

Συμπόσιο αλληλεγγύης και ειρήνης

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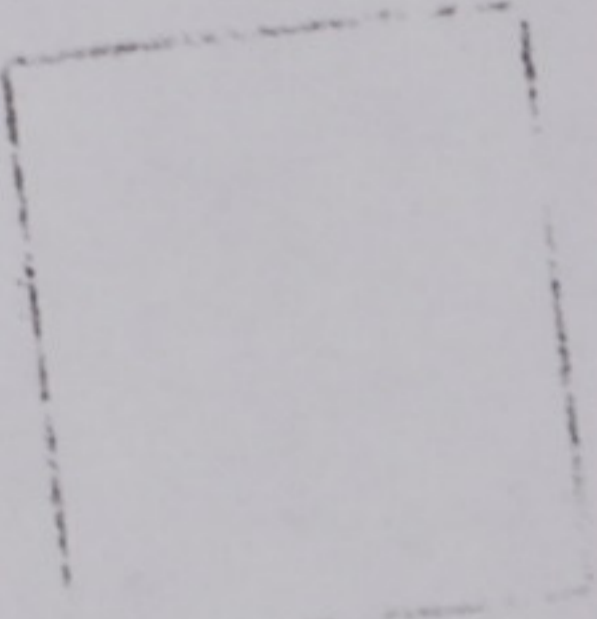
**THE HUNGARIAN CASE**

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Teréz Laky: The Hungarian case

In Spring of 1990 democratic election brought about in Hungary a change in the political system. The one party based power system no longer exists, government was taken over by several parties. The political turnaround has been performed in a one-one-and-a-half year period, with its pace steadily increasing. Change has been urged by several factors. The foremost among them - beyond the crying for freedom of the population - was the evident failure of the ruling party to halt the steady deterioration of the state of the economy.

Radical change and reorganisation of the economy will be a task of the new government. The change of the political system could be realised in one act, through the election. To transform planned economy into market economy, the effort of several years will be needed. Planned economy - as it is well-known - is based on the dominance of state and co-operative property and on the negation of private property; on central decisions instead of individual ones; on central determination of the use of almost the total of national product, on the strongly interconnected system of hierarchically dependent, overconcentrated economic organisations and central allocation of tasks and means. This system could not be made to operate like market economies - despite reform endeavours of several decades. Its demolition and reorganisation will unavoidably cause serious social shocks, deterioration in the state, the standard of living of important strata, possibly mass unemployment.

I want to deal in this my lecture with one problem only namely the role of small organisations in Hungarian economy up to now. The problems of the present and future of small organisations are strongly attached to the basic problems of the renewal of the whole economy. First of all as far as the chances of decentralising, privatising of overconcentrated state organisations are concerned.

#### 1/ Small organisations in Hungarian economy

In this part of the lecture I review the role of small economic organisations in four different periods, in order to have a broader outlook.

1., First I shortly sketch up the pre-World War II. period when the organisational system and employment structure of Hungarian economy was basically similar to that of neighbouring European countries - despite the underdevelopment of the country.

2., I deal separately with characteristics of the early eighties. This was the time when the creation of small organisations rose to the level of a conscious government program. The main characteristics of the organisational system and employment were at that time very similar to those of Eastern-European and Asian socialist countries.

3., I present you in detail the situation up to 1988, the changes in the organisational system and in employment. I quote data which demonstrate that - despite the conscious government

program - one could not depart really from the planned economy model.

4., I shall separately deal with developments after 1988, when decrees following one-another, - the Unified Venture Law (1988), the Partnership Law (1989) and the Law on Individual Venture (Jan. 1990) - constituted a new framework for the development of small, private venture.

#### 1.1. The characteristics of the pre-World War II. era

In years preceeding World War II. agricultural employment dominated in Hungary - as a result of delayed industrialisation. In 1941 48,7% of the population was employed by agriculture and 25,4% by mining and industry. The share of employment in trade, banking, transportation and other branches constituted 25,9%. (Berend-Ránki 1972, p. 184)

Organisational system of agriculture was in the middle of the 20. century still feudalistic; almost three-fourth (71,5%) of farms cultivated a mere 10,1% of total arable land; on the other end of the scale 29,9% of land belonged to the 0,2% large, above 500 hectares farms (Berend-Ránki, 1972, p. 150).

At the turn of the 19.-20. centuries several large firms, with an employment of above 1.000 were created and the 41 largest industrial firms employed one-fourth of industrial workers. (Berend-Ránki 19 p. 68)

Besides the large organisations, a host of small, 20-50-100 employee firms were operated in industry. According to the data of Gyula Rézler in 1938 3.900 of them were functioning in the

country with 288.500 workers. More than half of the firms were small, with at most 20 employees. The share of firms under 100 employees was 87%. (At the same time 44% of workers worked in the 109 - 3% of the total - firms employing more than 500 people) (Rézler, 1940, p.13). Large-scale, factory industry was surrounded by a wide network of craftsmen's shops.

