.

III. PROPOSED METHODOLOGY

A. General Discription

The variety of methods applied in the paper to study the evolution of entrepreneurship during the NEP years included the empirical, systems, analytical, economic and other methods of research.

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B. Block Diagram

The aspects and scope of entrepreneurship and the sources of capital accumulation in 1921-1925 were determined by the objective environment of the NEP years and the regulatory

policy of the Soviet state.

Table 1 lays out information on the objects of private entrepreneurship in 1923.

Table 1: The relative share of entrepreneurship in the industry in 1923 [1]

Industry	Number of operations	Relative share in the industry, %	Number of employees	Relative share in the industry, %
Quarrying and processing of rocks, soil, clay	37	22.22	5,090	6.38
Mining and metallurgical works	12	0.72	1,255	1.57
Metal works	133	8.02	5,544	6.95
Machinery, tool, and device production	97	5.84	4,573	5.74
Wood processing	126	7.61	4,816	6.04
Chemicals	48	2.91	2,646	3.32
Food	739	33.71	28,899	20.06
Leather and fur industry	130	30.52	4,604	12.64
Textiles	92	1.8	9,961	1.8
Clothing and accessories	118	33.91	6,571	11.56
Other	126	1.9	6,189	0.3
Total	1,658		88,934	

Table 1 suggests that entrepreneurship had the biggest relative share in the food (33.71%), fur and leather (30.52%) sectors and the production of clothing and accessories (33.91%). The smallest share was registered in mining (0.72%).

The above data shows that entrepreneurship was most significant in food and clothing and accessories production vs. less significant footprint in other industries.

Figure 1 shows the relative proportions of the public sector and private entrepreneurial enterprises in 1923.

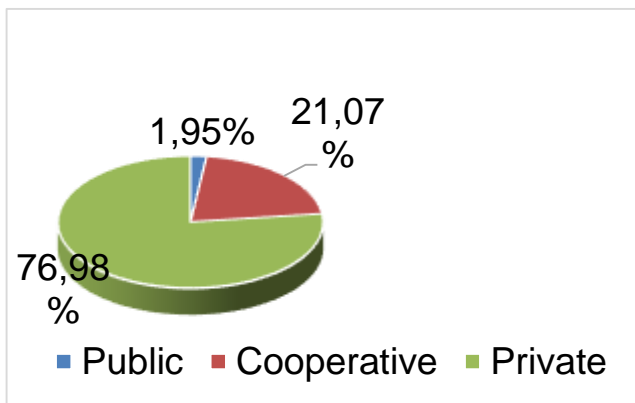


Fig. 1: Relative proportions of the public sector and private entrepreneurial enterprises in 1923.

Figure 1 demonstrates the prevalence of private entrepreneurship in the national economy.

IV. RESULT ANALYSIS

As to the backgrounds of the NEP bourgeoisie, it is worth noting that it emerged from both the old pre-Soviet bourgeoisie and the former peasant and artisan communities [4]. In 1921-1922, nearly half of all enterprises were under a lease with their former owners [5].

The NEP bourgeoisie was most active in commerce: in

absence of a well-developed commercial network, the Soviet state initially engaged private capital as an intermediary to help it in marketing production output [7]. Late in 1925, private merchants operated almost the entire retail network, 62% of mid- and large-scale wholesale operations. Statistics show that the “Nepmen” controlled approximately 90% of fairs and 70% of permanent commercial entities in the retail sector [7].

By the mid-1920s, when the legal basis of commerce was being refined, the following trends were observed in terms of the number of private commerce enterprises. There were 9,607 enterprises in the second half of 1922/1923, while in the first half of 1923/24, the figure stood at 62,722. The rapid growth of private enterprises in commerce eventually helped to restore 51.8% of the pre-war commerce system in 1922/23. At the end of 1926, retail margins were twice the level observed before the war [7].

Often, private entrepreneurs would not refrain from illegal methods of capital accumulation or even fraud sometimes. For instance, taking advantage of the so-called “price scissors” and product deficits in a period when the Soviet state had not yet established a fixed average commercial margin rate, the Cooperative Union earned 13.5 million roubles of net profit for only one half of 1926 [7].

Private capital was less active in manufacturing as compared to the commerce sector. Engaging private entrepreneurs in the industrial recovery as the economy sought to overcome the crisis, the Soviet leadership understood it was speeding up positive economic processes in the country. A new social group emerged, which was registered in the census of 1923 as “proprietors with hired labour”. These were primarily the owners of industrial facilities, more or less prominent entrepreneurs (not to the prewar level, though), namely,

factory and works owners, principals of craft operations with hired labour, contractors of construction works, etc. Quite limited in number, they only represented approximately half of a per cent of the total Nepmen community. Despite the low numbers, this social stratum received the biggest share of income and controlled a dominant share of capital. This category of the Nepmen operated within a narrow scope of business, primarily in the production of items of mass demand. They represented a typical entrepreneurial organisational form, census production enterprises.

