

VANISHED MYTHS—WAVERING INTENTIONS  
(SMALL ENTERPRISES REVISITED)

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Since 1982 several tens of thousand small economic units have been founded in Hungary both in the new forms called "small venture" and in the traditional ones (private artisans, private retailers). In spite of the increase in number their presence can hardly be felt in the operation of economy. Analysing their economic role, the article presents three characteristic types of the small forms: those striving only after selling surplus labour, the small-producers and the entrepreneurs.

When I first wrote a review in the periodical *Valóság* on the domestic small enterprises—which were then regarded as novelties—I thought with good reason that an objective presentation of their manifold forms might dispel some myths then hovering around them [1]. Such myths had been generated by feelings of either enthusiasm or anxiety. Today it is no longer necessary to dissipate these myths because the vague knowledge which fostered them has been replaced by a more realistic understanding (except perhaps those about the incomes achievable in the small enterprises). Hundreds of thousands of people have acquired profound knowledge about the advantages and disadvantages of each form, and about the rules of their establishment, operation and taxation—especially when they themselves have considered trying one of them. 450-500 thousand people were working in some of the new forms by the end of 1987, approximately 10 percent of the active earners. The small enterprises now participate in our everyday activities and one cannot imagine how the economy could subsist without their supply of hundreds of goods and services. Also, for those participating in the small enterprises it is unthinkable that they could do without the extra income earned through the small enterprises. Although such income is the financial basis of existence for only one-fifth of the half a million participants, the other four-fifth also depend on the monthly extra income in order to maintain or occasionally even significantly raise their standard of living. Thus, the small enterprises have become rooted in the economy and society. The myths have vanished—and they have been replaced by the very simple facts of everyday life.

However, nobody is really satisfied with the results. Public opinion is a little disappointed because, so far, the small enterprises have increased the supply of the customary products and services to only an almost imperceptible degree; in the worsening economic situation the decrease of shortages and improvement of services, despite their presence, cannot be felt. Instead of falling, prices are rising and quality does not show any significant improvements in respect of either



products or services. On the other hand, people see the rapidly growing wealth of certain social groups and often suspect that illegal earnings lie behind such wealth. Many are irritated by the saliently high income of those working in VGMK-s<sup>1</sup> or specialized cooperative groups, compared to the wages they earn in their full-time job.

The authorities are also dissatisfied since, even within the sphere of small enterprises, competition has not developed; even the smallest ones do not compete in order to "win" customers. The productive capacity of the economy has not improved. The money accumulated by certain groups of the inhabitants is not tied up in the small enterprises and does not serve to extend production—rather, it appears in the form of consumer demand, continuously endangering the equilibrium between incomes and available commodities. At the same time, the small enterprises are invariably short of, or even lack, capital.<sup>2</sup>

However, the majority of autonomously operating small enterprises are also dissatisfied. The conditions of their operations are not improving and their tax burdens are growing. The difficulty and conditions related to the acquisition of materials and equipment are worse than in the case of the large organizations. The security of their operations does not grow; what is more, they are—with good reason—afraid of the introduction of new restrictions which go beyond the already existing ones.

I shall try to outline only a few of the host of reasons for general dissatisfaction, and I shall point out the trends in the socio-economic situation of small organizations and their members which already seem to have become permanent.<sup>3</sup>

When the small enterprises were established, they carried two important promises in their name, i.e. that they would be *small* and that they would be *enterprises*. It was generally agreed that in every area of the Hungarian economy—in industry, transport, trade, and in all the other sectors—the small-scale units would be able to cooperate with the large organizations and would be able to adjust rapidly to the changing requirements—thus they would be indispensable.

<sup>1</sup>VGMK (enterprise business work partnership) is a voluntary association of company employees who, after the official working time, manufacture components and assembly units for the company, using the company's equipment. The orders are placed with them by the company, at prices agreed upon, in the form of subcontracting. (Ed. note)

<sup>2</sup>The official of the Ministry of Finance in charge of the small enterprises wrote in 1986 that "according to the available data, the amount of capital invested by the small entrepreneurs themselves is minimal—merely a few thousand forints on average. The amount usually constitutes the starting capital, since the income earned by the operations is converted into personal income" [2]. The situation did not change in 1987.

<sup>3</sup>When writing this paper the data of 1988 were not yet available, therefore I have used the yearbooks of the Central Statistical Office and data processed by the Institute for Labour Research for 1987 for my analysis [3]. However, the phenomena dealt with have not been changed by the further growing number of the various forms.

However, those who have been hoping for a growing number of small organizations can, as a matter of fact, be satisfied: in the national economy—apart from agriculture—about 15 thousand small economic units of some new type, (213 state-owned small enterprises, 2126 small cooperations, 11200 GMK-s)<sup>4</sup> and about 36 thousand traditional ones (artisans, private small retail shops and restaurants) were established between 1982 and 1986. Thus the 82–83 thousand small-scale organizations which had existed before (i.e. rented units, artisans and retail trade) had their number increased by 51 thousand. Almost 500 civil-law associations, a further 500 organizations operating partly in private retail trade, and finally 900 independently specialized cooperative groups were established.<sup>5</sup>

From this brief assessment, and from the relative proportions behind the increase of the new and the old forms (one-third to two thirds respectively), a single conclusion can immediately be drawn: the new forms of organization have been less attractive than the old ones; the conspicuous data showing growth in the number of new ones were in fact pushed up by the VGMK-s and specialized groups (while the old ones often grew primarily by trading activities).

As a whole, in 1988 (apart from agriculture), altogether approximately 144 thousand small organizations were operating: the above-mentioned included 15 thousand new-type units and, within the sphere of the traditional small organizations, 83 thousand artisans, 35 thousand self-employed retail traders, and 11.600 rented shops and catering units.<sup>6</sup>

This means that—hypothetically and according to the statistical average—in the non-agricultural sectors of Hungarian *national economy* the approximately 5000 traditional organizations of the socialist sector are currently surrounded by about 144 thousand small economic units. In other words, on average there are nearly 30 various types of small organizations for every big one.