In 1940 small-scale industry employed some 400 thousand people, almost half of industrial wage earners; and they gave more than one-fourth of industrial production.<sup>1</sup> (Szalay, 1943/a).

In trade, besides larger firms, department stores, store-chains; there was a wide network of private retail trade. In 1940 some 79,785 shops were in the property of natural persons (one man firms, ordinary and limited partnerships) and they employed 115.840 people. (Beyond that there were 6.665 shops in the property of legal persons. They employed a further 39.706 people. They were the largest turnover, most capital-intensive firms) (Szalay, 1943/b, p.476-492).

The host of small organisations - first of all small industrial firms - was declared by domestic economic history as a sign of underdevelopment, as in leading industrial countries industry was much more concentrated.

On the other hand it is undeniable that the host of small organisations constituted a broad foundation of the organisational system of the economy.

After 1948 - in line with the regulation requirements of socialist planned economy - small and medium-sized organisations were essentially liquidated and concentrated by political force

into large, artificial state and co-operative units. Large organisations created in the interests of centrally controlled economy introduced in a paradox way a scheme which was already challenged by the processes of change in developed industrial countries.<sup>2</sup> By liquidating small organisations Hungarian economy entered a road opposite to the development tendencies of the organisational system of developed industrial countries.

### 1.2. The beginning of the eighties

In the 30 years era of planned economy the decisive share of state property remained essentially. Together with the very similar (because undivisible) co-operative property it became preponderant. This fact is reflected in data on employment.

Table 1.

The breakdown of active wage earners into social sectors, 1970-82

(%)

	State	Co-operative	Private	Total
1970	67,7	28,1	4,2	100,0
1980	71,1	25,5	3,4	100,0
1982	70,4	26,0	3,6	100,0

Source: Statistical Yearbook 1982 CSO.

The private sector - and with it the small-scale sector of the economy - dwindled from early 1950, (when forced liquidation of craftsmen's shops, and their forcing into co-operatives, the nationalisation of private trade was achieved) to unimportance.

Statistics disclosed at 1. January of 1982 only 69 thousand full time craftsmen and 16 thousand retail traders. Craftsmen employed 18 thousand, retail traders 3 thousand employees.

The overconcentrated organisational system brought about by the early fifties remained essentially the same. According to data of the Statistical Yearbook industrial production was concentrated in 1980 in 1360 organisations (669 state firms and 661 industrial co-operatives). 276 construction units (116 firms and 170 co-operatives) had some special activities (construction of flats, schools, roads etc.) or had as its activity area a county. The preponderant part of agricultural activity was performed by 132 state farms (created from previous large estates) and 1338 co-operatives (embracing sometimes the land of several villages). Large, partly product-based, partly regional firms of domestic trade included sometimes several hundred small shops and restaurants.

Although the needs of the economy from time to time made it necessary to open room for crafts, retail trade and family work based household plots of agricultural workers, official politics assigned them an "auxiliary" and not an equal role to large organisations.

We have data on the size of organisations only since 1982. According to it in the 1% large (above 1.000 people) organisations 64% of employees were employed and at the 75,5% under 100 people organisations 3,7% of them.

From among the 2.000 state firms 215 had less than 100 employees and 781 had more than 1.000. From among the 2.800 co-operatives 359 had less than 100 employees and 137 had more than

1.000. At the end of 1982 90% of the 90 thousand (full-time) craftsmen and retail traders worked alone, with family aid at most.

As a result of low cost-sensitivity of family firms, despite deteriorating economic performance the insatiable demand for labour and labour shortage persevered. Already in the late sixties the regime of legal secondary occupation did arise. Previously only non-agricultural members of agricultural households took part - in their spare time, but with considerable effort - in the cultivation of household plots.<sup>3</sup> After 1968 wide possibilities opened up for performing different kinds of work over and above the official job - and this within legalised forms. At that time craftsmen appeared who retained their jobs at state and co-operative firms, but had at the same time a craftsman's licence. (In 1982 some 31 thousand craftsmen worked part-time, the 45% of those working full-time!). State firms could make contracts with their workers to perform tasks requiring special knowledge and which could not be performed in official hours, for special remuneration. From this time legal secondary occupations became widespread. (Illegal activities were and remained naturally as widespread.)

At the end of the seventies several initiatives were started in order to decentralise the overly concentrated organisational system. In the background of government activity we find the insufficient functioning of the economy, shortages characterising the economy, durable tensions, the failure of previous reform endeavours the same way as successes of commodity production in



household and auxiliary plots and a worldwide phenomenon: the spectacular spreading of small organisations.

