The reality and potential of autonomous entrepreneurship

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1. Introduction

Hungarian statistics of the last one to two years contain striking data as to the number of economic organizations in the country and their breakdown into size categories: the share of organizations of different size is more or less the same as in developed industrialized countries.

Table 1 – Breakdown of the units of Hungarian economy according to number of employees in 1988

Number of employees	Number of organizations		Breakdown per cent	
More than 1000	749			
500-1000	871			
301-500	931			
101-300	1853			
51-100	2487			
30-50	563	4863	3.6	
11-30	1813			96,9
2-10	60953		36.7	
Independents	70015		56.6	

The remarkable nature of these shares lies in the fact that economists researching the size of organizations held for decades that the Hungarian economy was overcentralized. It was well-known that large and giant organizations constructed by central management controlled every branch of the economy. The best-known example was that of industry, where, in 1938, 4075 units existed. By 1950 these had been amalgamated into 1632 units[1] thus creating one, two or three huge firms in every branch of industry.

In agriculture, too, the land cultivated by state farms and cooperatives covered the territory of several villages. In the branches of trade and public catering, firms or cooperatives comprised many hundreds of shops and restaurants. Construction enterprises functioned as huge, specialized firms (building factories, department stores, schools, dwellings, etc.) or at county level.

At the same time, small and medium-sized organizations disappeared or became negligible, even if they too were state (or very similar, because non-divisible) cooperative property. Private property almost entirely consisted of the shops of craftsmen and retail traders, who worked with family aid but without assistants, and the small farms of independents. In 1980 these numbered barely more than 100,000 overall (63,000 craftsmen, 13,000 retail traders, 28,000 farmers). This was the result of the stop-go policy pursued since 1948, as excellently documented in the GDR and Poland by Åslund.[2] Perhaps the most telling example is that, in 1980, only 3.4 per cent of the country's wage-earners worked for small organizations in the private sector, either on a self-employed basis or as employees. Compare this with the data for the 1940s: then 185,000 craftsmen were active in the country, and 283,000 employees and craftsmens' shops were responsible (since the beginning of the century) for somewhat more than one-fourth of industrial production. In the trade sector, 78,000 shops were owned by natural proprietors (individuals, ordinary partnerships, limited partnerships) employing 115,000 workers.[3]

In the 1980s the majority of small private organizations worked with poor equipment, without capital, and very often relied only on the proprietor's own labour force and knowledge; small industrial workshops were still at the craftsman level. Modernization and capital accumulation was held back by lack of confidence in the state (the memory of nationalization cannot be effaced from the conscience of small proprietors and their families); and it could not be stimulated by competition for customers, because in most settlements and professions there were no competitors at all.[4]

2. Reform attempts and the devolopment of the autonomous sector

In the late 1970s and early 1980s changing the overly concentrated organizational system, and increasing the numbers of smaller organizations, became the acknowledged aims of the government. After so many unsuccessful attempts at reforms[5] and in view of new developments in the world economy, the government hoped that, by creating smaller organizations and by cautiously opening ground for the private sector, it could improve the performance of the economy, reduce the shortage of goods and services, and improve opportunities for trade with developed industrial countries.

Three courses of action were adopted in pursuit of these aims:

1. *The decentralization of large organizations*. At the end of the 1970s the state administration began to reorganize loss-making large firms and to split many of them into smaller units as part of a revitalization programme. Thus, several dozen smaller (although still large, since they employed more than 500 people) autonomous firms were created.[6] At the same time, the government tried to provide various kinds of incentive (tax allowances and wage increases) in order to encourage the plants and factories of large firms to function independently and move towards autonomy. This drive for autonomy was resisted mainly by the managements of large firms and by the counter-interests of the state bureaucracy, who felt that their roles were in danger.[7] A compromise solution was found: two hundred subsidiaries were formed with largely formal rights within the overall regulative framework. Also, the decentralization by law of large state firms created the small firm as part of state property.[8] The majority of these small state firms were created by the dismantling of two large service-maintenance firms with large national networks: a large car repair firm, and a domestic appliance maintenance firm. Their local units became independent small firms. Moreover, Budapest State Hairdressers, with its several thousand shops, was split up and ten independent small state firms were created in its place).