Although the presence of 144 thousand small units is significant, in the organization structure of the economy it is invariably the large enterprises—what is more, in certain sectors enterprises very large even by international comparison—

<sup>4</sup>GMK (business work partnership) is an independent association comprising a limited number of full-time working individuals partaking in economic activities (production or services). (Ed.note)

<sup>5</sup>As can be seen, the summary does not include the VGMK-s, and those specialized cooperative groups which are similar to the VGMK-s. Today the opinion is already rather widespread that these cannot be considered as "economic units". From the approximately 19 thousand VGMK-s, a maximum of a few dozens and perhaps one-third of the 2300 specialized groups can offer some product or service of their own, in addition to supplementary labour for their companies.

<sup>6</sup>Although it would very likely support my arguments, here I do not include the conventional forms of agricultural small-scale production, i.e. the household plots and auxiliary farms which closely cooperate with the large-scale organizations, nor the sideline production units of the cooperative farms and the small-scale joint ventures of agricultural large enterprises (mainly for food processing); this is because, later on, it would necessitate several digressions.



which are dominant. If we are unaware of their presence, a very important reason for this is that their economic activities and the sphere of their market relations—if only because of their size—are in fact very small.

### Unutilized opportunities

Let us first look at the small enterprise sizes according to the number of employees. Legal provisions have, from the outset, defined the manning level of the new and the old organizations of the various forms, of those working in the state-owned, the cooperative, and the private sectors. However, the limits permitted are much broader than the numbers actually employed.<sup>7</sup> The manpower of the *state-owned small enterprises* is not limited. The average in 1985 was 128 employees. The *small cooperatives* are permitted to employ 15 to 100 persons (though in certain cases the top limit can be exceeded)—on average they have been working with 45 employees. There is, however, no limit to the number of people who can be employed in the civil-law associations and the *specialized groups* which can be established by the cooperatives. The average in the former was 4 and in the latter 37 persons. The GMK is allowed to have 30 members (40 persons together with the employees) and may also employ family members. The actual average number is at present seven persons. From the traditional organizations, in the workshop of an *artisan* 13 persons may work—this figure includes family members, apprentices, employees and the master; the actual average is about 2 persons. In *retail trade* as well as in the *rented public catering units* and those working *on the basis of a contract*, 13 persons are allowed to work. The average in the former is 1.6 and in the latter 3.5 persons, and in the small shops instead of the permissible 5 only 1.8 persons are working.

For some years now the average sizes have almost invariably reached—with the exception of the small enterprises and small cooperatives—a maximum of seven persons. Even a part of this figure is a “sham”, registered merely for tax reasons. On the other hand, of course, many are working who need not be registered,—occasional day-workers and helpers. There are also some non-registered employees who are illegally employed.

It is worth complementing the average numbers with a few data. More than half the small cooperatives (54 percent) consist of a maximum of 30 members. More than 90 percent of the artisans and more than 70 percent of the retailers work alone or with only one family member. Merely the average size of the state-owned small enterprises is representative of the small-scale plants. However, the activities pursued by the small enterprises—repairs of radios, TV sets, or domestic appliances

<sup>7</sup>From 1989 the new Act on Economic (Business) Associations has changed the limits, permitting 500 members in the units of the private sector.

in the households, certain operations of car repairs, hairdressing etc.—do not necessarily require plants working with 50–300 persons. *In any of the forms where the number of people who can be employed has been limited by law, the frameworks allowed were actually filled up in only a very few cases.*

We can now draw the second conclusion: the small organizations—especially those belonging to the private sector—are not only very small, but for the moment they not even show any intention to grow and to fill up the permissible limits of employees. Also, apart from VGMK-s and specialized groups, only about half of those working with them have been relying on them as the basis of their subsistence. This is a situation which has remained unchanged for years. The other half of them use these organizations in order to gain extra earnings by exercising their working abilities and professional knowledge in their free time. In 1987 23 percent of the GMK-s' members, 43 percent of the civil law associations' members and 54 percent of the artisans were working full time.

Beyond the manpower, even the capital of the small enterprises—of both the new and the traditional types—is invariably small and the majority of them are not thinking of increasing it,—at least not for the time being.<sup>8</sup> As is well-known, shops with up-to-date equipment are also rather rare among the artisans; the majority of them are satisfied to get by with the minimum tools and equipment needed to pursue their craft.

Capital investment is, of course, not an end in itself. It is the benefit of work pursued with better facilities and more effectively, and the economizing on time, on material and on efforts that justify investment. There are some activities for which capital is not even needed—the capacity to work, and professional knowledge, i.e. expertise, are enough.

A large number of other activities also need minimum capital: the mechanic coming to repair the radio, the TV set, or the washing machine, usually arrives with a bag of tools (and parts) which is enough for almost any of his operations. The house painter, the shoemaker and several other craftsmen can also rest satisfied with a small capital investment—often they do not need to invest into the means of production any more than the sum necessary to buy a car. (Though to set up a self-sufficient workshop for such activities would in fact cost a lot more.) Finally, there are crafts and activities where the job needs a well-equipped workshop, with a large variety of—often expensive—machines and instruments; such are some engineering products and services, and/or certain branches of motor car repairing.

It has been a typical feature that, over the years, new organizations have been established for activities where capital can be neglected: working capacity, special

<sup>8</sup>The finding of Gálík *et al.* [3] is that, at the end of 1987, the capital of small organizations working in some form of association was altogether 34 thousand million Ft; although its amount has been increasing, the per capita volume has decreased. The invested capital in the new forms was only 2 percent of the national value of capital.



knowledge and perhaps a few tools are sufficient. (A quarter of the GMK-s pursue some form of industrial activity, another quarter are involved in construction work, and half of them are engaged in intellectual or material services; it is usual for the civil-law associations to carry out intellectual services. There are also many new small cooperatives which perform intellectual activities, and therefore they do not need to invest capital.)