### 1.3. Changes up to 1988

In the early eighties, as a continuation of previous reform endeavours, three government actions were started to decentralise the overcentralised organisational structure and to increase the number of small organisations.

- 1., Large state firms were decentralised by government act;
- 2., Several "small venture" forms were established;
- 3., Previous tight personnel constraints on private small scale industry and retail trade were eased, better conditions for functioning were secured.

#### 1., Decentralisation by government act

The government wanted to decentralise a wide range of overly concentrated, large state firms. But its determination has rapidly failed on the strong resistance of monopoly-position firms, and the action which was planned to be a wide-ranging one, brought mediocre results. The most successful was the decentralisation of large regional units of food industry and of two large national service firms (one car repair and one household appliance and electronics repair firm) whose outlets on different points of the country became autonomous. All in all the family of "traditional" state firms was increased thereby by 150-

200 new firms.<sup>4</sup> Part of them are still large units employing several thousand people.

## 2. The creation of small ventures

### A. Small venture forms<sup>5</sup>

Two smaller types of firms did arise from the decentralisation of state firms. They existed till 1988 when the venture law which treats every economic unit equally, was enacted. One of them is the so-called small firm which comes about by the decentralisation of large state firms. (This form was intended for wide use but it was essentially used in the case of local units of the two large decentralised service firms). Small state firm as a new form is different from older small firms in that the former obtained several favours in the form of simplified accounting, taxation, management rules. On the other hand they could not rely on the state in case of business failure. "Small firms" become one form of so-called "small ventures". One hoped that smaller size, eased operation would make them suitable to venture autonomously, to adapt successfully to changing supply and demand. Their size was inherited from the antecedent. Thus small state firms were created both with less than 10 and more than 300 people. In 1987 some 213 small firms were in business and they employed almost 25 thousand people. (Gálik et al. 1988, p. 70)

The other new form was the subsidiary which obtained equal treatment with the small government firm. They existed up to 1988. This well-known form of Western economies differs first of

all in its nominal autonomy from the original. The majority of Hungarian subsidiaries are breakaway units of large firms. They are the products of a compromise with the mother firms who wanted to block government instigated plant autonomy with every possible means. One third of subsidiaries employing in 1987 24 thousand people had more than 100 employees. (Gálik et al, 1988. p.83).

But state property, subsidized firms did not prove to be more venturesome than before decentralisation. Small firms were operated first of all in traditional crafts but their latest form made cumbersome, and the contrary interests of their workers even impossible for them to compete with small-scale industry (Laky, 1988). The functioning of subsidiaries was made subservient to the mother firm.

#### B., Small co-operatives

A further new form of small venture is the small co-operative. Small co-operatives were created in two ways. First - mainly in the beginning - viable 100 people or less units departed from hugely swelled (non-agricultural) co-operatives. These - the same way as small state firms created by decentralisation - inherited previous plants, equipment, capital.

New co-operatives also could be established - with a minimum of 15 members - in the small co-operative form. The majority of new small co-operatives was formed with a nominal capital (one months salary of members). They purposefully did not create co-operative - and therefore undividable - capital. Members used the income of the co-operative exclusively as personal income.

Small co-operatives - as equally "socialist" property forms - obtained from the start the same favours as state property small firms and subsidiaries. These favours were equally abolished in 1988.

On the size of small co-operatives we have the first statistic from 1985 (Gálik et al. op.cit.). CSO data from 1988 show a considerable increase of the small co-operative sector in the above 100 employee range.

Table 2.

The breakdown of small co-operatives according to the number of employees in 1985 and 1988

Number of employees	Number of small co-operatives in 1985	%	Number of small co-operatives in 1988	%
-50	500	66	1.829	64
51-100	190	25	537	19
101-300	69	9	467	16
301-	1		21	1
	760	100	2.847	100

According to statistics at our disposal already in 1982 23 units were operated in the recently enacted small state firm and subsidiary and 145 in the small co-operative forms - all of them with less than 100 employees. Their total employment was 8.230 people. In 1987 2.676 units were operated in the above mentioned firms; 84% of them employed less than 100 people. From their 149.948 people total employment 51% belonged to this category.

### C. Partnerships

Small venture forms established 4 kinds of new partnerships

- without legal entity - from 1982 onwards:

- the enterprise work partnership (VGMK): is a partnership of at most 30 people, formed from the employees and pensioners of a firm. The licence of the management is necessary for the creation of this partnership. The original aim was to create a common venture of the firm and its employees in order to produce after official hours, with the unused capacity of the firm, products in short supply, or render services to customers. But the majority of enterprise work partnership became never a true venture. Their overtime, leisure time work - which fell not under central wage regulation - was used by their firm. The employee partnership which was followed with keen interest in the East and West, was successful first of all as a self-organising work brigade.