Small state firms and the majority of subsidiaries received several benefits compared with the big ones (simplified accounting, reduced taxes, etc.). In 1987 almost 500 units (213 small firms and 277 subsidiaries) belonged to this group.

As with the state organizations, decentralization of large cooperatives also began. Smaller units, with fewer than 100 employees, seceded from large cooperatives and became independent. In 1982 some 137, in 1982 237, small cooperatives were active.[9] At the time, when regulation preferred cooperative property over private property, and when therefore the small cooperative was an appealing form of organization, dozens of private companies with more than fifteen employees transformed themselves into this form. In 1988 more than 3,100 small cooperatives were active.[10]

2. *New forms of partnership*. After 1982 new forms of partnership appeared in the Hungarian economy as joint ventures among several individuals. These new forms were: the enterprise work partnership (VGMK), the cooperative specialized group, the business partnership (GMK), and the civil law partnership (PJT). Regulations set constraints on the size and activity areas of private partnerships: for example, the VGMKs and the GMKs could not have more than 30 members; the GMKs could not engage in trade activities. VGMK and specialized groups could be only formed by full-time employees and pensioners of the firm and the cooperative. VGMKs could operate only *after* official hours. Civil law partnerships – which could also engage in trade – were subject to very high taxes: whereas VGMKs were taxed at 3 per cent, the PJTs were at 40 per cent.[11]

Partnerships of private persons (without legal personality, therefore their members taking full material responsibility) had very different histories, of which I cannot go into details here. The VGMK, however, which was the most popular form, never became an autonomous market actor; the surplus work of its members was used by the parent company. The VGMK was successful as a *new work-organization* but not as a venture.[12] The majority of specialized groups had similar roles, although the more flexible cooperative form gave rise to some true ventures as well. There were a few small cooperatives which consisted of a loose network of specialized groups. The PJT assumed the form of a joint venture among retail traders. The GMK proved to be an autonomous form of venture, although the majority of its members (70 per cent) retained their jobs in the state and cooperative sector and 'ventured' only their spare time. 76 per cent of GMKs had no fixed assets in 1987.[13] In 1988 some 30,000 domestic partnerships were active in the above forms.

3. *The easing of restraints on individual ventures*. Several

measures were introduced to improve the conditions of traditional small-scale industry and retail trade. First, the state administration had no discretion over whether to grant licences or not: all citizens had a right to a licence. Several previously forbidden activities began (private taxis, freight carriers, fashion boutiques, shops selling industrial goods). Personal constraints were eased. Since, 1982 crafts workshops, which were previously restricted to 5 people, have been able to employ 15 people, and there has been a similar lifting of restrictions on retail trade. Although circumstances did not improve a great deal (with persistent problems of procurement, high and increasing taxes, and social security contributions), these concessions made autonomy appealing to many: between 1981 and 1988 the number of independent craftsmen rose from 69,000 to 90,000, and that of retail traders from 13,500 to 38,000. To the 45,000 independents can be added the 12,000 entrepreneurs who, at their own risk, rented and operated shops and restaurants in state or cooperative property.[14]

The number of businesses has increased spectacularly since the early 1980s. New legislation enacted in 1989-90 provided even more possibilities for the economy to be organized on new principles and for new small-scale forms to emerge. The unified venture law abolished differential treatment of individual property forms and replaced state favours and cooperative property with unified treatment and equal taxation. The association (partnership) law established (among other things) limited liability companies (KFT) (allowing mixed property firms to be founded with participation by the state and domestic and foreign privates) and also limited partnerships. The number of limited liability partnerships rose spectacularly: in 1988 there were 451 of them, in the fifth month of 1989 already 2,000.[15] (Some of the new KFTs were created out of previous partnerships without legal personality – GMKs, PJTs.)

