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LIMITS TO THE GROWTH OF SMALL ENTERPRISES

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According to the declaration of the Development Policy for Small and Medium-sized Enterprises prepared by the Hungarian Government in mid-1996, the enterprise size structure of the Hungarian economy is near-identical to that of the countries of the European Union. Statistically speaking, the difference is very slight indeed: "In the EU countries, 93 per cent of a total of more than 16 million enterprises are micros, 6 per cent small and 1 per cent medium-sized ones. The corresponding proportions for Hungary -- 97, 2.4 and 0.6 per cent, respectively -- suggest that, all in all, the enterprise size structure of the economy has approximated the EU average". The comparison indicates two essential differences, namely that "The relative proportion of SMEs is lower than in the developed countries, while micro-enterprises are over-represented."¹

Comparative studies -- and statistical analysis in general -- both highlight and conceal essential pieces of information. In what follows, I shall try to elucidate the background of the two, closely interrelated, problems indicated by this specific comparison.

In order to do so, I shall discuss the reasons for the deviation of the Hungarian SMEs pattern from that of the developed countries and especially the EU, and confront reality with the hopes (illusions?) that micro- and small enterprises would grow into small and medium-sized ones, respectively, and contribute to economic growth and solve the problems of unemployment thereby -- i.e., the general idea that the development of the small-enterprise sector is the pledge of future

¹ Source of EU data quoted here: *The European Observatory for SMEs, Third Annual Report*, ENSR 1995; source of the Hungarian data: *Monthly Reports of CSO*; December 1995 status. Coverage of the ENSR study: micro-enterprise: 0-9 persons; small enterprise: 10-99 persons; medium-sized enterprise: 100-499 persons; big enterprise: 500+. The corresponding categories of Hungarian statistics are: below 11, 11-20, 21-50, 51-300 and 300+, respectively. The SME definition being elaborated now considers enterprises with a staff below 11 micro-enterprises, with a staff of 11-50 as small and 51-250 as medium-sized enterprises, but it intends to qualify enterprise strength by the annual net sales revenue of the organisation. Everyday speech -- but often official international documents as well -- assigns micro-enterprises, self-employment included, to the category of small enterprises. A more precise classification has not become general practice as yet.

prosperity. Although my examples are Hungarian ones for the most, illusions concerning the potential of the micro sector seem to be more general than that, most probably even outside the former socialist countries.²

Insufficient Number of SMEs

Hungarian experts had warned already in the seventies and eighties that the economy was dominated by big and even bigger organisations (enterprises, co-operatives), while small and medium-sized enterprises were practically absent from it. The organisational structure of the economy was described as an "inverted pyramid" (Schweitzer, 1982), with the base -- consisting of small enterprises normally -- replaced by the point, and the point by the huge block of big enterprises. In Slovenia, Vahcic and Petrin (1989) labelled essentially the same phenomenon the "socialist black hole". Hungary was compared to the Danish, Slovenian to Swedish manufacturing industries, i.e., to two full-fledged market economies.

Although the Hungarian comparison was incomplete in that it did not cover micro-enterprises at a time when small artisans and the growing number of small partnerships had totalled more than a hundred thousand already, with another nearly 50 thousand industrial micros, its conclusion is nevertheless true: socialist plan economy operated -- as was in its best interest -- large organisational units suitable for central management. From the early eighties on, politics encouraged big organisations to part with some of their units on a voluntary basis and transform them into smaller companies, but this has produced practically no results: the bargaining capacity of the big enterprises versus the central organs was, to a large extent, proportional to size. (The division of industrial co-operatives into small co-operatives met with more success.) The only fast-multiplying form was the small enterprise -- often sole proprietorship -- launched on individual initiative.

² The developed world has great hopes concerning the spreading of small enterprises in the former socialist countries. At the Spring 1995 Budapest conference of the so-called Donor Committee consisting of managers of the many relief programmes of the developed world, the former European socialist countries and also many CIS members reported on the fast proliferation of enterprises and the popularity of relief-programme-based credits in their countries. The Conference confirmed the need for further efforts and the hope that small enterprises would be able to grow thanks to the dollar millions invested in assisting the small ones.

However, many things have happened since that have transformed the organisational system of the economy.