The fact that the small organizations have, in the majority of cases, an operational staff of 2-7 persons and are not willing to grow, leads to the third conclusion—that, contrary to the promise inherent in their name, they are not particularly enterprising. This conclusion is backed up by their low or even zero-level of capital supply. Most of them are simply family organizations which try to sell their labour and professional capacity in their free time, or attempt to pursue some small-scale production.

#### The three pure types of small organizations

The selling of extra working capacity (labour power), small-scale production, and enterprise mean three types of socio-economic objectives and these are essentially different from one another; their participation in the economy is based on different interests and values.

Therefore, I will try to present their typical characteristics and their pure types on the basis of a few criteria—at least as they can be understood under the now prevailing conditions of the Hungarian economy.<sup>9</sup> When describing the three types I shall first give a brief summary of the typical characteristics, using the same system of logic and theory in each case.

For the purpose of comparison<sup>10</sup> I have summed up the characteristics of those (in Hungary very well known) individuals who, in addition to their full-time job, pursue extra work to earn extra income. Selling working capacity (labour power), physical strength, professional knowledge, special skills, in legal or illegal (non-taxed) form at the expense of leisure time is a worldwide phenomenon.

<sup>9</sup>The "pure" or ideal type—as interpreted by Max Weber—is a description given for the sake of making things comparable. It strives to emphasize purely the essential particularities and neglects the multiple phenomena of reality which may often shade the essential characteristics or which may even be contradictory to one another. "The more clear-cut and unambiguous the ideal types, i.e. the more abstracted they are from the real world, the better they can be used from the aspects of terminology and classification, and the more appropriate they are from the point of view of heuristic methods." [4].

<sup>10</sup>Selling extra labour is the chief form of what is called in everyday language the "second economy"—this differs from the more accurate definition by R.I. Gábor [5].

#### The typical characteristics of selling extra working capacity

1.	<i>Objective:</i> to obtain additional income; to follow the consumption level of the guiding social stratum.
2.	<i>Economic function:</i> to meet the demand in the area of the given activities based on the working capacity (labour power) of the members. The organization is able to respond to changes in the demand (market) only in a narrow scope of movements, within a sphere and by ways determined by the working capacity of the members. Offers made by the organization can also only be extended up to the limits of the members' working capacity.
3.	No <i>capital investments</i> are made. They are not even required by the activities and they would also be contrary to the interests of the members—these interests being linked to short-term extra earnings.
4.	<i>Profit</i> is the result of selling personal working capacity (labour power).
5.	<i>Income</i> is consumed by the members; it appears in the market as a consumer demand.

In Hungary it was the lasting shortage of labour and the shortage of commodities and services—along with the regulation of enterprise incomes—that long ago contributed to the creation of legal frameworks for many kinds of auxiliary jobs. These frameworks have been widely extended by the various forms of small organizations.

All the new forms of organization are suitable for earning extra income (except for the state-owned small enterprise which only employs full-time workers). The members may belong to any of the several strata of society. One can find among them the unskilled worker who sells his physical strength, the office clerk who sells his or her (presumed or real) ability to organize (e.g. rented accommodation agencies), the university reader or lecturer who sells his knowledge, or the top company leader who utilizes his special knowledge or perhaps his business relationships.<sup>11</sup>

The organization is based on skills which have already been obtained and/or the knowledge of the members—while the connections they have with their state-owned or cooperative place of employment also play a significant part. Those who establish such an organization do not intend it to be a long-term viable business, but merely an instrument for the moment which gives them a new framework for their old objective—namely, to complement their personal income. Their activity is a combination of what they have pursued earlier—either legally or illegally; in other words, they carry out repair work or assembly, teach languages, make programmes

<sup>11</sup>According to an assessment, 3 percent of top company leaders and 11 percent of the chief executives participate in some form of small-scale enterprise [6].



(software) or design. The disadvantage of the organized form is that a part of the profit is collected in the form of taxes, whereas its advantage lies in its legality; in other words, by making an acknowledgement of lawful work and earning, they become more respectable for some of the customers. In addition, the fellow-workers also bring some work, and this makes it easier to assure more or less continuous activity for all the members.

The *objective* of this organization is *exclusively* to provide a modest rather than large, but *stable extra income* for the members. When there are many orders, they undertake the job with a later deadline, and/or involve occasional helpers. If there is not so much work, they relax and look for new orders. The *capacity* of the organization is, however, *always limited by the members' own working capacity*; they do not wish to grow, they just want to utilize and maintain the already given capacity. Capital investment is either not necessary or an alternative the members do not prefer. Indeed, a significant part of the activities requires no investment—shop, office, or equipment—since the workplace is the site of construction, or the plant of the company which gave the order, or the flat of the customer; in the case of intellectual work it can be the member's own desk—but even the kitchen table at home might do at night!

However, even where it would be necessary and possible, no *investment* is made, since it *would be in opposition to the primary purpose*, i.e. supplementary earnings. As there are no business, or business-developing ambitions, and the objective is not to make the *organization* viable, competitive and able to grow, *the income earned by extra work is destined for personal consumption*. It can be used for basic needs or for lavish, luxury consumption, according to the position of the person concerned. The occasional modest investments are free of risks (tape recorder for teaching languages, new tools for the assembly work, personal computer or a car), since they can be used as investments for the household (being in the sphere of personal belongings) even after the small organization has ceased to exist.

For the majority of people this is satisfactory and they do not want anything more or anything different from it. Their economic attitude is typical, owing to the multitude of socio-economic conditions, i.e. to the obvious fact that it is worth basing one's personal subsistence primarily on a full-time workplace in the socialist sector. This has so far been judged as the most favourable option, for it provides a secure—if modest—livelihood, and at the same time it can act as the organizer or market for the extra work. *It is therefore a natural endeavour for the individual to maintain his or her full-time workplace.*

Any intention to become genuinely independent has not been really encouraged—e.g. by economic policy-makers; while true pressure (as e.g. the danger of losing the full-time job) was also missing.