Although the partnership law abolished certain forms (the VGMK and the PJT) which had proved not to be viable, according to our data the number of organizations with legal entity and employing fewer than 300 persons grew in the first five months of 1989 by 1781; 1156 of them employing fewer than 20 people and 414 employing 21-50 people.[16]

The impressive growth of the number of small business organizations did not result in any marked improvement in the functioning of the economy. Although, according to CSO data, in 1988 the small venture sphere produced almost 11 per cent of GDP[17], their presence was hardly noticed. Moreover, whereas hundreds of new organizations were created each year, the performance of the economy steadily deteriorated. Foreign debt and fiscal deficit grew, and the shortage of goods and services, a persistent feature of the economy, has eased only in certain areas (the supply of taxicabs in Budapest is now far better than previously; there are several software firms with ever-improving quality supply, etc.). However, consumers still seek in vain for a wide variety of goods in the shops, and the supply of goods is invariably poor and of low quality. Craftsmen are invariably difficult to find for household repairs and their work is often shoddy.

One obvious reason for this undeniable deterioration in the state of economy is the weakness of small organizations. As I have already mentioned, members of the private sector do not invest capital, restrict their 'venture' to their free time, and retain their jobs in the state and cooperative sector.

Table 2 – Breakdown of business organizations according to number of employees in 1988

Size	Number of employees 1982	1988	per cent 1982	1988
1 - 100	203808	456171	4.8	11.3
101 - 1000	1352596	1359750	31.9	33.5
1001 and above	2684192	2239344	63.3	55.2
	4239586	4055265	100.0	100.0

One of the most evident signs of the weakness of small organizations is that both productive wealth and the labour force are concentrated in large organizations. We have no data on the productive wealth of the self-employed but, according to most recent statistics (i.e. from 1987), 98 per cent of productive wealth is concentrated in traditional government and cooperative organizations and only 2 per cent in small cooperatives and partnerships.[18] The case of employees in similar. In 1988 some 4.2 million people were employed in business organizations. In 1982, 63.3 per cent of these were employed in firms with more than 1,000 employees. In 1988 their share was 55 per cent, and that of people working in firms with fewer than 100 employees 11 per cent. In other words: the latter belonged to 97 per cent of organizations, the majority of them consisting of the nearly 160,000 craftsmen, retail traders and farmers who worked alone or with family help.

This means that the increase in the number of small organizations has not altered the dominant position of large ones. Despite the changes that have taken place, the organizational system of the centrally planned economy remains essentially intact.

3. Unchanged characteristics of a planned economy

This brings us to the true causes of the weakness of small organizations. Despite decades of attempts at reform, in an era when the whole social and political environment of the economy is undergoing rapid change, it has not been possible to alter the fundamental features of the socialist planned economy, and this largely restricts the activity area of small enterpreneurs. I consider three closely related characteristics as essential:

1. With nationalization and enforced cooperation, autonomous economic actors were stripped of their means of enterprise, and property rights were centralized to those in power.

2. With the loss of property, previously autonomous economic actors were no longer able to take decisions based on personal judgement and to assume risks. The market coordination of production and consumption, supply and demand, cost and benefit among the many actors in the economy was replaced by bureaucratic cooperation based on decisions taken by central offices.[19] The central offices assigned economic tasks and distributed the resources that they deemed necessary for their implementation. These decisions were incorporated into plans drawn up by the centre.

3. The hierarchical organizational system necessary for bureaucratic regulation was established. The upper levels of this hierarchy consisted of the state administrative organs responsible for management functions. The lower, executive levels organized production activities by amalgamating the host of small producers into large, easy-to-control organizations.[20]

These three interweaving characteristics constitute the so-called 'ideal type' (to use Weber's term) of socialist planned economies, and it is these that distinguish it from other socio-economic systems.

As I have already said, the deep-rooted problems persisting since the inception of the planned economy have necessitated permanent reform. Over several decades – with occasional retreats, sometimes moving cautiously, sometimes more rapidly – several of the original model's features have been modified. (There is an ample domestic and foreign literature on these reforms, their antecedents and effects).

Some years ago, largely as a result of changes in international relations, this transformation accelerated. Now, with the whole of Eastern Europe experiencing a period of feverish political change, and with the practically overnight collapse of the political system in several countries, it is worth considering the changes that have come about in the basic characteristics of the socialist planned economy.

