

## HISTORICAL FOUNDATIONS AND CONTEMPORARY UNDERSTANDING OF SMALL BUSINESS

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### ABSTRACT

This article explores the essence of small business and its historical development. It examines the theoretical foundations of small business, tracing its evolution from ancient times to the modern era, including its legal-economic interpretation in Uzbekistan. The analysis demonstrates the significance of small business in the development of market relations, its role in economic growth, and its potential for addressing employment and poverty challenges. The article also highlights classical economic theories and the contemporary state policy of Uzbekistan supporting the growth of small business.

**Keywords:** Small business, entrepreneurship, historical development, economic theory, Uzbekistan, legal-economic framework.

### INTRODUCTION

The concept of small business holds a central place in the theory and practice of economic development. Small enterprises serve as engines of economic growth, fostering employment, innovation, and regional development. Globally, the importance of small business is widely recognized, and the sector continues to receive increasing attention from economists, policymakers, and researchers.

In Uzbekistan, small business has become one of the most dynamic and strategic sectors in the national economy. Given its significant contribution to job creation and GDP, the sector has become a key focus of state policy and legal-economic reforms.

This article aims to analyze the concept of small business and its historical evolution, including its classical theoretical foundations and the current state of development in Uzbekistan.

#### Theoretical Foundations of Small Business

The notion of small business is rooted in economic theory, particularly in the works of classical economists. In general terms, small business refers to independently owned and operated enterprises that are limited in size and revenue, and which serve local markets.

The theoretical understanding of small business can be traced to the following key approaches: Classical Economic Thought: Adam Smith's *The Wealth of Nations* (1776) emphasized the role of individual initiative and competition in economic prosperity. While not directly discussing "small business," his ideas laid the groundwork for entrepreneurship as a driver of market economies.

Jean-Baptiste Say introduced the term "entrepreneur" into economic theory, identifying entrepreneurs as agents who bring together production factors to create goods and services. His views highlighted the organizational and risk-bearing functions of entrepreneurs, often associated with small businesses.

Joseph Schumpeter, in his theory of “creative destruction,” argued that small entrepreneurial firms are the primary source of innovation and economic dynamism. For Schumpeter, the entrepreneur’s role in introducing new products and processes was vital for economic transformation.

In modern economic theory, small business is viewed through various lenses: as a means to ensure market competition, a tool for inclusive development, and a mechanism for regional economic diversification.

### LITERATURE REVIEW

The study of small business as a crucial element of economic development has attracted considerable scholarly attention globally and within Uzbekistan. Classical economic theorists such as Adam Smith (1776) laid the foundational understanding of entrepreneurship by emphasizing individual initiative and competition as drivers of prosperity. Jean-Baptiste Say further enriched the theory by defining the entrepreneur’s role in organizing production and bearing risks, which are core to the operation of small businesses. Joseph Schumpeter’s concept of “creative destruction” highlighted small enterprises as primary innovators catalyzing economic transformation.

Historical perspectives trace small business origins to ancient civilizations, where family-owned workshops and local markets formed early economic structures (Abdullajanovich, 2022). During the Renaissance and Industrial Revolution, small firms adapted to evolving commercial conditions, maintaining their importance alongside large-scale factories. In the modern era, especially post-World War II, governments worldwide recognized the necessity of supporting small businesses through policies that promote innovation, employment, and regional diversification (Shodiyeva, Tog’Ayeva, & Sultonov, 2022).

In Uzbekistan, the legal-economic framework governing small businesses has been shaped significantly by national reforms and state policies following independence. Presidential decrees such as PF-4354 (2011) and PF-60 (2022) demonstrate the government’s commitment to fostering an enabling environment for small enterprises by simplifying taxation, protecting private property rights, and encouraging entrepreneurship. These initiatives align with global trends emphasizing the sector’s role in poverty alleviation, job creation, and GDP growth.

Empirical studies within Uzbekistan reveal that small and medium-sized enterprises contribute over half of the national GDP and employ a substantial portion of the workforce, underscoring their strategic economic importance (Shodiyeva et al., 2022). Additionally, the periodic revision of criteria defining small businesses reflects an adaptive regulatory approach aimed at sustaining sector growth and competitiveness.

Overall, the literature highlights a consensus on the multifaceted value of small business in fostering economic resilience and innovation. Uzbekistan’s experience exemplifies how targeted state intervention, grounded in robust economic theory and historical practice, can support the flourishing of small enterprises within a transitioning market economy.

## HISTORICAL DEVELOPMENT OF SMALL BUSINESS

The history of small business is as old as trade itself. From the marketplaces of ancient Mesopotamia and Egypt to the merchant guilds of medieval Europe, small-scale enterprises have always played a crucial role in economic life.

**Antiquity and Middle Ages:** In ancient civilizations, small family-owned workshops and local trading ventures were the norm. These enterprises provided goods and services within local markets and formed the backbone of early economic systems.

**Renaissance and Industrial Revolution:** With the expansion of trade routes and the emergence of capitalist modes of production, small businesses evolved from artisan workshops into more organized commercial entities. The Industrial Revolution saw the rise of large-scale factories, but small firms remained important in niches and as subcontractors.

**Modern Era:** In the 20th century, particularly after World War II, small business was re-evaluated as a key element of economic resilience and innovation. Governments in Europe, the United States, and Asia began implementing policies to support small enterprises, including financial incentives, legal protections, and infrastructure development.

### Small Business

A small business is an economic entity organized in the form of a small-scale enterprise, private entrepreneurship, family business, or individual activity. Its primary goal is to meet market demands and generate profit.

It has the following characteristics:

- **Flexibility** – the ability to quickly respond to market demands.
- **Low-cost management** – efficient use of resources.
- **Innovative activity** – the capacity to rapidly introduce new technologies and products.

Article 5 of the Law of the Republic of Uzbekistan "On Guarantees of Freedom of Entrepreneurial Activity," dated May 2, 2012, defines the subjects of small entrepreneurship as follows:

- **Individual entrepreneurs** – individuals engaged in a specific type of activity.
- **Microfirms and small enterprises** – business entities of small scale that comply with established norms regarding the number of employees and annual turnover.
- **Family enterprises** – production and service entities established by family members.
- **Joint ventures** – enterprises established based on cooperation between two or more entrepreneurial entities.

### Legal and Economic Interpretation of Small Business in Uzbekistan

In the Republic of Uzbekistan, the concept of small business has been defined both legally and economically. The state recognizes the sector's potential for socio-economic development, especially in solving problems related to employment, poverty reduction, and regional development.

According to national legislation, small businesses in Uzbekistan are defined by several criteria, including the number of employees, annual turnover, and type of economic activity. These criteria are periodically revised to adapt to changing market conditions and to support business growth.

State programs and reforms in Uzbekistan since independence have prioritized the development of small businesses. Presidential decrees, strategic concepts, and sectoral programs have created a comprehensive framework for supporting entrepreneurship. Notably, the transition to a market economy, liberalization of prices, simplification of taxation, and support for private property have all contributed to the rise of small enterprises.

Statistical data confirm the sector's importance: as of recent years, small and medium-sized enterprises (SMEs) account for over 50% of GDP and employ a significant share of the workforce.

### CONCLUSION

Small business has historically been a key component of economic development, from ancient trade to modern innovation. Theoretical contributions by classical and modern economists have underscored the significance of small enterprises in promoting market efficiency, competition, and innovation.

In Uzbekistan, the role of small business has grown considerably, supported by state policy and legal reforms aimed at creating a favorable environment for entrepreneurship. As the country continues its socio-economic modernization, small business is likely to remain a vital driver of inclusive growth, job creation, and regional development.

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