It had three socio-economic forms, namely, state, cooperative and private entities differing in their operational relationship patterns, hiring terms, production facilities and roles in the society's economic life.

Figure 2 shows the structure of commerce in 1923 by ownership forms.

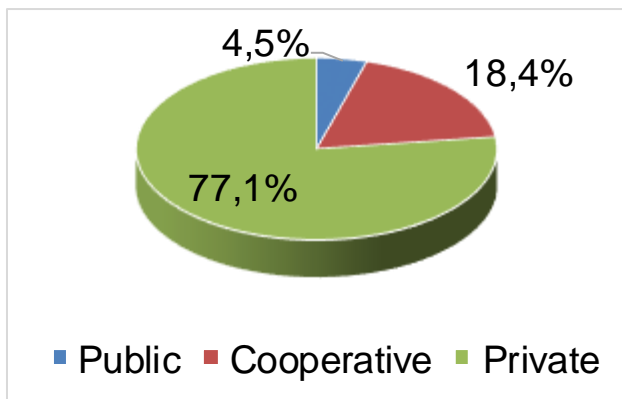


Fig. 2: Structure of commerce in 1923 by ownership forms.

There were two criteria of a census production enterprise, namely, hired personnel and mechanical engine power. The operation was designated as a class enterprise if it had 15 workers and a mechanical engine or at least 30 workers operations not equipped with an engine. Thus, the census related not to class criteria but rather specific socio-economic factors. By the forms of ownership, private census enterprises could be classified as private, leased and concession types [5].

Concession enterprises, in fact, remained as only a legal form solution.

Privately-held census enterprises were different from others in terms of socio-economic development, labour organisation and the entrepreneurial stance of their owners. They began to emerge starting from 1922. There were 490 of such enterprises of factory-and-works production in 1924, 502 in 1925, 464 in 1926, 315 in 1927 (Figure 3). The main group comprised food industry operations [6].

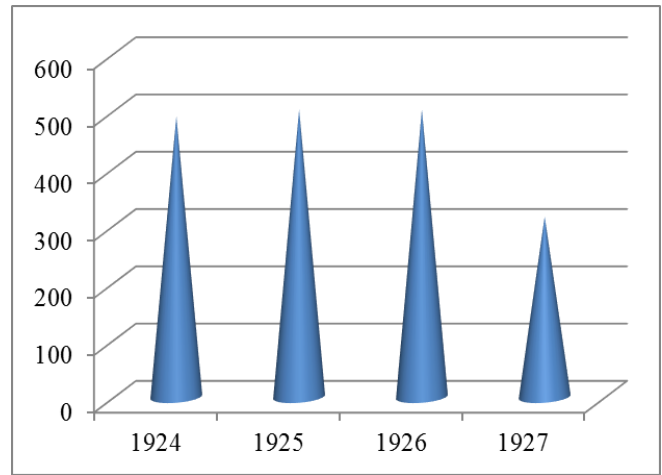


Fig. 3: Dynamics of census production enterprises.

Soon after the NEP was launched, even before the adoption of the respective regulations, the government started to offer operations on a lease. Commissioning of small enterprises by private individuals on a lease or purely ownership terms was provided for by the Decree of the All-Russian Central Executive Committee (VTsIK) "On artisan and small-scale production" dated 7 July 1921. At the end of 1921, there were 6,015 production enterprises operating on lease terms. Of those, 1,580 were operated by private holders, 256 were operated by artels, 544 by cooperation entities, 82 were run by public bodies and the remaining entities (3,553) had no indication of the operator's social status in the economic council [7].

The lease terms depended on specific circumstances, such as industry and production type, but spanned at least one year according to statutory requirements.

Lease agreements were concluded for up to 12 years, but most enterprises were leased for 3-5 years. The proportions as a percentage were as follows: 70% of enterprises were leased for one to three years, 15% – for a period of three to five years, only 5% of enterprises were leased for more than five years and the rest were operated within one year [2]. The government thoroughly reviewed lease applications, taking into account not only the applicant's social background but also commercial aptitude, entrepreneurial focus, technical abilities, financial calculations, product range, economic viability of production volumes, etc. [2]. Leased enterprises really operated within qualitative and quantitative references and were mostly privately-held. The total output of all leased production operations in 1925/26 equalled 190 million roubles. Leased operations provided 70% of the total value of the local budget and its physical volume of goods ran at 2.5 times the volume of the local industry. The production turnover of 77 thousand leased operations in the autumn of 1925 was 303 million roubles, or 21.5% of the total turnover across industry [7].