Here I only have space to provide an outline; one which, moreover, is restricted to the example of Hungarian economy, since I have no relevant data as to other countries (Poland, Czechoslovakia, East Germany, Yugoslavia and Romania) undergoing other phases of the transformation process.

3.1. Property relations. In Hungary, the first concessions in the area of property were made in agriculture during the 1960s. Cooperative members with household plots of land were given the right to sell their produce on the free market. Previously they could produce only for self-consumption. The success (a rapid and long-lasting improvement in both the quantity and choice of agricultural products) on the one hand, and, on the other, operational problems in the other areas, gave rise to a search for new forms of state and cooperative property and of individual material interest. Several new forms were introduced in domestic trade and catering in order to increase the material commitment of employees and to offer them a share out of profits (contractual and settlement forms). These innovations were an attempt to simulate private property, but politics accorded them only a secondary role as 'supplementers' of the activity of large government and cooperative firms.

The first important opening towards private organizations occurred in the 1980s with the introduction of the above-mentioned small-scale venture forms and the easing of restrictions on individual and collective private venture, although the size of small organizations in private property was limited by law to between fifteen and thirty people.

New legislation enacted in 1989 and 1990 provided the necessary framework for the foundation and operation of private ventures. The law now allows individual ventures by private individuals employing up to 500 people, but abolition of this constraint is already being considered.

Despite increasing liberalization and the several thousand units that have been established in recent years, there has been no significant change in property relations. One supposes, however, that sooner or later this too will come about; suitable conditions already exist, and as time passes the new processes will increase in vigour. Slowly, the institutions of a capital market will arise and with them opportunities for citizens to invest their savings.

At present, however, state property is an unmovable obstacle to any change in property relations. (Moreover, major adjustments are necessary in order to deal with the problem of property rights in agricultural, industrial and service cooperatives. These employ 30 per cent of wage-earners and comprise a sizeable part of productive wealth, it being in fact the central organs that disposed of indivisible wealth. Here, though, I am considering state property.)

It would be possible to nationalize the whole of the means of production overnight, from the largest firms to the smallest shops employing ten people. Reversing the process, however, is an extremely complicated and difficult task, provoking stormy controversy despite good intentions. Here I can mention only a few factors. Since the original proprietors are no longer alive, they cannot have their property returned to them; on the other hand, there is not enough capital in the country to buy up larger firms. (This is one of the reasons why purchase by foreigners is insisted upon, although foreigners try to buy successful firms while the government tries to sell loss-making ones). Assets are not the same as they were forty to fifty years ago: in the meantime various (albeit unsuccessful) investments have been made in the original plant. New units which split away from old firms in the course of decentralization are still too big to be bought simply and rapidly by natural proprietors.

Almost every industrially developed country has experienced nationalizations and privatizations; but none of them has had to face the lot of the whole extra-agricultural productive capital. Decisions may have had to be taken over a certain branch or a few large firms, but this was in an environment adequate to the task and comprising a bank system, a capital market, and a stock exchange. In Hungary, all these have been lacking, although the appearance of a multitude of natural proprietors is a basic precondition. (In January 1990 the State Capital Agency was established with the task of supervising the sale of state property). Transactions so far have been dubious: large corporate centres appoint themselves as capital managers and form quasi-joint-stock companies out of the units of the firm, where the units are each other's stockholders. Or they use a tiny amount of state property with a (possibly foreign) partner to establish a mixed KFT favoured by large tax allowances. Or else the state firm establishes a one-person KFT and considers its subsidiaries around the country to be its own property.[21].The press prints numerous stories of state property sold at a loss, with arguments for and against.[22] At the same time, however, there is no *real* change in property relations.

Even low-capital maintenance firms employing ten to thirty people and ready for privatization have not been sold to potential buyers: their employees. (Another problem is that employees do not want to become proprietors as long as their state jobs pay them a fixed, even if modest, wage, and they do not have to pay 43 per cent social security contribution, venture tax, or have to cope with the many problems of business).

Large government organizations created artificially from former smaller or larger ones themselves take the necessary central decisions to revitalize their budgets, because they have no natural proprietors interested in successful business activity or in taking decisions at their own risk.