Nevertheless, there are a few people engaged in small enterprises who—though they started with the intent of obtaining extra income—have also found

some other attractive incentives such as independence, the opportunity to implement their own ideas, or the chance to compete on the market.<sup>12</sup>

The majority of people, however—anywhere in the world where it is possible to live on two incomes, but especially in Hungary—need strong incentives or even coercion to change their life strategies. This is particularly true if such strategies have been formed by socio-economic environmental effects which have been operating for several decades.

Today in Hungary a significant number of the members of the new small organizations sell their labour in this way. (In 1987 51.000 of the 68.000 members of the GMK-s, 2000 out of the 4000 members of the civil-law associations, all those working part-time in small cooperatives, and about 300 thousand members of the VGMK-s and specialized groups—which are not independent economic units, but merely replace labour missing in the company—were involved in this practice.) Calculated in this way, 87 percent of the approximately 412 thousand people working in the new forms of organization sell their extra working capacity (they join those who *individually* and legally sell their working capacity in a broad sphere) in several possible forms. Included among the latter are those who, beside being employed, are entitled to pursue some industrial trade—this accounts for nearly half of the number of artisans.<sup>13</sup>

The selling of extra working capacity (labour power) means a lot of small personal markets, and the relations of demand and supply are in accordance with the extent of personal capacities. The existence of these small markets is obviously useful not only for the individuals but also for the whole of society, since in most cases they meet actually existing needs. They will always have their own place in the economy, because there will always be some needs which can only be satisfied by mobilizing extra working capacities.

Potentially, however, important opportunities will remain unutilized if the activities required get stuck in the sphere of extra work, if the organizations do not accept the challenge of the market, and if they do not undertake growth and

<sup>12</sup> "I have founded a civil-law association with one of my colleagues. We have been working together for about fifteen years... Our aim was simply to increase our salary by a certain little amount of money, by doing some part-time extra work... we thought it would be a good thing if the association enabled us to earn two or three thousand forints each per month. This would make it worth doing, and this would make us happy." After the first and the following series of professional successes they decided to become independent—by then they had been joined by several others. They were not sure of success, "...but we wanted to try it. It was delightful to see that our products were in demand...", and that it was possible to produce rapidly, within a few months, something that had been made in four or five years at their earlier workplace. This story comes from an interview with the president of the small cooperative "Műszertechnika" (Instrument engineering) [7].

<sup>13</sup> According to data of the Central Statistical Office, between 1982 and 1985, compared to the number of self-employed artisans, the proportion of employees licensed to carry on a trade increased from 48.5 to 66 percent.



the necessary investment. That is to say, if they do not grow beyond the sphere of those who increase but, at the same time consume their income.

*The typical characteristics of the small-scale producers*

1.	<i>Objective:</i> assuring a livelihood (for the family), on the consumption level of the guiding social reference group.
2.	<i>Economic function:</i> meeting demand in a definite sphere of activities, with the capital investment and work performance needed for the activities. They respond to the changes in the demand only in the sphere of these activities and within the scope of the existing conditions (capital investment and the form of work organization). The range of the offered products is increased rather carefully, so as not to risk their basis of livelihood. The aim of the organization is not growth but rather stability, and the creation and retention of a clientele which is necessary for subsistence and the continuation of business.
3.	<i>Capital investment</i> is made to the minimum extent deemed necessary (equipment, machines, workshop needed for reaching and keeping a stable market position). New investment projects, such as the modernization of equipment, needed to bring about conditions of stability—can only be enforced by competition.
4.	<i>Income</i> is the combined result of invested capital and labour. The decisive factor is labour performance—the degree of capital utilization depends on the labour input.
5.	The main portion of the <i>income</i> serves the livelihood of the members (families)—hence, it appears in the market as consumer demand. A smaller part of it—to the extent deemed absolutely necessary—returns into the productive sphere, in the form of capital investment.

This seems to be the general pattern for such types all over the world. It represents millions of owners of small businesses—the “men in the street” who are the basis of the capitalist economy and who appear with their little supplies in a world where there is vast demand. According to Schumpeter’s classical example: the butcher tries to sell his product to the tailor, the tailor to the bootmaker, the bootmaker to the farmer who produces the meat for the butcher. Even if the example sounds a little bit naive, because the forging ahead of mass production in fact changed this simple structure, the essence has not changed. Today too, the small producers and servicing organizations fit into the circulation of the economy as a whole by working according to the demand and supply of their little markets. What is more, their role is growing again, as the demand for products which meet special requirements. Parallel with big industry, the network of small, separately-based and specialized workshops is also growing.<sup>14</sup>

<sup>14</sup>I.T. Berend has written about this phenomenon: In contrast to the mid-19th-century or

In Hungary the (non agricultural) small-scale producers represent a relatively very narrow sector of the economy.

Although it is not a homogenous social circle, its body mainly consists of artisans working in industry and services. On the basis of their typical economic attitude and independent of their organizational form, many of the new small economic units are small-scale producers too.

With regard to its internal stratification, this group is essentially as heterogeneous as that of the agrarian small producers, or of those cultivating household plots and auxiliary farms—all of whom have been recruited from very different strata of the society. A basic difference, however, between the agricultural and the non-agricultural small producers is that while for the former ones small-scale production means a complementary income, for the latter it is the basis and main source of living. (About 70 percent of the artisans have a household-plot farm and supplement their income by small-scale agricultural production.)<sup>15</sup>

Undertaking autonomous living is the distinctive feature of the small-scale producers. This is, of course, not a decision for life. However, the data related to the initiation of independence, the termination of independence, and the fluctuation in the number of artisans, indicate that under Hungarian circumstances it is not so much the economic opportunities or the widening or narrowing of demand which leads to temporary or permanent withdrawal. It is influenced rather by the changing attitudes related to the ideological function of ownership relations and, together with it, the loosening or stiffening of taxation and other legal provisions.<sup>16</sup>

The activities involving small-scale production do not always require professional knowledge, but special skills or trades which can be obtained after some years of training. In the majority of the trades which require professional knowledge (skills) the activity postulates the existence of an independent workshop, special machines or equipment or, occasionally, significant capital investment.

even early 20th-century forecasts, modern economic development has presented a great surprise: namely, while the expected concentration process has in fact evolved with considerable impetus... at the same time a *contrary* trend has also unfolded... in significant areas, primarily in the branch of services—which has forged ahead astonishingly and which is gaining ground—the function of small private activities has been reproduced... Thus, the “rotation of concentration” has established small-scale private activity as a substantial branch in the modern 20th-century economy. [9]

<sup>15</sup>Based on the 1983 mobility and income surveys of the Central Statistical Office, the analysis carried out by Á. Vajda gives a lot of new and rich information about the artisans [10]. In the following I have frequently relied on her findings. Although as yet it cannot be verified by statistical data, experience shows that the characteristics concerning the artisans which are discussed here, also apply to those who become independent in the form of some association.