Leased operations were present in almost all industries. The economic improvement led to the more rapid growth of leased operations, which gained traction after the gradual recovery of agricultural production.

Thus, the prevalence of leased production in the food industry was not a coincidence. While there were 1,709 leased production enterprises in 1922/23, the figure grew to 5,095 in 1924/25, with 80% being mills and creameries [7].

The proportion of private enterprises among all leased census production operations was at 24.3% in 1923/24, 23.9% in 1924/25, 21.5% in the first half of 1925/26, while the respective number of employed workers did not exceed 2.6% [7]. This low worker figures at private operations are, firstly, due to shadow hiring and, secondly, the engagement of family members in production in this category.

Table 2 and Figure 4 show tax revenue proceeds in the budget for 1923-1924.

Table 2: Tax revenue proceeds in the budget for 1923-1924, million chervonets roubles [7].

Indicator	1923	1924
Privately-held industry operations	20,815	21,232
Private leased industry operations	71,451	70,700

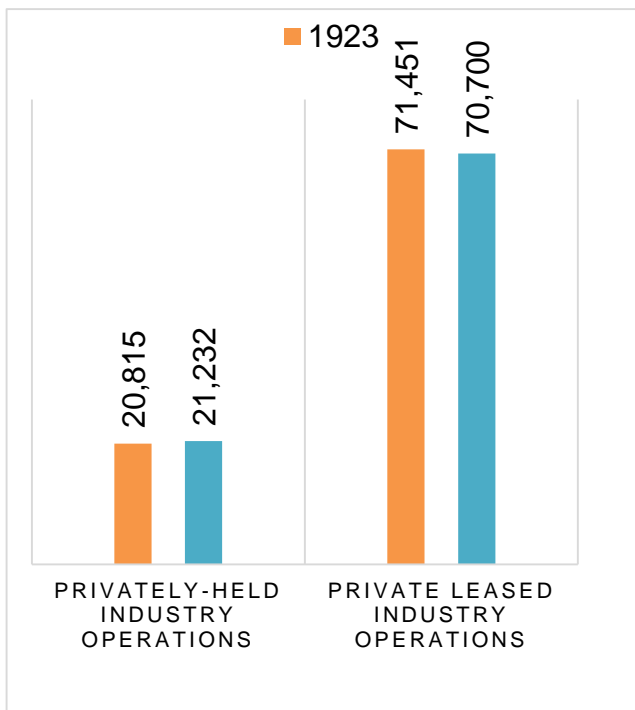


Fig. 4: Tax revenue proceeds in the budget for 1923-1924, million chervonets roubles.

The situation was different in mineral deposit development, where private capital was hardly present.

Private capital had a considerable presence in artisan and craft production. Pursuant to the Soviet legislation on artisan and small-scale production (1921), a majority of minor entities was denationalised, and this allowed artisans to launch own business.

Census records showed this group as “proprietors engaging only family”, which included the owners of minor industrial entities and artisan and craft production operations run solely within families without employing other people. This category also included the owners of all types of taverns. The 1923 census of the urban population registered a social group

referred to as “proprietors of tavern operations” including hotel and inn owners. The respective figure was only 436.

Artisan and craftsman circles also found this area to be very promising, as it left almost no room for state control over their income. The area of business of artisans and craftsmen was limited to the production of mass consumer products and household services. The prevailing occupations were shoemakers, clock masters, tailors, jewellers, etc. [7].

A major percentage of “proprietors engaging only family” operated in agriculture. In urban localities, those were primarily such proprietors engaged in agriculture within city areas (primarily horticulture and gardening) or in the suburbs and marketing their produce.

Development of entrepreneurship in urban and rural areas in 1925-1926 is shown in Figure 5.

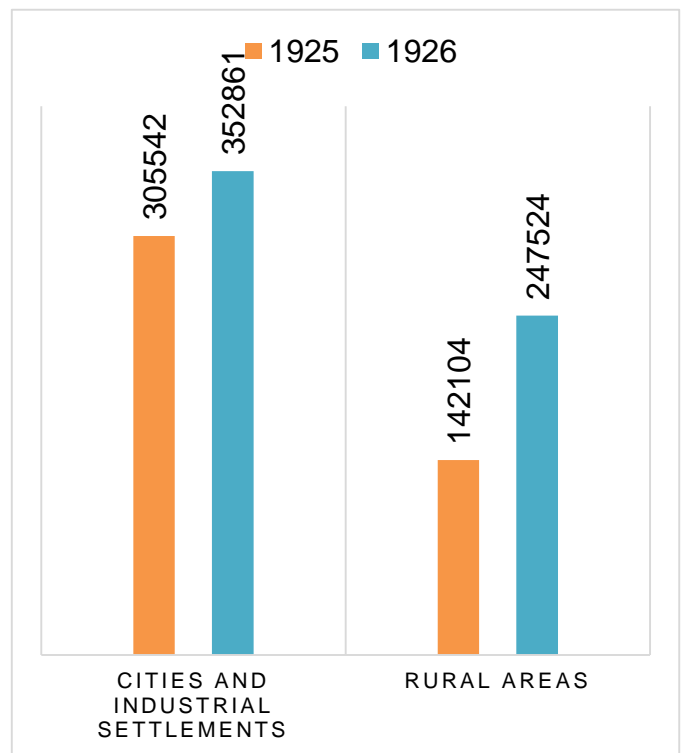


Fig. 5: Development of entrepreneurship in urban and rural areas in 1925-1926.