3.2. Central management. The central management of the economy – the withdrawal and redistribution of necessary resources – has been considerably liberalized over recent decades (first in the 1950s, with the abolition of the compulsory delivery of agricultural produce, then in the 1960s, with the abolition of obligatory plan instructions issued to economic organizations and the central allocation of the means necessary for their fulfilment).

The functions of regulation, with their hierarchical dependence system and means, constituted a constant object for attempts at reform. The most important change in means was the substitution of direct plan instructions with financial regulation, although in certain areas direct control remained or reappeared. (These were, for example, the item-by-item authorization of exports, and before them imports, the prescription until 1988 of wages, the central fixing until 1990 of a large number of prices). Nevertheless, despite its many drawbacks, after 1968 financial regulation became the main tool of management.

There was a constant endeavour to ease hierarchical dependence. From the early 1980s many ministries were amalgamated, and governing organs had the right only to ascertain whether firms operate in accordance with law, not to interfere with their day-to-day operations. In 1984 new management forms were introduced – firms' councils, assemblies of delegates, general assemblies – which tried to delegate property rights to employees. The collective gained the right to appoint the firm's managers, thus severing the direct personal link with the supervisory authorities. A multi-layer banking system was created which diminished the monopoly of the issuing bank.

Amid these undeniably positive changes, however, the basic functions of central management remained unaltered: the setting of tasks, the centralization of resources. Macroeconomic plans were drawn up every year (in 1990 for the first time a forecast was prepared instead of a plan). These used double-entry bookkeeping to calculate the income arising from different spheres of the economy and divided it between accumulation and consumption, determining the industry breakdown of accumulation and the possible levels of consumption (wages and benefits in kind) in different sectors of society. These plans were no more 'unalterable' prescriptions than their antecedents of the 1950s; nevertheless, even if less overtly, they essentially determined the use of national income.

This regulatory function – which was basically bureaucratic coordination – required regulatory organs. Although the number of ministries diminished, the different councils responsible for bureaucratic coordination multiplied. And although deregulation continues on a broad front (which means first of all thinning out the jungle of decrees produced by different high authorities over the decades), and although the area over which high authorities have regulatory power has substantially narrowed, in actual fact it is the basic scheme of central coordination that prevails. Income expenditure by the central budget embraces every major sphere of the economy and society. Almost total withdrawal and redistribution, the determination of resources and use – as the basic functions of bureaucratic coordination – perpetuate the need (sometimes the necessity) for regulation in detail by the central apparatus. (The preservation and possible extension of regulatory functions is central to the interests of the regulatory apparatus; hence their existence and drive for extension is justified).

In this situation, even the best-intentioned reforms could only bring illusory solutions: old managerial practices always reappeared. (Ministries were unable to restrict themselves to checking legality. They continued to represent branch level interests, and tried to obtain the maximum possible resources from the state budget. The functioning of firm councils became formal, since the future of the firm depended primarily on central decisions).

Central management – even if it acknowledges the necessity of autonomous decisions taken by market and local communities – is unable to hand over decisions, since in the most important areas of the economy proprietors interested in successful decisions lack self-governing bodies (just as self-governing bodies are lacking in residential districts, with budgets based on their own incomes). Put otherwise, as long as there are no regulatory mechanisms of supply and demand operating in the economy, and as long as there are no autonomous communities to harmonize local needs and possibilities, central management will have to use the tools of bureaucratic coordination. But where and as long as bureaucratic coordination survives, there will be no room for market coordination.

The Hungarian Parliament will, sooner or later, debate the long overdue budgetary reform, in which the most important step will be to restrict the range of the budget to classic budgetary areas (i.e. such spheres of collective consumption as education, health, social care) and to exempt the determination and financing of economic activities from budgetary control. However, to achieve this, the necessary conditions have to be created so that coordination can be delegated to market actors, to different social groups in society, and to local communities.

3.3. Organizational system. As I stated at the outset, spectacular changes in the organizational system of the economy and the mass appearance of small organizations have not affected the over-concentrated organizational system of the planned economy, nor the dominant role of large organizations in employment, in production, and in contribution to the national income.