<sup>16</sup>More than half (!) of the artisans who were active in 1983 had become independent within the previous four years, i.e. “during the late seventies and early eighties when more liberal economic political attitudes were shown towards small-scale industry”. [10]



It is a very important distinctive characteristic that those who undertake small-scale production or services, *invest some capital* in order to be able to work. This may be a large sum or a small one; its source may be a donation from abroad (such were the first key-copying machines), it may be the result of consistent saving in the preceding years, it may be the accumulation of income from legal or illegal extra work, or it may involve the shop or working equipment of some traditional family trade inherited from the parents. (In rare cases it may be some credit. In practice the small organizations cannot borrow from banks, though they themselves do not prefer loan repayments which involve some risks.)

*Invested capital is paid off in line with the actual work performed.* In the income gained by the combination of labour and capital, *performed labour is decisive.* In this case "labour" also means the time spent on "standing by", i.e. keeping the shop open, or offering permanent availability to the potential customers. After all, the clientele represent the true basis of existence. Gaining and maintaining a reliable clientele provides the security necessary for survival. The capital needed for carrying on trade is not considered as an "investment" which yields some return, but is regarded as a means of work and a condition for serving customers properly.

Some (smaller or greater) part of the work—since it is the basis of living—is also undertaken by the family members. The shop or workshop of the small producer is often a family work organization.

Employees are kept to the minimum. This is because, on the one hand, to employ any extra labour is very expensive. On the other hand, the small producers are careful not to extend the family work organization. In Hungary it is quite unfavourable to be a private entrepreneur—let alone having to think about being considered as an "exploiter".<sup>17</sup> Their economic operations can be characterized by sound moderation and, even more, by caution. They are especially circumspect in issues of growth and/or investment. They strive to preserve and keep in good repair what already exists, rather than begin new activities perhaps at the cost of larger sacrifices and new investment.<sup>18</sup>

<sup>17</sup> Only about 10 percent of the artisans employed some personnel—on average 1.6 persons. In 1985 there were altogether 43 active artisans in the whole country who worked with more than 6 employees in their workshop. (Source: Report to the 1986 general assembly of KIOSZ, the national federation of artisans.) The latter are presumably no longer artisans, but very likely entrepreneurs who belong to the next type of small organization. In the 11 thousand GMK-s, there are 5400 full-timer employees. The employees are usually people who did not wish to become members of the organization. [11], [12]

<sup>18</sup> "I must say that in certain respects we were born lucky. It was not necessary to create demand for our products, for it was already there. This is why we have become lazy. We have no plans to broaden our product structure because the whole of our capacity is covered by orders... It is our principle that at the end of the year we distribute our profit. We clear out the cash; when we start again in January we pay again as necessary." (Interview with the leader of an engineering GMK. Manuscript, in the Institute for Labour Research.)

Even in cases where demand is good they pay great attention to the balance between family livelihood and investment, since the leading objective of the activity (i.e. family living) must not be put at risk. To make investments, such as purchasing new machines and new instruments, or acquiring new workshops is only permissible—even when it is in the hope of increasing future income—if it reduces the production costs and/or if the prevailing way of taxation by the government does not endanger the subsistence of the family.<sup>19</sup>

It is mostly competition that urges the purchasing of more efficient equipment in order to modernize the shop or workshop. (This is another reason why it is a problem that in Hungary the competitors do not represent a power pushing for modernization and innovation. Yet all over the world innumerable new means of technology and new production processes are adopted through masses of small workshops—thereby permanently increasing the potential of the economy.)

Under the Hungarian circumstances the restraints discouraging investment strengthen specifically the propensity for consumption (occasionally luxury consumption). For the small producers the whole point of their economic activity is often the possibility of achieving a social position expressed by the way of life and the circumstances of their living.

In their way of life they do not follow business standpoints but social patterns. In their mode of living they strive to join strata having higher incomes than their own, consequently, organization for small-scale production is subordinated to this goal. The aim may be a personally owned house, a more comfortable flat, a holiday home, the children's education, or simply the consumption of the income. In other words, as far as possible, they behave in a way which does not raise the attention and suspicion of the authorities and the social environment.

According to the current order or social values, this can include several forms of luxury consumption, e.g. expensive sports, travelling abroad, clothing according to the latest fashion etc. (While in the interwar period the majority of the stratum of artisans and small shopkeepers—who represented a significant mass of people—"...took their place at the bottom of the social ladder" and "passed over from the hopeless lot of being workers into a no less hopeless independence", the artificially

<sup>19</sup> The product of a GMK leader—who had earlier been an artisan and now manufactures a special plant—protection agent on the basis of his own invention—is in much demand. Thus he could sell much more than the quantity produced currently by two families. He gave a definite answer to our question, "Do you not think about running up your output in the course of the next few years?" He said:—"I do not intend to grow beyond the present framework." He wishes to buy a station wagon because carrying the raw materials and finished products by hired trucks is too expensive. "I hope", he says, "nobody will find fault with this plan of mine, since the respective decree says that as long as it does not affect the family income level, tax-free accumulation is permitted. (Interview—a manuscript in the Institute of Labour Research.)



reduced number of their present-day successors have achieved a much higher ranking on the considerably rearranged income scale.<sup>20</sup>

Under Hungarian conditions the achievements of an income judged fair in a narrower or wider social environment is rarely threatened by competition or decreasing demand; it is mostly influenced by deteriorating conditions of operation—primarily by taxes.

