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## CHAPTER 1

# Historical Sketch of the Role of Small-Scale Industry

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As in any underdeveloped country, small-scale, handicraft, and artisan industry played an important role in the prerevolutionary Russian economy. The rapid industrialization that had occurred in Russia in the four decades preceding the revolution was extremely uneven. Mechanized factory production had become predominant in the industries producing capital goods and semifabricates, but almost all consumer goods (the cotton goods industry being the most important exception) were still produced by the dispersed, technologically primitive small-scale industry.

Many factors contributed to this uneven development of the Russian economy: a political order that did not favor industrialization; the agrarian character of the country; the sparse urban population coupled with a significant "surplus" rural population; the absence of a good highway network; the long Russian winter, which permitted peasants to develop additional "industrial" trades; and above all the slow process of capital formation, the "hunger" for capital, that put a brake on industrial development. These factors all favored the development of small-scale industry, in the form of rural handicraftsmen (*kustari*) and artisans (*remeslenniki*).<sup>1</sup> The scarcity of entrepreneurial capital and, as a corollary, the almost inexhaustible reserve of idle labor—a phenomenon familiar to all underdeveloped countries—were particularly important in a vast country like Russia.

The relatively primitive *kustar'* industry became a partial outlet for the "surplus" agrarian population. It produced cheap, coarse con-

<sup>1</sup> The distinction between *kustari* and *remeslenniki* is vague. Usually *kustari* were handicraftsmen in rural communities who combined agricultural activities with handicrafts.

## *Small-Scale Industry in the Soviet Union*

sumer goods, catering to the needs and tastes of the Russian peasants, whose incomes did not permit them to buy the more expensive factory-produced goods. In general, most of the Russian population depended for its personal consumption much more on the produce of small-scale industry than on factory production. With the exception of cotton textiles, kerosene, salt, tobacco, and a few producer goods, the Russian village with its local *kustar'* industry was almost self-sufficient.

Despite its low technological level, the production of small-scale industry encompassed a significant segment of the total Russian industrial output in the prerevolutionary period, especially in consumer goods industries. Within the interwar Soviet territory, small-scale industry accounted for almost 63 per cent of total industrial employment in 1913, or for 51 per cent in full-time equivalents.<sup>2</sup> It accounted for 34 per cent of the total gross value of industrial output.<sup>3</sup> The revolution did not diminish the importance of small-scale industry. On the contrary, during the period of War Communism and in the initial years of the New Economic Policy (NEP), the relative share of small-scale industry increased. Lack of fuel and disorganization of transport affected large-scale industry more adversely than small-scale industry. As a result of the revolution, factory production became even more geographically concentrated than it had been before the revolution, which, given the difficulties of transport, gave an advantage to local small-scale industry. The secession of the Polish and Baltic provinces, with their developed "light" industries, still further diminished the Russian capacity for factory production of consumer goods. But the most important factors were the profound changes that took place in the countryside. The redistribution of land led to a rise in agricultural production, and this created a rapidly increasing demand by the peasantry for consumer goods. Small-scale industry started to compete, and quite successfully, with state-operated and state-controlled industry, which at this time was plagued by steadily increasing production costs. As early as 1926/27 voices of alarm were raised in the Soviet press over the danger of "private capital" and small-scale industry.<sup>4</sup>

<sup>2</sup> See Tables A-1 and A-2. Employment is measured in persons engaged, including wage earners, salaried personnel, and the self-employed. Industry is defined as manufacturing, mining, logging, fishing, and the generating of electricity, with repair shops excluded.

<sup>3</sup> See Table A-3.

<sup>4</sup> See, for instance, an article by Iu. Larin, "Chastnyi kapital v promyshlennosti" [Private Capital in Industry], *Ekonomicheskoe obozrenie* [Economic Survey], 1927, No. 7.