The VGMK was the most popular partnership form from the start. Firms initiated the creation of VGMKs because thereby they could easily replace nonexistent labour force. At the same time they could pay wages higher than the overtime pay. In 1982 some 29 thousand, in 1986 268 thousand employees obtained thereby surplus income.

From 1987 onwards the number and workforce of VGMKs steadily decreased - first of all after 1988, the enacting of the personal income tax. As a result of the Partnership Act they were abolished in 1989 in their previous form. From 1990 those who

wished to co-operate with the firm as true ventures, entering with their products and services the extra-firm market could be reestablished in a changed form.

- Specialised group: a partnership similar to the VGMK but to be established at the non-agricultural co-operatives. An important difference is however that the membership of the specialised group is not restricted, and their taxation is adapted to the simpler rules of the co-operative sector. The majority of specialised groups - similarly to VGMKs - makes surplus work exclusively to its own co-operative; accordingly, many specialised groups had no full-time member. A small fraction of specialised groups organised themselves under the umbrella of their co-operative in an autonomous way and became sometimes large ventures with considerable capital and several hundred employees.

Specialised groups with an activity independent from the mother co-operative (essentially private partnerships) appeared in almost every branch of the economy. Starting small ventures, with a couple of employees (e.g. software firms) strengthened under the umbrella of gestor co-operatives (and the allowances what this entails). (The strong specialised groups transformed themselves into small co-operatives. Very often the small-co-operative itself is - first of all the larger ones - a loose set of specialised groups).

In 1982 501 specialised groups were formed, with 17.084 members. In 1988 1.530 specialised groups were functioning with 47.828 members and employees. (The number of specialised groups was highest in 1986 - 2.768, with 100.776 members; then their

number and employment - similarly to VGMKs - rapidly decreased.) The share of full-time members was 27.4% in 1983, then it became 34,1, 33,5, 28,7 and in 1987 23,6%. (Gálik et al. 1988 p.172). In 1988 the share of full time members was 28% (CSO data).

Part of independent specialised groups is rich in capital. (According to the latest 1987 data at our disposal from among the 10 partnerships with most fixed assets 6 were specialised groups, from among the first 50 13. (Gálik et al. 1988, p.174).

- business work partnership (GMK): it is a partnership of private persons with at most 30 members and 10 (from 1987 30) employees. The main characteristics of this very popular form are the following: small membership (6 people on average); 70% of members retained their main job and only in their spare time work for the GMK; tree-fourth of them have no fixed assets whatever, they invested only their own work for a legal remuneration.

GMKs doing industrial, construction work (they constitute almost 60% of partnerships) have considerably polarized during the ages. Among those having fixed assets partnerships with considerable capital appeared. They functioned as small ventures.

Before 1988, the enacting of the unified venture law, the most successful GMKs transformed themselves into small co-operatives in which form they could increase their membership and were given several allowances. Truly growth-oriented GMKs, in which members have full liability at present, will in the future chose as their organisational form the limited liability company.

In 1982 2.336 GMKs were formed with 11.914 members; in 1988 10.889 were functioning with 72.199 members and employees. The share of full-time members remained - with small fluctuations -

around 28-30%. But as membership grew, in 1988 the GMK meant full-time job for 26.662 persons (14.994 members, 11.406 employees and 262 family members). In a considerable part of GMKs however there is no full-time member. In 1988 in 6.000 from among the 10.000 partnerships only part-time members were employed (CSO data).

- Other partnerships: Business life - and political will wishing to restrict individual activity - created during the ages several partnership forms, from law societies to the associations of driving teachers. Here we only take into account partnerships with economic activity. One among them is the civil law partnership (PJT) created in 1982.

PJT is a form which does not restrict membership and allows - unlike other partnerships - trade. PJTs were formed for the operation of rented or leased state units (first of all in trade and catering). Up to the enacting of the unified venture law it was the highest taxed partnership form and therefore not very popular. PJTs were formed in the most diverse areas (e.g. among computer specialists), but since 1987 such partnership was created only for trade. In 1988 3.284 PJTs were formed with 14.872 members and employees. True to the peculiarities of its leading activity - trade and catering - the share of full-time employment is in this form the highest: it was 77% in 1988. These organisations employ - without exception - less than 50 people.

The form was liquidated in 1989 by the partnership law and PJTs were transformed into other forms (investment companies).



Investment companies are a partnership form without legal entity. In 1988 there were 27 such firms with a membership of 1.321. (We do not know the share of those with full- and part-time membership). From among investment companies 21 have employed less than 100 persons.

Limited Liability companies which had a legal entity could be found here and there till 1988. In 1988 already 290 of them were in existence, with a 9.621 membership. (We do not know its breakdown into full- and part-time). 83% of LLCs (242 firms) had less than 100 employees; 24 had 101-300 and 24 had more than 300.