Complete withdrawal involving the winding up of the activity and, with it, losing part of one's existence, also means losing the clientele and leaving the invested capital unutilized. Yet this is a last step only taken under the pressure of necessity. Certainly, the small enterprises try to avoid this course of action. For a time they try to maintain the workshop and the sphere of business, even at the cost of self-sacrifice; thus they increase their complementary incomes: they change the main job into a secondary one and the marriage partner also undertakes some employment (this happened in mass numbers in 1984–1985). However, they do not abandon the equipment while there is some hope of starting anew. Also, if there is some possibility of doing so, instead of withdrawal, they attempt to counterbalance the growth of taxes; they do this by raising prices, by increasing the share of work performed without invoicing, by keeping back investments or by suspending the activity.

With very few exceptions, all the small organizations not included in the preceding type, belong to this one. It includes the full-time working artisans, the GMK-s and civil-law associations that pursue either industrial or construction work, or servicing activities, which do not merely sell extra time and labour. (Also, the retail traders working in a family work organization, and those who operate state-owned or cooperative shops and public catering units on the basis of renting it or any other kind of contract, can be classified as belonging to this group.)

Any, otherwise modest, individual supply of each member of the masses of small producers is—today more than ever—a natural and indispensable part in the operation of a modern economy.<sup>21</sup> This group of society has to strive for stability; for the sake of its livelihood, it is forced to meet the demand in its sphere of activities and it has to permanently modernize its means of production. However, the factors which urge such behaviour have been missing from the Hungarian economy for decades.

<sup>20</sup>From the analysis of Á. Vajda [10]: in relation to other groups of earners the artisans represent the highest proportion of those living in flats with three or more rooms (artisans 27%, intellectual (brain-)workers 23%, agrarian manual workers 17%, and non-agricultural manual workers 16%); in flats with all the usual facilities, behind the brain-workers (representing 88 percent) they were in second place (74 percent).

<sup>21</sup>The economic successes of Italy have been achieved during a recession in the world economy—a recession has lasted a decade and a half. This is usually explained by two factors: modernization of large-scale industry, accompanied by reduction of scale and strengthening of the multicoloured world of the small economic units. See, for example, the analysis of Á. Simonyi [13].

Most of the small producers are satisfied if they can simply maintain their business, and if their business sustains them and their family. Under favourable economic conditions, however, this is the sphere where the organizations are ready to grow and change, i.e. where genuine enterprises are produced.

#### *The typical characteristics of enterprise*

1.	<i>Objective:</i> profit, i.e. a surplus over the value of the assets (capital) invested and utilized.
2.	<i>Economic function:</i> meeting the demand in the sphere/s/ of activity which promise profit, within the scope of manoeuvring limited by the invested capital. By responding sensitively to changes of demand, they terminate or reorganize their activities. Endeavours are aimed not at stability but at the permanent utilization of existing opportunities.
3.	<i>Capital investment</i> is carried out to the largest possible extent, depending on the expected profit and risk. In order to pursue activities promising higher profit and requiring rapid and dynamic extension of their supply, enterprises are ready to mobilize foreign sources too, in addition to their own capital. When profit is declining, investments in this activity are reduced and/or capital may be completely withdrawn in order to invest it in some other profitable branch of business.
4.	Within the <i>income</i> resulting from the combination of capital and labour, capital is the decisive factor. Intellectual, manual or organisational work serves the utilization of capital and it helps to maintain its profit-yielding capacity.
5.	The main part of the <i>profit</i> is re-invested in economic activities, in order to boost the profitable ones, and to organize new ones. Personal consumption remains on the level of the guiding social reference-group; it is not significantly extended, even if the profit grows rapidly.

“The entrepreneur”, as A. Madarász quotes from Schumpeter [14], “... is a *sui generis* phenomenon who, like the poet, is born, not developed. His characteristics are foresight, imaginative power, and, above all, a determination which is able to turn against the pressure of routine. Furthermore, he has the ability to seize and realize opportunities inherent in anything that is new. In his behaviour he is in perfect opposition to static economic subjects, because his relationship to the economic process and his actions are not determined and called forth by the process—it is rather the case that he determines the development. He is not passively subordinated to events, because he actively initiates them.”

Nowadays this reverence is somewhat ridiculous, especially the praise of personal properties and faculties. Today even one who is not too well versed in psychology, knows—if only from the plenty of experience gained through our history—that a personality may grow strong or waste away, depending on the forces at work in



the environment. Thus the numerous characteristics of the social order of values, as well as the economic circumstances, play a decisive role. In fact, the entrepreneur is not born, he is developed—if the circumstances allow this. Still, it has to be acknowledged that the entrepreneur who, instead of the routine-like combinations of production, brings about new ones, opposes the trends to which most people are socially accustomed, and is prepared to risk failure, is more daring than the average man. Therefore all economies consider the entrepreneur to be a “changer”; he is the most important figure of the economy because he dares to stand up against traditions, and he creates the enterprise—namely, the economic organization which is sensitive to the relations of demand and supply. The main criteria and the currently most accepted definition of the enterprise have also been formulated by Schumpeter [15]—although he relies heavily on, and quotes, Max Weber.

My primary endeavour is to sum up here the characteristics distinguishing this form from the previous two types of organization as they can be interpreted under the circumstances of socialist economy and society.

The enterprise is, according to the classical definition, profit-oriented. If a given undertaking does not yield the surplus expected above the investment, capital will be withdrawn and invested elsewhere. Hence, the enterprise will participate in the process of economy because and until it can promise opportunities of gaining profit. In the hope for profit the enterprise runs several risks: it risks the investments made by the founders (realization of the capital which was needed for the foundation and operation), occasionally it risks all personal property, and it risks the income of the participants in the enterprise.