## *Historical Summary*

Prohibitive taxes and repressive administrative measures were applied in order to hinder the development of small-scale industry, measures especially severe on industries processing scarce raw materials, such as wool, leather, and flax. Despite the decline of some specific *kustar*<sup>5</sup> industries, small-scale industry as a whole still occupied an important place in the economy on the eve of the Plan era. In 1927/28, it accounted for 45 per cent of total industrial employment in full-time equivalents, and for 29 per cent of the total gross value of industrial output.<sup>5</sup>

The introduction of an over-all national plan in 1929 undermined the existence of privately owned, independent small-scale industry. As a result of the collectivization of agriculture, the "unorganized" *kustari* disappeared from the countryside, and attempts to build industrial *arteli* (producer cooperatives) on the collective farms were, as a rule, unsuccessful. In the cities, producer cooperatives were organized with limited success in certain branches of "light" industry. But, on the whole, small-scale industry declined. Its share in total full-time employment and gross value of output decreased rapidly, the former dropping to 7 per cent and the latter to 8 per cent by 1933.<sup>6</sup> The decline of small-scale industry between 1913 and 1933 is shown in Chart 1.

During the initial stage of the industrialization drive in the early Plan period, many schemes were worked out to subordinate small-scale industry to a unified, over-all, national economic plan. In the cities, prohibitive taxation and administrative coercion were used to induce the handicraftsmen to enter producer cooperatives. During the First Five Year Plan these "cooperatives" differed only in form from the state-operated factories. The abolition of private trade gave the state a monopoly both as the supplier of raw materials and semifabrics to the producer cooperatives and as the purchaser of their products. The inadequate supply of industrial raw materials—such as cotton, leather, and wool—undermined the work of the newly organized producer cooperatives, especially during the First Five Year Plan. In some cases, the Soviet authorities dealt with the situation by transforming the cooperatives using raw materials that were in short supply into state factories. Then they could either supply them with substitute raw materials or shift them to other production.

One interesting aspect of the partial absorption of small-scale industry into state industry was the statistical effect it had on the production index. Between 1928 and 1932, when the consumption level

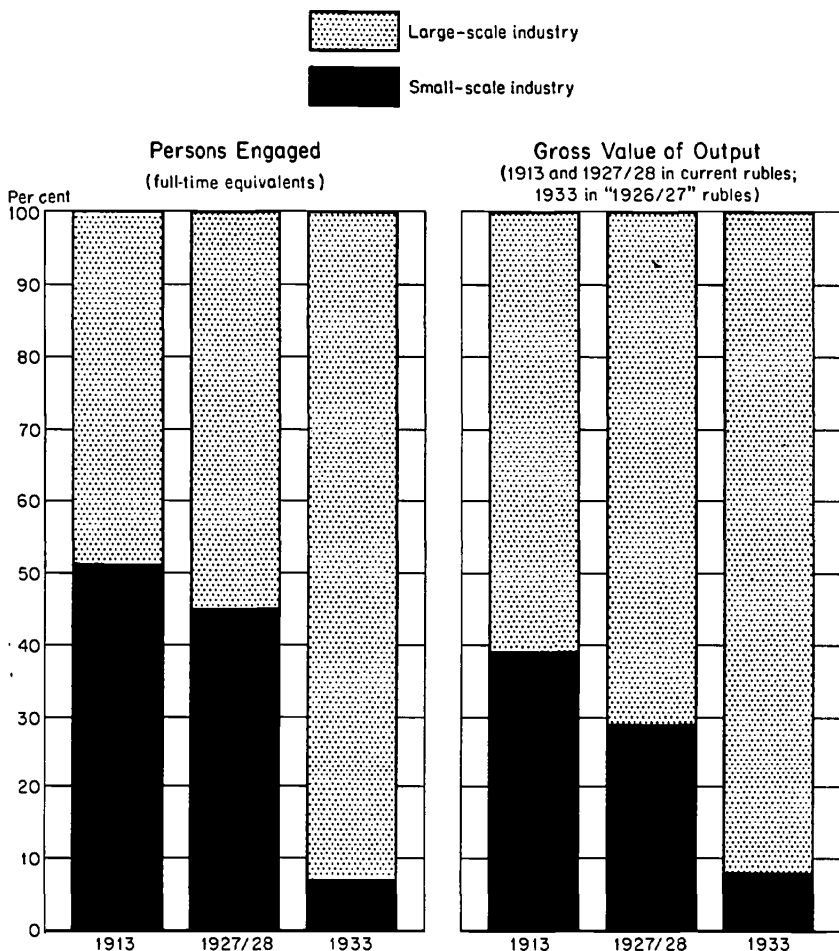
<sup>5</sup> See Tables A-2 and A-3.