From among the 3.601 other partnerships 87% had less than 10 members, a further 7% had 11-20 members. All in all 98% had less than 100 members.

From among the 25.769 members of these partnerships 62% worked in organisations with less than 100 members.

From the statistics on the next page we left out LLC, and investment companies in which we do not know the breakdown into full- and part-time.

Table 3.

The number of full- and part-time members in partnerships in 1988

	GMK	Spec.group	Other*	Total
Number of partnerships	10.889	1.530	3.284	15.703
Full-time				
- entrepreneur	14.994	12.546	6.047	33.587
- employee	11.406	864	5.211	17.481
- family member	262		245	507
TOGETHER people	26.662	13.410	11.503	51.575
%	52	26	22	100
Part-time				
- entrepreneur	42.608	34.069	2.706	79.383
- employee	2.396	342	509	3.247
- family member	533	7	154	694
TOGETHER PEOPLE	45.537	34.418	3.369	83.324
%	55	41	4	100

Source: CSO, manuscript.

\*Without LLC and investment companies

### 3. Easing the conditions for private crafts and retail trade

In 1982 both crafts and private retail trade obtained new conditions for functioning and growth possibilities. Several restrictions on activity area were abolished (thus private taxi cabs, carriers, boutiques with fashionable clothing, shops selling commercial goods appeared). It became a citizen's right to earn one's living. Authorities could no longer decide whether to give licence to those wishing to pursue a craft or a retail trade, if professional and other preconditions were fulfilled. The personnel limit of the craftsman's shop was increased from the

original 5 persons first to 10, than 13, then, in 1987 to 30). The tight employment limits on retail trade were also eased. From the end of the seventies state owned shops, restaurants were rented out to private persons; as we have already mentioned, in 1988 some 12 thousand such rental contracts existed. As a result, even if continuously, private crafts and retail trade began to grow. Between 1981 and 1988 the total number of self-employed and their employees grew by 93 thousand. (Total number of those working in crafts and retail trade - together with family members and apprentices - is about half of that in 1940).

Table 4.

The number of full-time employees in private crafts and retail trade in 1981-88

	1981	Crafts		Retail trade*		
		1988	Change	1981	1988	Change
Self-employed	68.915	90.299	+21.384	13.439	37.984	+24.545
Employee	18.224	55.921	+37.697	3.023	13.287	+10.261
Family member	16.750	23.194	+6.444	-	-	-

\*Without the 12 thousand rental contracts for state shops and restaurants  
Source: CSO, manuscript.

Almost 90% of craftsmen and retail traders - as everywhere in the world - work alone or at most with family aid. According to the data of the National Craftsmens' Association (KIOSZ) 10% of craftsmen have 1-3 employees and only 1.5% have more than 3. There are a few dozen shops with small plant size, with an

employment of 10-100. Retail traders too belong to the 1-5 employed category.

A host of craftsmen work with modest capital investment. A large part of craftsmen remained artisans. Most craftsmen consume their income instead of modernizing their shop, because in most crafts there is no competition instigating for investment. In retail trade procurement of - possibly foreign - goods (tropical fruits, cosmetics, beverage, cigarette etc.), rental of the premise and equipment requires already considerable investment.

Table 5 (see on next page) summarises changes in the organisational system of the economy and the breakdown of employment according to organisational size up to 1988.

According to these data although the share of organisations with less than 100 employees is similar to that of developed industrial countries, they employ only 10,4% of all wage earners of the economy. The overhang of large (state and co-operative) firms still exists: 80% of wage earners work for organisations with more than 300 employees, 56% in organisations with more than 1.000 employees.

In other words: although a shift is perceptible, the result is still meagre. The data of the 6. table show this unequivocally. (see in page 21)

Table 5.

The number and employment of organisations belonging to assessed categories in 1988

Employment categories	FIRMS Numb.	Empl.	COOPERATIVES Numb.	Empl.	SMALL FIRMS Numb.	Empl.	SMALL CO-OP <sup>X</sup> Numb.	Empl.	PARTNERSHIPS <sup>X</sup> Numb.	Empl.	INDEPENDENTS Numb.	Empl.	TOTAL Numb.	Empl.
1 -									1936	1936	87599	100793	89535	61,5
2 - 10	75	472	40	249	1	10	354	6170	21995	39484	101126	46124	125435	
11 - 20	87	1300	89	1423			517	749	10089	1000	26000	2442	47160	
21 - 50	218	7410	146	4687	1	35	958	396	11320	150	3150	1869	57797	35,4
51 - 100	267	19439	108	8507			537	106	10941	50	2971	1068	80744	
101 - 300	601	110085	930	188686	2	218	467	21	3158			2021	383837	1,4
301 - 500	307	122334	593	230313			13	3	1048			916	361816	
501 - 1000	521	382137	342	225594			1	2	1523			866	611858	1,2
1001 - 2000	409	561510	62	78913								471	640423	
2001 - 5000	248	738690	12	32522								260	771312	
5001 - 10000	50	343744										50	343744	0,5
10001 -	16	482361										16	482361	5
TOTAL:	2799	2769482	2322	772094	4	263	2847	9383	62010			145638	4009216	100

<sup>X</sup> Non-legal entity (GMK, PJT, specialised group, other partnership) and legal entity partnerships (LLC, investment companies) together. From among the 15.703 non legal entity partnerships there is no full-time member, and in 11.683 there is no full-time employee.