Thus, the active participation of capital—i.e. investment which can be expressed in terms of money—in the economic activities is an indispensable condition for carrying on the enterprise. Investment in the enterprise—which in the previous types could be neglected, or played only a complementary role alongside human labour—is fundamental, and utilization of the invested capital becomes the primary objective and/or an inevitable condition. The determining factor in the profit—i.e. in the benefit stemming from the combination of capital and labour—is no longer the input of human labour but some other circumstances: for example, quick adjustment to demand, ability to create new demands or resoluteness in eliminating non-profitable activities. In other words, the function of labour can also be fulfilled by some “new idea”.

The enterprise strives to preserve its flexibility, not its activities. It is ready to change products, services, or organization sizes—thereby adjusting to demand. In cases where there is excess demand for some product, the enterprise is prepared to boost its supply and/or to supplement its own resources by involving external capital. The taking on of a loan—with acceptable interest rates—is often regarded as a reasonable risk.

The interest of those participants linked to successful enterprises is stronger than those whose success is linked to the prestige they have achieved in their di-

rect social environment: the former wish to be acknowledged on a national or international level. Personal consumption becomes subordinated to success. If an undertaking needs some investment, the requirements of the family or household are pushed into the background. (It is another thing that in the case of success the level of household or personal consumption may exceed the level characteristic of the social stratum of the entrepreneurs.)

A decisive part of the profit is, however, year by year reinvested in the enterprise; it will be embodied in continuous developments in new and increasingly efficient equipment and opportunities. If the enterprise does not succeed it is liquidated and the members attempt to invest the remaining capital in a new, more promising undertaking.

The evolution of a stratum of entrepreneurs oriented to growth—and valuable for any society—were, for a long time, punished rather than stimulated by the circumstances of the Hungarian economy. Perhaps the social and political tolerance which now at least takes notice of and accepts the utilization of extra labour power and small-scale production will, to some extent also let enterprise come to life (even if this process is still not liked). It is a miracle that, under the conditions of a political, ideological and social public opinion which has deliberately restricted enterprise and has grown sometimes rather severe, such undertakings could, in various forms, come into existence. Such are the few dozen of artisans, GMK-s, civil-law associations and small cooperatives operating in the form of an enterprise. For example, J. *Pintér*, an artisan living in the village of Kecel, became widely known in Hungary through articles written about him in the press. He has invested tens of millions in workshops and machines needed for production in order to meet the ever increasing number of orders. He now manufactures products for export and these meet even the most sophisticated requirements. His net income in 1985 was more than a million—but he himself and his family live in a modest way: “his home is neither poor, nor luxurious, but one of those of which two hundred thousands can surely be found in the country.” [16]

In another context I have already quoted the interview with the president of the “*Műszertechnika Kiszövetkezet*” (Small cooperative for instrument engineering), who is an engineer engaged in technological development. The article about him was published in the periodical “*Mozgó Világ*” (Moving world). Starting from a civil-law association, where he began working part-time, he and his partner moved into full-time work with a GMK of 30 members, and eventually they arrived at a small cooperative, which now may employ 100 members (according to the prevailing regulation). In parallel, they have moved from the first order of 120 thousand forints to the 600 million turnover in 1986. Between 10 to 15 percent of the profit was usually spent on wages and the majority was always accumulated for the development of the undertaking, buying materials, or financing investment projects. [7]



One more example from our own data collection: a metalworking GMK has seven members, four of whom are full-time, and three part-time workers. In the GMK, which today produces an annual income of several millions, the principle is that the full-time workers may earn one hundred thousand and the part-time workers fifty thousand forints per annum. ("These are, of course, not rigid figures—the amount may be 10-15 thousand more or less.") All the money remaining after tax is invested: they have built up a new workshop, purchased machines and a lorry. In addition: "The idea came to me when heating was installed in my house. I heat with oil. The oil tank is buried in the garden. I found out that it was unnecessary to buy a new one, because the old one could be fabricated out of my iron materials with minimum work. But if it is as simple as that, why not make another one in addition to it? And if I have these, what would it take to obtain the right of selling household heating oil? We acquired it, and ÁFOR (the state company for oil trade) is a good partner. This is all very well, but people buy oil only in winter, or perhaps late in summer. So, if someone has to sit there all the time anyway, we might be engaged in something else, too. Then came the thought of trading in building materials. Now we also undertake purchasing and transport. The customer tells us what he or she needs and we search for it and deliver it within a fortnight. We ask for a down-payment of 50 percent of the estimated price. This is good for us, because it is capital which is easy to circulate... An amount of hundred thousand forints is invested in trading activities. The investment returns the sum of the capital five times a year. We work with an average profit margin of 10 percent, we do not want more... Now I am very interested in the idea of operating a "csárda", a Hungarian-type roadside inn. I have already chosen a house on the outskirts of the town. Some people think it ridiculous, since there is a restaurant opposite of it. But I know what I want. And also many other people know I do. One of the town leaders said, "If this GMK issued shares, I would immediately buy some for a hundred thousand forints." (Interview: manuscript in the Institute of Labour Research.)

Though most of my examples are about enterprises, they are still rare among the small organizations. The majority feel neither forced, nor encouraged to follow the way of "Műszertechnika" or of any other successful undertaking.<sup>22</sup>

It is a hopeful sign that some entrepreneurial organizations already exist and that owing to this, more and more of the most successful GMK-s and civil-law associations are becoming small cooperatives offering broader frameworks and possibilities for growth. However, the tilting of the balance is still hardly perceptible.

<sup>22</sup>The president of "Műszertechnika" was not born an "entrepreneur", and he says he does not feel like one. "It was astonishing even for myself that, having been engaged for thirteen years in research and development, I am now a business manager—not one who sits in libraries, rummaging in literature. Earlier, I had spent most of my time sitting in the library of the Institute of Geophysics and in the Technological Library, learning and learning..."