Large organizations have always proved an unmovable obstacle. The decentralization campaigns introduced by government decree at the beginning of the 1980s rapidly lost their impetus. Quasi-joint-stock companies created by the voluntary decentralization of large firms only serve to hold the organization together, as well as a considerable part of KFT foundations. Firm councils are also interested in keeping the capital of the firm intact. Although they have been empowered to sell loss-making plant, this rarely happens because they stick to existing workplaces. The 1986 bankruptcy law which established procedures for the liquidation of loss-making firms could not be implemented. Up to the end of 1989 only three smaller firms had been liquidated from among thirty candidates; and even these thirty constituted one-fourth or one-fifth of those in difficulties because of indebtedness towards the banks and one another.[23]

Only the reorganization (revitalization) programme which replaced bankruptcy procedures was able to split up large organizations. In 1988-89 some large firms – mainly working for military orders – were forced to reduce their workforce, but even these did not liquidate whole departments.

The economy is still characterized and dominated by large business organizations. Moreover, there are hardly any organic business relations among large and small organizations. Over decades of shortage economy, the large organizations with their allegedly 'pure' profile built up their independent internal service departments, from construction to cleaning; they hardly even used 'outside' services, and if they did, their subcontractors were also large firms. Thus there was no room in the whole structure for a network of subcontracting small firms to arise. The large firms sold their products directly to one another or through a large, specialized distribution network (only a few firms had 'proprietary shops' for direct sales).

As a matter of fact, they still do not need the products and services of small firms (or if they do, only occasionally). The multitude of small firms work either for the local population (repairs, retail trade) or for one another.

In other words the host of small firms cannot extend beyond local markets. Most of them do not wish to: they are content to earn enough to support the family. Those who are growth-oriented come up against the indifference of large organizations towards partnership relations. Therefore large organizations are an obstacle in themselves to a growth in the economic role of small ones, which will gain ground only if all three basic characteristics of the planned economy change simultaneously. If this does not come about, despite political declarations their role will inevitably be a subsidiary and subservient one.

4. Potential entrepreneurs, potential ventures

Today, Hungary receives numerous suggestions and much effective help from abroad in developing its small ventures (loans from the World Bank, foundations, manager education in an international setting, consultation, incubator organizations, etc.). Every form of assistance is useful, particularly if the supporting organizations realize that the development of small ventures in Eastern Europe is not the same as in the very different socio-economic environment of the developed industrial countries.

Apart from the decisive factors set out above, I should give brief treatment of some features of potential Hungarian entrepreneurs and ventures.

Potential entrepreneurs will be recruited from among the 120,000 people who today undertake ventures in their spare time (53,000 craftsmen, 57,000 GMK members, 7,000 members of other partnerships). These people have built up their own small market over the years, equipped their shops, and will become independent if they can safely base their livelihoods on the venture[24] (in their case, it is the government and cooperative sector that acts as the 'incubator' for the small venture). Apart from these, it is largely the actors in the black economy who represent potential entrepreneurs (their numbers cannot be assessed). However, they will turn into entrepreneurs only if compelled to; that is, if they lose their main job and cannot find another. As well as the members of these two groups, entrepreneurs will also be recruited – in much smaller numbers – from among the unemployed. In their case, however, starting up a business will be hampered by two obstacles: they have no secure clientèle and their market will be small.

Potential ventures. Apart from the potential entrepreneurs in those areas already trying out this lifestyle, a host of new ventures could be created in the government sector. Within large organizations there are (as I have already mentioned) several activities and autonomous departments which could be withdrawn from the large organization framework. Some of them were merged into large firms during nationalization; previously they were independent. Before World War II, there were 3,900 plants in Hungary, more than half of them employing fewer than a hundred workers[25], and some of them continued their original activity within the large organization. Moreover, in large organizations new small service units arose.