<sup>XX</sup> Full-time members, employees and family members. The breakdown of employees and family members of craftsmen and retail traders is estimated.  
Source: CSO manuscript

Table 6.

The breakdown of business organisations and their employees according to size of organisation in 1982 and 1988

Employee category	Number of organisations				Number of full time employed			
	1982		1988		1982		1988	
	abs.	%	abs.	%	head	%	head	%
1-	70.048	73,5	89.535	61,5	83.048	1,9	102.729	2,6
2-100	21.029	22.0	51.503	35.4	78.660	1,8	311.135	7,8
101-300	1.414	1,5	2.021	1,4	285.587	6,8	383.837	9,6
301-1000	1.941	2,0	1.872	1,2	1065.009	25,5	973.674	24,3
1001-	918	1,0	797	0,5	2685.192	63,9	2237.840	55,7
TOTAL	95.350	100,0	145.638	100,0	4197.496	100,0	4009.216	100,0

Source: CSO, manuscript.

That means that whereas the size structure changed, the multiplication of small organisations did not touch the position, the dominant role and property forms of large ones. Despite changes in the recent past, the organisational system created in the regime of plan instructions and its role for the functioning of the economy remained intact.

This is demonstrated by other data and observations on small organisations too.

- A host of small organisations is operated without or with very small capital. We have only one comparative datum beyond those already presented when presenting in detail individual forms. Leaving aside the self-employed - on whose productive capital we have no data - 98,8% of the capital of state and co-

operative firms and private partnerships was in 1985 in the property of state and co-operative organisations, the bulk of course in the property of the large ones. (Gálik et al. 1986). In 1987 more than 98% of capital was still owned by them (Gálik et al. 1988).

- Although an increasing number of people are working in small organisations, in the private sphere part-time venture is still important. In 1988 besides the 56 thousand full-time 83 thousand part time members and employees worked for partnerships of private persons (save LLC and investment company whose data are unknown).

Besides the 234 thousand self-employed and full-time employees 53 thousand people worked part-time. Multiple jobs are frequent with craftsmen. In 1981 beyond 68,9 thousand full-time craftsmen, there were 30,9 thousand part-time, 44,8% of the total. Their share rose to 70% by 1986. In 1989 the share of part-timers was still more than 60%.

The aim of part-time venture is to earn surplus income; autonomous existence, in the present circumstances, is not a desirable goal for the most.

- The majority of the some 141 thousand small ventures (more than half of which is constituted by craftsmen and retail traders) functions not as a true venture, but with poor tooling, selling its mere labour force and they do not strive for more. Even among small organisations only a few are innovative, capital using, growth-oriented ventures; their number may be put at several hundred at most.

- Part of small firms (in 1988 649) are invariably in state property although there is no justification for state property of

firms with 10-100 employees. (There are some striking examples. Once the Budapest State hairdressers' was established with several thousand employees. This firm, which operated a great many smaller or larger shops, was later split into 10 small firms. Now it adds to the number of state firms in the 100 employee category. But the real question is: why hairdressers' should be state property? Or: 10 people services of household applicances in the countryside are functioning as state firms). From these small firms, until they remain state property, no profit- and wealth-oriented venture can arise.

This facts explains why the small-business sector is so weak, why its economic importance is so small. Why they remained - even without political intentions - in an "auxiliary" role besides large organisations.

#### 1.4. Developments since 1988

1988 meant a new turnabout. At that time was the Unified Venture Law enacted, which abolished differential treatment of property forms; the tax and other allowances given to the state - and partly to the co-operative - sector at the expense of the private sector. The Partnership Law enacted in 1989 made it possible for citizens to form with the involvement of outside (even foreign) capital different partnerships well-known in the capitalist world, as joint stock company, limited liability company, invertment company etc. At the same time two partnership forms created in 1982, (the VGMK and the PJT) were



abolished. (They may be recreated in different forms). In January of 1990, as one of the first legal regulations the law on private venture was enacted which recognised as entrepreneur the craftsmen and the retail trader and lifted at the same time all previous size constraints (the Partnership Law set a maximum of 500 employees for organisations of the private sector).