To demonstrate it in terms of magnitude, it can be said that hundreds of thousands of people sell their extra labour power; there are about one hundred thousand small-scale producers and, perhaps, 100 or 200 genuine small enterprises: a few dozen artisans, and several dozen GMK-s, civil-law associations, small cooperatives and specialized cooperative groups. One can even say that in the sphere of both the new and the old organizations there are relatively rather few small producers, but even fewer enterprises. I think it is no longer necessary to enumerate the consequences of the unutilized opportunities because of the repressed activities of the great mass of small organizations. This is the reason why, despite so many good results coming from their activities, we are still dissatisfied.

### Persistent hesitation

The changes in the proportions of the three organization types (and along with them, the creation of new relations of demand and supply, and the strengthening and broadening of markets around the large numbers of small organizations) are invariably hampered by great powers. Without claiming to be able to give a thorough explanation, I can hint at a few well-known aspects which show that the situation now is hardly any different from that of five or six years earlier, despite the intentions of economic policy.<sup>23</sup>

The most important one seems to be the political judgement on the private sector, which affects the vast majority of the small organizations. Although today, in everyday political practice, it is permanently stressed that this sector is indispensable. The latest rules—thus e.g. the tax system and the system of obligatory social security contributions, equally working as a tax—have created new conditions for 1989, based on the indisputably correct principle of "equal conditions of competition". Yet, as a matter of fact, they have brought the small units and those in private ownership into the most disadvantageous situation. They have, namely, disregarded some basic differences characteristic of the small state-owned, cooperative and private organizations. Thus, e.g. the fact, that the state-owned small enterprise is established by the investment (transfer) of state capital. The managers get a guaranteed salary. It is that part of their income *beyond* the basic salary which depends on the success of their economic operations, i.e. income in the form of bonuses, rewards and profit shares, to be paid out at the end of the year. The social security contribution of employees is paid by the firm.

The capital of the small cooperatives comes from the contributions of the members (if one can speak about capital at all). The leaders also earn a guaranteed salary which—depending on the economic results—together with the dividends may

<sup>23</sup>Several important reasons are listed e.g. by G. Révész [17].



grow to be a multiple of the basic amount. The social security contribution of members and employees is paid by the cooperative.

The organizations of the private sector have to (ought to) raise the capital needed for their operation themselves. The obligatory social insurance rate also acts as a tax. The income of both leaders and members depends exclusively on work performed.

The regulations ignored the fact that the services the different economic actors are able to resort to are not equal and that in the course of redistribution the big companies and cooperatives have received several kinds of support in carrying their burdens.

With raising the rate of the social insurance, which acts as a form of additional tax a very effective measure has been taken in order to delimit the creation of self-reliant existences. As long as people work in the small organizations of the private sector on a part-time basis only, i.e. as in a secondary job, they are free from most of the burdens weighing on the private sector and they maintain their right to resort to any kind of services (benefits) related to social insurance. Once they become fully independent, all burdens fall upon them, and they are unable to enjoy the same services which are available to the employees of the socialist sector [18].

All this is happening in an economic environment where most of the large organizations are oriented not toward enterprise but the fulfilment of some targets. With the large organizations the basic conditions of enterprise are missing: the possibility of choosing between activities on the basis of profitability; the capability of bearing the consequences of unsuccessful economic actions; and the absence of somebody or some organ who is "responsible" for the risk and who can define the boundaries of "responsibility".

In such a situation the autonomous actions of the small organizations are inevitably watched with suspicion and the lightest charge against them is that they are "getting round the law". In the case of especially successful operations, the first to take notice of it are the supervisory bodies, often the Economic Police. All these are, in addition, accompanied by the petrified and stereotype judgements of the society, which are not particularly sympathetic towards the "tricky fellows in private business". Furthermore, the anticipation of social resistance and the fear arising from condemnatory public sentiment owing to the differentiation of incomes, seem to be, for the time being, stronger than the government's intent to dynamize their economic activities.

Under the given repressive conditions it is understandable that only the most ambitious people undertake the operation of a small organization as an enterprise. In fact, they should get more stimulation, more unambiguous encouragement and motivation in order to build up and supplement the market of the large organizations. This market should be built downward from the top, but it should also be supplemented by lots of small markets made up of individuals and groups. However, as long as the judgement on their function is hesitant and uncertain, their intention

to change and make headway will also waver. In the modern economies the small-scale private activities are given new roles and are more important than they were earlier. In Hungary, the current transformation of the economy has opened up new areas for the small units. The latter, in turn, should be given the chance to open up new resources for the economy. Today we are already aware of what the small organizations are able to do and we also know that there are far too many unutilized opportunities. However, a political will claiming higher performance from the economy, may eventually achieve that many small organizations should not only exist, but an increasing number of them should grow into enterprising units.

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РАЗВЕНЧАННЫЕ МИФЫ—РОБКИЕ ПОПЫТКИ  
(ЕЩЕ РАЗ О МЕЛКИХ ПРЕДПРИНИМАТЕЛЬСТВАХ)

Т. ЛАКИ

Начиная с 1982 г. в Венгрии возникло десятков тысяч мелких хозяйственных организаций как в новых формах, называемых мелкими предпринимательствами, так и традиционных (мелкие частные предприятия, мелкая частная торговля). Несмотря на значительный количественный рост наличие этих организаций едва заметно в функционировании экономики.

Анализируя экономическую роль этих организаций, автор показывает три характерных типа мелких форм: те, кто желает лишь реализовать дополнительные возможности труда, мелкие производители и предприниматели.

Большинство стремится только к реализации дополнительной возможности труда и получению благодаря этому дополнительного заработка и не желает расстаться со своим местом работы в социалистическом секторе. Поэтому их предложение ограничивается той деятельностью, которая может выполняться только в свободное время. Мелкие производители— в первую очередь те, кто занят в традиционной мелкой промышленности— также прежде всего используют свой труд и труд членов своей семьи. Свои доходы они главным образом используют не для капиталовложений и модернизации, расширения своего предложения, а на нужды своей семьи. Стремящиеся к реализации капитала предприниматели составляют еще очень узкий слой. В статье анализируются причины этого.