After the change of regime, big state enterprises and co-operatives disintegrated one after the other under the pressure of recession, major market losses, the bankruptcy and liquidation procedures, transformation into companies, privatisation and other factors. The resulting units were small and medium-sized ones without exception, and foreign investors also established companies of these sizes in general.

However, after 1989, the relative proportion of SMEs has become too small once again relative to the mass of micro-enterprises established after the change of regime. In the course of the years, some 20 thousand new organisations were formed in the 11-300 strength category (quite a lot, even though the majority originated from the mostly painful disintegration of larger firms), as opposed to the growth by more than half a million of sole proprietorships and unincorporated partnerships consisting typically of two or three members.³

Although the yearly adjustments of the statistical system make it difficult to translate this process into precise figures, the orders of magnitude are clearly discernible.

Table 1

Number of Economic Organisations, 1989-1995

Year (Dec.)	Incorporated	%	Unincorporated Partnership	%	Sole proprietorship	%	Total	%
1989	13.568	3,8	21.344	6,0	320.619	91,2	355.531	100,0
1990	27.662	6,1	34.095	7,5	393.450	86,4	455.207	100,0
1991	50.747	8,3	52.136	8,5	510.549	83,2	613.372	100,0
1992	67.505	9,1	70.597	9,4	606.207	81,4	744.309	100,0
1993	83.535	9,7	98.036	11,2	688.843	79,1	870.414	100,0
1994	99.934	10,2	100.981	10,3	778.036	79,5	978.951*	100,0
1995	115.266	11,1	127.134	12,3	791.496	76,6	1,033.896*	100,0

³ According to the provisions of Company Law, for a company to be an incorporated (legal-personality) unit, it shall possess assets marked off for its business activity: floating is conditional upon the investment of a pre-determined amount of capital. The company is responsible for its activity up to the limit of the earmarked assets, i.e., company assets are independent of the owner(s)' personal property. In Hungary, the most general legal-entity company forms are the following: state enterprise, co-operative, company limited by shares and limited liability company. As for the unincorporated companies, company and household assets are not independent in this case: the entrepreneur is responsible for the activity pursued to the limit of all his/her property. On the other hand, since the revenues of the enterprise are not isolated from those of the household, entrepreneurs usually pay personal income tax instead of corporate revenue tax. Unincorporated business entities include sole proprietorships and various business partnerships, 96 per cent of them limited partnerships.

* Dwelling co-operatives and obsolescent business forms not included.
Source: *CSO Yearbooks; CSO Monthly Report*, February 1996.

Although there are some micros among the incorporated business organisations as well, the smallest units are typically sole proprietorships or companies without legal entity. Statistical coverage, limited to the strength of legal-entity enterprises until 1993, has been extended to all companies since then.

Table 2

Staff category distribution of business organisations

Year	<11	11-20	21-50	51-300	>300	Total
1989*		5.105**	2.387	3.451	2.617	13.568
1990*		16.465**	4.129	4.469	2.599	27.662
1991*		36.810**	6.168	5.373	2.396	50.747
1992*		52.825	6.970	5.773	1.937	67.505
1993*	39.772	28.447	7.637	6.055	1.624	83.535
1994***	934.339	28.065	8.901	6.295	1.351	978.951
1995***	1,001.370	16.358	9.184	5.812	1.172	1,033.896

* Incorporated only.

** Units of under 11 included.

*** Incorporated and unincorporated together.

Source: *CSO Yearbooks, 1994-1995; CSO Monthly Report*, February 1996.

The shift in proportions is not accidental, but a necessary concomitant of the economic context, determined, among other things, by capital shortage: the majority of the domestic SMEs is based on assets originating from the disintegrating state and co-operative organisations, not on new capital investments.

The Companies Act decreed that state enterprises should transform into companies, and recession forced them to break into parts, innumerable small units (and attempt to transfer old debts to the "empty" centre (holding), or one of the successor companies).

The resulting PLCs and LLCs met with various fates: some have proved viable and were bought out, while others went bankrupt and had to be liquidated -- and had occasionally been purchased in the meanwhile. Anyway, the current SMEs have been re-organised at the cost of heavy losses to state and co-operative property.