Within the new legal framework reflecting political changes already in 1989 new processes have reinforced, even if with hesitations. Although we have only partial data, there are clear tendencies of rising numbers of small organisations in all the three property forms.

#### 1. In state property

a/ In 1988 several large firms decentralised voluntarily their previous organisation, offering nominal autonomy to their units under a transformation into quasi-joint-stock company. Autonomous units are one-anothers' stockholders and the previous firm headquarter functions as capital manager. Units who got autonomy in this way are still large, have often more than 1.000 employees. Voluntary decentralisation has been slowed down in 1989 by restricting government measures.

b/ Large firms establish with part of state capital mixed property organisations, first of all LLCs. According to an analysis of the CSO in 1987 there were 50, at the first semester of 1989 2.403 LLCs (CSO, 1989). LLCs established with capital participation of the state, in most cases one-profile (e.g.

trading) are generally small measured by the number of employees. The main goal of the foundation is very often to keep the right of disposition over state property: by founding a LLC the state property was given to a "natural proprietor" and the founding firm hopes that thereby it can bygo the transfer of its capital by government act to another proprietor. It is very probable that a large part of recently formed - sometimes with foreign participation - LLCs were established with such intentions.

c/ Split away actions of individual units of large organisations continued - sometimes backed by strikes - even if in a slower pace.

All in all the mass of state property, the weight of large organisations hardly changed. A large part of changes (points a/ and b/) are actions for keeping together the organisation - despite seeming decentralisation.

2. In co-operative property there are also several interesting processes relative to small organisations.

a/ It is still an open question what will be the lot of large agricultural co-operatives. Among the possibilities are the decentralisation of today's huge co-operatives the same way as to increase the number of individual farms. An important phenomenon was before 1990 the splitting away of non-agricultural activities from agricultural firms. (Exact data are not known as yet). Depending on circumstances several hundred new industrial, construction and service organisations may split away from the mother co-operative.

PJTs also change form, - however it does not mean a change in content. with its predecessor.

the firm were based equally on wrong assumptions, as was the case (1989). It seems as if the VGK under the legal responsibility of more market actors as were the old. (Neumann,

brigade); on the other hand it seems that new VGKs will be no (possibly - if wage regulation will be changed - as a mere work that many firms want to keep their labour-replacing VGKs experiences - among them a questionnaire from 1989 - show however with legal responsibility of the mother firm. Data and will be no VGK and PJT. VGKs may be transformed into organisations

a/ As it was mentioned earlier, under the partnership law from 1990 onwards there

### 3. ~~Among partnerships without legal entity~~

having whatever serious impact on the organisational structure. property and organisational form is transformed without its form (very probably the LLC) if possibility arises. Thus the wealth to lose - will transform into some private partnership part of small co-operatives too - which have no considerable from the undividable stock. One can assume that a considerable many LLCs in the past, drawing away thereby part of their wealth b/ Non-agricultural small co-operatives have established

b/ From among the new individual and partnership forms the

joint stock company is not interesting for the small ones. Mass transition will occur however among GKs with considerable capital: they chose as a form the LLC. Specialised groups with capital and full-time employees will change form and establish LLCs with part of their capital the same way as small co-operatives. But the likely changes of organisational form do not entail changes in organisational structure.

Among the 27 investment companies existing in 1988 there were both units with less than 10 and more than 500 people. First of all PJs chose this form. We have no relevant information on.

#### 4. Private entrepreneurs

The number of craftsmen and retail traders further rises. (But the number of employees will not grow considerably until the social security contribution will not be diminished).

In 1989 the number of full-time craftsmen grew by 10

thousand; the growth is accelerating. (1982: 4,2 thousand;

1983: 3,4 thousand; 1984: -400; 1985: 1,2 thousand; 1986: 1

thousand; 1987: 5,1 thousand; 1988: 6,9 thousand; 1989: 10,1

thousand; CSO data). The number of private retail traders has

also grown: ~~the exact data are not known as yet~~ <sup>in 1989 the number of private retail traders was 43,6 thousand, the number of</sup> ~~the number of private entrepreneurs reflects optimism -~~ <sup>employees 15,7 thousand and the family members were 13,8 thousand. (KISDA, ~~data~~ 199)</sup>

although 1989 brought only a slight improvement. It is a positive

sign, that 100-300 member true ventures, grown out of craftsmens

The way out from the present situation requires a considerable decrease of the weight of dominant, all-embracing state property. Almost everybody consents to giving these organisations into the property of natural proprietors. But there is discord among the parties as to its pace and method.<sup>6</sup> At

market for one-another. Between large and small firms constitute a market for small ventures - blocks in itself division of labour construction to cleaning. This circumstance - a lack of potential amidst constant shortages - assumed every work themselves, from large and small organisations are weak. Large organisations - fulfills local needs in repair and services. Market links between organisations - most of them belonging to the private sphere - their presence in the economy is hardly felt. The host of small small organisations to national income at 11% (CSO, 1989, p.9), Although a study by CSO put in 1988 the contribution of improve the performance of the economy.

organisational system came about, and changes up to now did not property relations of planned economy, in the overconcentrated of small organisations up to early 1990 no real change in As it turned out from the above, despite spectacular growth

## 2. Expectations

shops appeared and became spectacular actors of the economy. There are already one to two dozen entrepreneurs in Hungary whose name is well-known all over the country.

present there is no capital market, no stock exchange in the country.

