

Retrospective Analysis of Russia’s Cottage Industries as a Solution to Overcome Today’s Entrepreneurial Crisis

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Abstract. This paper analyzes Central Chernozem to discuss the history of cottage industries, which have been fundamental to the emergence of small businesses in the region. This paper systematizes what is known on the public policies regarding cottage industries; despite some miscalculations and shortcomings, the policies have contributed to the emergence of such industries here. It is proven herein that small-scale manufacturing was incentivized by a differential taxation system devoid of social restrictions; the approach consisted in educating small-scale businesspeople and subsidizing master training, business expansion, and equipment procurement.

The authors hereof have analyzed this experience and propose replicating it to overcome the entrepreneurial crisis of today. As it was done once, today we need to encourage entrepreneurship in priority sectors. State funding and assistance in equipment procurement and space leasing will help that.

1. Introduction

Today, entrepreneurship is fundamental to the market economy and guarantees political stability in the Russian society. It provides self-employment and self-organization. In part, it solves the problem of unemployment by creating jobs of fairly decent pay.

Small businesses are on the rise in the country. Chart based on the Federal State Statistics Service’s data shows the trends in small-business employment figures, see Figure 1. [1, 2]

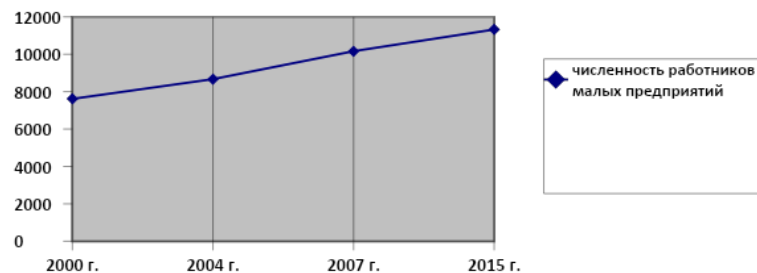


Figure 1. Small-business employment growth in Russia over 2000–2015.

However, despite this sector being of importance to the economy, it is still facing obstacles. Those are mainly created by the country's flawed tax system that has multiple special taxation schemes; the ambiguity of law; and lack of guaranteed controls. Audits performed by supervisory authorities are haphazard at best. Besides, information on the auditors' actual powers is only partially available.

Some of the difficulties facing small businesses are related to expensive rental retail space and premises as well as to the unavailability of credit lines. Banks want guarantees, which is why a small business at its infancy can only get a limited credit line, often on prohibitive terms.

Recognizing how vital entrepreneurship is to creating an efficient and competitive economy, and the challenges facing it, it is imperative to also recognize that today, small businesses direly need support from the government in the form of comprehensive programs. This is why Central Chernozem's experience is invaluable for discussing the history of cottage industries, which have been fundamental to the emergence of small businesses in the region. It is tailoring that experience to the realities of today that will help address, even if only partially, the challenges facing entrepreneurship.

2. Historiography

This research sources data from the unpublished documents from local archives, published proceedings of the local self-government bodies located in some of Central Chernozem's provinces, books and papers published by the Federal State Statistics Service, case studies, and other sources.

The development of cottage industries in Central Chernozem has been researched many times. Pre-Soviet historiography provides statistical and descriptive data on municipalities ('zemstvo') and townships ('volost'). Scientists analyzed such matters as raw materials, sales, employment in cottage industries, as well as the geography of artisanship. [3, 4, 5] In the USSR, the topic became less relevant, but there emerged new problems that necessitated research into artisanal cooperation. [6] Today's science has expanded the subject matter of such analyses by proving for the first time in history that cottage industries were crucial to the region's industrial development. [7, 8, 9, 13] Some aspects of public policies pertaining to cottage industries were studied internationally by Léon Walras, Giacomo Becattini, etc. They mainly analyzed artisanal cooperation and associations. They also studied public policies applicable to cottage industrialists. [10, 11, 12]

3. History of cottage industries

Cottage industries went a long way in Central Chernozem. Even in ancient times, peasants would spend their free time to make the tools and other products they needed for everyday life. Originally, it was manufacturing 'in kind'. As handcraft was becoming more popular, its products went to trading. As small-scale production evolved in the 11th and 12th centuries, they began making such products for sale at the marketplace. By selling their goods that way, artisans could save some money to expand their business. Former artisans were becoming entrepreneurs and now owned small and medium-sized factories, which became fundamental to the region's industries. As a result, Central Chernozem had a unique agricultural economy by the late 19th century that featured an embedded complex of manufacturing enterprises and food producers that arose from cottage industries.

Such industrialization was mainly enabled by the respective public policy. Central governments and local self-governments had non-systemic measures in place to incentivize artisanship.

Incentives mainly lay in tax exemptions for some subpopulations as well as in assisting small-scale businesspeople in case they were taxed unfairly. Archival documents confirm this. Thus, the Little Arkhangelsk county ('uезд'), Oryol Province documented the case of pearling mills requesting an exemption from the municipal tax and reappraisal of the outstanding payments since they had no automated equipment, and their facilities were not particularly productive. [14] In 1891, peasants Pukhortov and Trofimov in Tambov Province were exempted from the municipal tax for their mill. [15]

Besides, cottage industries used a differentiated income tax system, in which the tax rate depended on what this or that artisan produced and how much type he was spending doing so. [16] An artisan's license was mandatory. Obtaining it would set the applicant 2 to 1,500 rubles back depending on the location, the class of the enterprise, or its specific industry or subindustry.

Sales assistance was another important support. Central governments and local self-governments sought to help cottage industrialists retain their advantageous locations [20] They would often allow artisans to pay the outstanding rent for a fair/bazaar spot in installments. Officials also tended to approve changes in fair-trade timings to boost the locals' purchasing power. [19] Generally, such measures helped avoid resales and facilitated the market entry for artisans.

Equally important were measures to create and improve a vocational and technical training system for small-scale manufacturers. The policy effectively gave rise to a network of schools that provided artisanal training in addition to general teaching. Governments assisted in organizing and holding handicraft exhibitions. Craft or manual labor classes appeared here and there in the region, mainly to train carpenters, blacksmiths, and locksmiths. [17] The Exchequer provided targeted loans, e.g. to open a new school. For instance, the Trans-Danube Municipal Assembly once requested funding to construct workshops for the Trans-Danube School of Artisanry. The school was granted a credit line of 15,000 rubles, payable over 15 years in equal installments [18]

4. Conclusions

To sum it up, we'd like to note that systematic governmental support for cottage industries enabled the local artisans to open their first SMEs, effectively making them pioneer entrepreneurs. Of course, the government had every reason to protect cottage industries back then. Bourgeois reforms were harsh on landless peasants, and the social consequences had to be mitigated. At the same time, the Crown was perfectly aware of the need to raise peasants' living standards, as peasantry was the main (and only) source of tax income, let alone making up for the biggest part of the population. Russia is different today, but its entrepreneurs are facing similar challenges. The raging entrepreneurial crisis cannot be handled without governmental support. Public incentives are still relevant. They can help not only boost small businesses but also give rise to Russia's new generations of middle class.

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