“Sole proprietors” made a major group of the small business urban bourgeoisie, representing the bottom ladder of the social strata. They were artisans and craftsmen relying on quite simple tools and operating on their own without engaging assistance. This group accounted for approximately 8% of the total number of the Nepmen.

Finally, urban bourgeoisie included a vast majority of “assisting family members”. Family members were relatives of all levels and step-children living with the proprietor as a single household and not receiving any form of salary whatsoever for their engagement at the household. The so-called “assisting family members” were not assigned an independent role but were part of the same group as the household principal [3].

Another group of entrepreneurs, though inactive, was the so-called rentier group. That was the category of individuals living off small-scale homeownership proceeds and revenues of speculative commercial operations. The object of entrepreneurship spanned real property, i.e. residential homes or hotel accommodations. Those had also been nationalised so there was the issue of restoring them to their former owners. On October 18, 1921, the government permitted transactions in real property but homes were restored to people on the rights of use only, not on ownership terms [4].

The right of use in buildings obtained by private individuals allowed the respective business operations. Nearly 80% of residential properties and 58% of residential space was privately-held. Interestingly, this group of the so-called inactive bourgeoisie was almost twice as wide as that of the active bourgeoisie.

This rapid growth of new bourgeoisie in cities was a result of the comprehensive support by the state provided in the development of small business and reviving of commerce, which provided for the high rate of employment in private entrepreneurship.

The inflow to the private economy in 1925-1926 (commercial, production and procurement operations) equalled 4,562 million roubles (Figure 6).

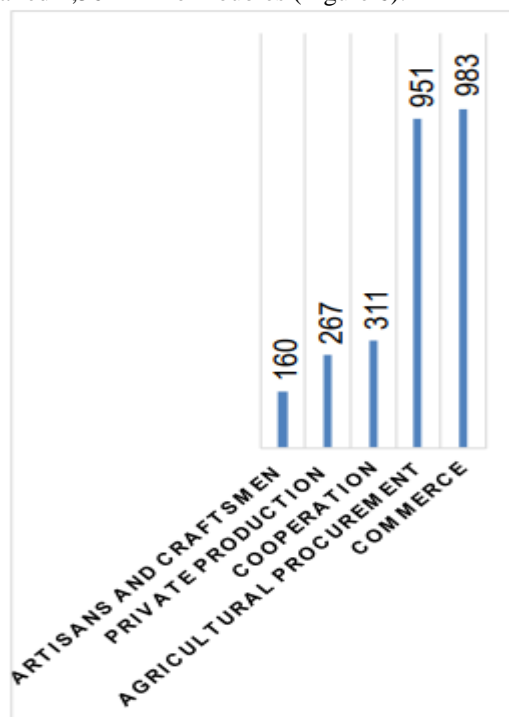


Fig. 6: Inflows to the state from economic sectors, million roubles.

Fig. 6: Inflows to the state from economic sectors, million roubles.

The biggest inflows to the state were observed from commerce and agricultural procurement sectors.

Thus, the NEP period saw rapid and efficient development of private capital. Private entrepreneurship spanned nearly all sectors of the economy, including small and larger operations.

V. CONCLUSION

Soon after the adoption of the NEP private capital developed wide engagement, particularly in commerce. The

core of the NEP bourgeoisie was made up by entrepreneurs who had been active before the Revolution. However, there was a majority of the Nepmen for whom entrepreneurship in the 1920s came as a completely new area of engagement. Private entrepreneurship operated in a variety of legal forms, including individual entrepreneurship, simple companies and firms, and private joint-stock companies (as the top form of development of associated capital). Private joint-stock companies held a significant place in the 1920s. In the credit market, private mutual credit entities were widely developing. They bore the main volume of lending to private commerce and production amid the visible deficit of financing from the state. The private entrepreneurship operations of the Nepmen played a significant role in the recovery of local economies, establishment of economic ties between regions and market saturation. However, the imbalanced tax policy in respect of the private sector, limitations of its initiatives and insufficient lending considerably hindered the development of entrepreneurial potential during the NEP years.

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