<sup>6</sup> See Tables A-2 and A-3.

## Small-Scale Industry in the Soviet Union

CHART 1

PERCENTAGE SHARES OF LARGE- AND SMALL-SCALE INDUSTRY  
IN EMPLOYMENT AND GROSS VALUE OF OUTPUT, 1913, 1927/28, AND 1933



SOURCE: Tables A-2 and A-3. Industry is defined as manufacturing, mining, logging, fishing, and generating of electricity, with repair shops excluded. All data apply to the interwar territory of the Soviet Union.

of the population fell significantly, the official production indexes showed an increase of 377 per cent for the garment industry, 225 per cent for knitted goods, and 217 per cent for leather shoes.<sup>7</sup> These in-

<sup>7</sup> *Sotsialisticheskoe stroitel'stvo SSSR* [Socialist Construction in USSR], Moscow, 1936, pp. 14 f.

## *Historical Summary*

creases simply reflect the enlarged coverage of accounting, for now statistical reporting embraced many thousand small enterprises, fused together as producer cooperatives, that previously had not been covered.

In the countryside the decline of the *kustar*' industry was even greater. Some small-scale industries that satisfied the needs of farmers, such as flour mills and blacksmith shops, became the property of the collective farms. In regions where specialized *kustar*' trade had developed, the Soviet authorities endeavored to establish mixed collective farms that were both industrial and agricultural, the so-called *prom-kolkhozy*. But these institutional farms could not forestall the decline of small-scale industry. During the Second Five Year Plan the Soviet Union became the only country in the world where the small independent producer of goods and services represented an insignificant segment of the economy.<sup>8</sup>

It goes without saying that in many ways small-scale industry facilitated the industrialization drive in the early 1930's. Its means of production, although primitive and obsolete, increased the productive capacity of the state consumer goods industries. The many thousand *kustari* and artisans who became factory workers contributed to the formation of the industrial labor force. Regions where *kustar*' trades were concentrated became centers of similar factory production. No fewer than two million new, relatively skilled, industrial workers were drawn from the huge mass of *kustari* and artisans. No less significant was the incursion of state industry into different "home" industries of the Soviet peasant population. A large fraction of the output of prepared foods in the pre-Plan period was produced by peasant home industry. Churning of butter, making of cheese, pressing of vegetable oil,<sup>9</sup> and slaughtering of pigs were so closely associated with the peasant economy that they were considered part of agriculture in the broader meaning. This also applied to fishing, hunting, procuring of firewood, timber cutting, and primary processing of fibers, such as flax scutching, wool washing, and silk reeling. In the early 1930's these activities became exclusive monopolies of state industry, the work of