This means that there are many thousands of small units within the large industrial, agricultural, trade and construction organizations which could operate as autonomous ventures. Today this seems to be the most reliable way of splitting up large organizations in order to restore independence to these units. Projects similar to the American ESOP (Employee Stock Ownership Plan) are under way so that employees can buy such units. Although this solution seems to be beneficial to the economy, it has not aroused great interest. Large firms stick to their positions based on capital and the workforce, and the majority of employees prefer to preserve their employee status. (In 1988-89 the employees of many smaller units went on strike in order to split off from the large firm, but even when they were independent they stayed on in state property. Buying up the unit was not seen as a feasible alternative). The undertaking (if the preconditions are created) will be successful in those cases where the firm and employees are in such difficulty that buying up and operating on their own is the only alternative to closing down. However, depending on renting, leasing and purchasing conditions (so far unknown), interest may become even greater.[26]

Already-existing processes and those just beginning should be assisted in various ways. In order to reinforce already existing small ventures, organizations representing entrepreneurial interests are campaigning for several concessions, principally an easing of the tax burden. It is evident, however, that the considerable increase in the economic role of small ventures, and their organic integration into the functioning of the economy, is indissolubly linked with another lengthy and tedious process: the final liquidation of the planned economy.

Notes

1 See Petö-Szakàcs, 1985, p. 114.
2 Åslund, 1985.
3 Szalay, 1943a, 1943b.
4 This situation was created by a state administration which prohibited several forms of trade (e.g. freight carrying, clothing and mixed retail trading, etc.). At the same time it was local councils who decided whether to grant new trade licences or not. If they held that there were already enough entrepreneurs in the given trade, they could refuse applications for licences. On the other hand the candidates were not particularly insistent, because the private sector was burdened by special regulations.
5 Of course, reforms had already started in the early 1950s. A few years after the establishment of the planned economy, the weaknesses in the system

necessitated reforms. These were synthesized into Imre Nagy's programme. Attempts at reform became a permanent objective – the most outstanding being the reform of 1968 which sought to abolish direct plan instructions and to replace them with financial regulation – which tried to ameliorate the socialist planned economy in ever-new areas.

6 Móra, 1988.
7 Vince, 1986; Voszka, 1986.
8 Laky, 1988.
9 Gàlik et al., 1986.
10 CSO, 1989.
11 Laky, 1984.
12 Laky, 1984.
13 Gálik et al., 1988.
14 Kovács G. J., 1989. I have not included here the 28-30,000 farmers in agriculture.
15 CSO, 1989.
16 CSO, 1989, p. 5.
17 CSO, 1989, p. 9.
18 Gálik et al., 1988.
19 On market and bureaucratic coordination see Kornai, 1983.
20 According to Tardos' frequently cited scheme, the upper level of the 3-level hierarchy is the power centre which formulates objectives and decides the allocation of resources. At the intermediate level are the national managing organs (ministries, offices) responsible for special functions (finances, foreign and domestic trade, industry, agriculture, education etc.) which allocate to lower levels of the hierarchy tasks within a given area and the resources necessary for their implementation. The lowest level of the hierarchy comprise the recipients of these tasks: firms in the economy, schools in education, hospitals in the health sector, etc. Tardos, 1972.
21 A firm, with a wide-ranging country service network, had a one-person founder who 'provided' the whole capital of the KFT, thus disposing of the whole profit. Employees in provincial service units wanted to enter the KFT themselves and were ready to invest capital, if that meant a share in profit. However, the people from the centre wanted to preserve their own position (*Népszabadsàg*, 14.04.1989). The truly rational solution would have been for the workers in the service units to buy up the units, leaving out the centre.
22 The famous Hungarian economist János Kornai took up an unequivocal position in his 'passionate tract' for privatization but against squandering state property. He argued that state firms should be sold very cautiously, under strict rules, in a process lasting several years. See Kornai, 1989.
23 On the reasons why the bankruptcy law failed, see the in-depth analysis by Kuti and Mòra, 1989.
24 According to a questionnaire survey conducted in 1989 and representing 5 per cent of part-time craftsmen, only 14 per cent of those questioned were

prevented from going independent by a lack of customers, and another 14 per cent by a lack of capital. The vast majority stated that the basic precondition for independence was a reduction in taxes – first of all their high social security contributions – and a reduction in the administrative burdens of operation (Kuti, 1989).

25 Rézler, 1940.

26 This topic figures, by the way, in our research programme. The most important studies in this area are: Laky, 1989; Neumann, 1988, 1989.

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