It is undeniable that changing the proprietor is a precondition of replacing bureaucratic co-ordination of the economy - to use Kornai's (1983) term - with a market co-ordination sensitive to supply and demand, based on day-to-day decisions of a host of individuals and groups interested in the return of their investment, calculating with cost and benefit. With the liquidation of bureaucratic co-ordination the overcentralised, artificial, slowly adapting organisational system will become superfluous.

There are several ideas how to overcome it. In domestic trade e.g. part of specialists think it necessary to liquidate large firms with government act and to give in private hands the many thousand shops. In services equally government decision is needed for changing the proprietor of small state firms. These small firms have to be offered for sale to the workers or rented out in a leasing construction. In industry the solution ought to be similar: to give autonomy to smaller units and transfer them into individual or communal property.

At present however the financial and technical preconditions of this action are lacking.

Although - in my opinion too - here are the largest possibilities of potential ventures. Smaller or larger, autonomous units of the government sector, by splitting away from the large organisation, may utilise old market relations, operate productive capacities, maintain a large part of workplaces, gradually transform, as it is their life interest, products,

technologies, markets. The already existing positive examples mark a hopeful beginning.

Future entrepreneurs will be recruited - beyond the above mentioned sources - mainly from among part-time members of already existing small ventures. The some 54 thousand part-time craftsmen, the some 6-7 thousand partnership's part-time members are the most likely sources of future enterprise. These more than hundred thousand men have been building the small markets for their ventures since ages, acquired entrepreneurial knowledge - using as incubator the secure workplaces of the government and the co-operative sector. The members of this stratum - if there will be suitable incentives - may be the first to assume autonomy.

Both for the autonomy of government firms and their plants and the autonomy of future entrepreneurs several preconditions are necessary and the strong counterincentives should be neutralised. Today a host of government offices are living from the control over state property. Its loss would mean the redundancy of these people and a threat for several thousand government employees. Contrary are also the interests of the internal regulatory bureaucracies of large organisations and quasi-joint stock-companies defending one-another who preserved in the past with every possible means their bargaining position against the government and their monopoly in the economy.

Whereas central and firm-level regulatory bodies try to maintain the old situation, a large part of workers do not intent to become independent or proprietor. Planned economy postulated the employee status as a value and it punished for a long time the

self-employed. Therefore it is no wonder that at some firms where lay offs were planned because of economic problems, workers do not search for possibilities of becoming self-employed but urge - together with trade unions and local councils - the paternalistic aid of the state: as in the past, the state should create jobs for them. Autonomy, the buying or renting of production capacities even on favourable terms has been - at least up to now - for most of them not a free choice but a necessity, the only alternative of unemployment.

Whatever solution the new government choses, the reorganisation of the planned economy into market economy, the operation of large and small organisations as ventures will require the effort of several years.



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1. It is quite another question that small scale industry was technically underdeveloped. According to a statistic from 1930 small-scale industry was characteristically artisan industry: only 6% of shops used - small capacity - motor traction. The bulk of small-scale industry remained traditionally - as all over the world - family venture, employing at most 1-2 people. In 1930 58% of craftsmen worked alone and a further 21% employed one person (Farkasfalvy, 1935).

2. These processes are analysed in detail by the excellent work of Piore-Sabel (1984).

3. According to a survey of CSO in the early eighties the 4,5 million members of the 1,5 million households with household or auxiliary plots spent 2,7 billion hours on animal husbandry and plant cultivation. This is more than the total yearly work time of 1,2 million people (CSO, 1984).

4. A detailed survey on decentralisation of industrial firms is given by M. Móra (1988).

5. This is the collective noun used in statistics based on tax statements and balance sheets to denominate organisations functioning under the simplified system of information (small firms, subsidiaries, small co-operatives and at that time still sparsely existing LLCs, other forms). mention that this classification disregards size; there may be - and actually are - among those belonging to the "traditional" category economic units with less than 100 or even 50 employees, whereas some of those classified as "small venture form" may employ more than 300 people.

6. A fierce debate was elicited by the well-know economist János Kornai who says that a careful, cautious, economically advantageous and therefore several years long privatisation is needed. (Kornai, 1989). According to his opponents thereby only the agony of the planned economy would be prolonged.