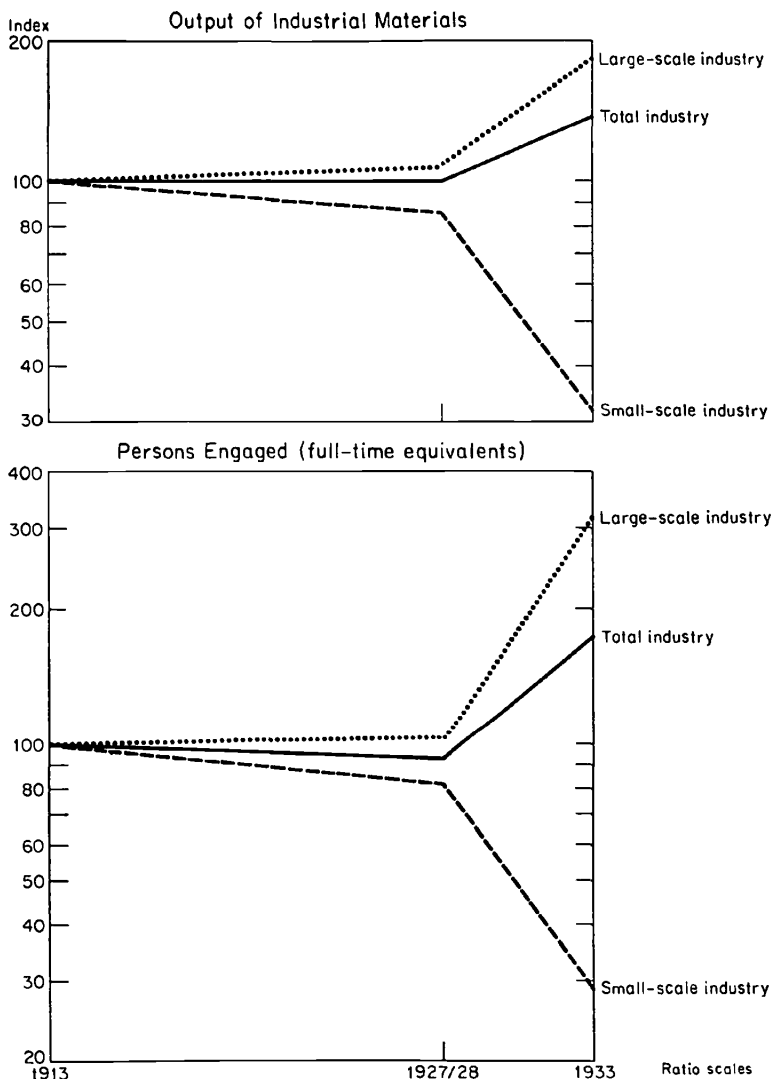
<sup>8</sup> China is a more recent example of a country that, by an act of administrative fiat, has put its "cottage" industry under direct state control. It is worth noting that the Eastern European centrally planned economies never went to such extremes. Since 1953 a reverse process has been evident in Poland, Hungary, and Rumania. Restrictions have been relaxed and small-scale, privately owned industry is showing signs of revival.

<sup>9</sup> Aside from the peasant, small-scale vegetable oil industry, some oil factories existed already before the revolution, but their share in output was relatively small.

## *Small-Scale Industry in the Soviet Union*

CHART 2

INDEXES OF OUTPUT AND EMPLOYMENT: TOTAL, LARGE-SCALE, AND  
SMALL-SCALE INDUSTRY, 1913, 1927/28, AND 1933  
(1913 = 100)



SOURCE: Table 18.

## *Historical Summary*

the collective farms being confined strictly to plant cultivation and animal husbandry. Statistically, this enlargement of the economic activity of state-operated industry had the same effect as the absorption of "light" industries, namely, many products and activities previously not covered by industrial statistics were now incorporated, thus giving the impression of growth in output.

The divergent trends of large- and small-scale industry during the first two five year plans are illustrated in Chart 2. Between 1913 and 1933, output of industrial materials grew by 83 per cent and employment by 181 per cent in large-scale industry. In the same period, output declined by 68 per cent and employment by 80 per cent in small-scale industry. From the data underlying these indexes (see Tables 17 and A-2), we find that 36 per cent of the percentage growth in output of the large-scale sector and 39 per cent in employment can be attributed to the absorption of the small-scale sector. That is to say, if output and employment of the small-scale sector had remained constant between 1913 and 1933 and total output and employment had grown as it did, output of the large-scale sector would have risen by only 64 per cent instead of by the recorded 83 per cent, and employment by only 110 per cent instead of 181 per cent.

The remaining chapters of this report will fill in the details for the developments briefly sketched so far. Before moving to the discussion of events, we consider first, in the next chapter, the nature of the data available on small-scale industry. We then proceed with a description of the role played by small-scale industry in prerevolutionary and early Soviet times and of its absorption in the Plan period. In the concluding chapter, we develop indexes to measure performance of small-scale and large-scale industry and briefly analyze the economic changes accompanying the shift from small- to large-scale production.