Buyers essentially fall into three categories. 1) Hungarian citizens drawing major government credits (long-term preferential loans made available to those purchasing trade and catering units at the time of the break-up of the big enterprises of internal trade, to members of consortia formed to purchase large production companies and to the nearly 300 employee communities modelled on ESOP and purchasing their own company). 2) Hungarians associated with foreign investors, with the latter providing all or the majority of the necessary capital (it is a telltale sign that the majority of the joint-ownership companies were founded with minimum equity). 3) Companies founded on an individual basis. Hungarians typically launched small companies, foreign investors (multinational companies among them) medium-sized ones, occasionally with a large equity, but usually with a relatively small staff.

The above have confirmed the thesis that while micro-enterprises can be launched without capital or with a modest equity based on family savings and loans by friends, companies larger than that need capital and, usually, the bigger the enterprise, the more capital it will need.

As is well known, Hungary belongs to the group of the (poorer) countries characterised by a relatively low national income (according to the World Bank, per capita GDP was USD3,840 in 1994, the corresponding value for Switzerland being nearly ten times that: USD37,930. But per capita GDP is twice or thrice that of Hungary even in the least developed countries of the European Union, Ireland, Spain and Portugal.) And, of course, a country

that consumes most of its revenues and saves little will only be able to start up small enterprises with a small equity -- that is all it can afford.⁴

This, too, corroborates the fact that micro-, small and medium-sized enterprises, respectively, are set up differently, they operate on different markets and their growth is governed by different logics. Micro-, small, medium-sized (and big) companies constitute different worlds where "upgrading" is as difficult as crossing the eye of the needle. For several reasons, the majority do not even try or aspire to do that.

In what follows, I shall examine the reasons for this reluctance by quoting some Hungarian experiences.

The Micro-Enterprise Sector

Whereas no international consensus exists (or: is feasible) concerning the strength definition of small and medium-sized enterprises, micro-enterprises are usually defined as having a staff of under 10 (under 9, according to the EU data quoted above, but this difference is of no relevance to Hungary where the majority has 2 to 3 members; (CSO-BUE, 1994).

Statistics assigns the many millions of small entrepreneurs constituting the base of any economy to a single strength category. However, a distinction should be made, within that category, between independent companies (with legal entity) on the one hand, and the self-employed⁵ who do not draw the line between business and family assets and incomes and the business and household activities of the family members, on the other, because the propensity for growth of those economic agents who had already taken the first step and separated the enterprise from the household (12 per cent of the

⁴ Credits played an insignificant role in the case of small enterprises launched on individual initiative, partly because of the general reluctance to become indebted and dependent applying to micros as well, but also because they could not produce the collaterals required by the banks. The only successful option was the micro credit scheme supported by Phare -- and amounting to HUF1 million already -- claimable by novice entrepreneurs, but that, too, had only been granted to 6.8 thousand people, with an equal number of applicants being refused, in the course of a 3-4-year history.

⁵ ILO defines the self-employed as working proprietors of unincorporated business (irrespective of whether they have employees or not), own-account workers (in many countries, no entrepreneur's certificate is required for many activities -- especially service provision -- that are conditional upon it under Hungarian Law), members of producers' co-operatives and unpaid family workers, and vocational trainees and casual workers employed by the former.

Hungarian micro-enterprises) is very different from that of the rest⁶. Although some of the latter have also exceeded the micro-enterprise level, so much so that, at the end of 1995, there were 20 unincorporated private enterprises with a staff of more than 300, 99.8 per cent of this group -- and 90 per cent of the more than 106 thousand unincorporated partnerships -- belongs to the micros.

What drives and/or constraints could induce the self-employed to operate as companies? Or -- as politicians and others believing in economic revival all over Europe expect -- to increase their employment capacity, if only to 1-2 employees per unit? Not to speak of their transition to the category of SMEs that would eliminate the "socialist black hole" or, as an OECD study put it, the "general deficit on the development of medium-sized firms"⁷?

Of course, after years of severe crisis and slow stabilisation lasting ever since, even a minor economic revival would be incitement enough for many.⁸ But even if the general economic climate failed to improve, there would always be highly ambitious small entrepreneurs aspiring to more -- a higher revenue, a bigger turnover, a larger staff --, and some professions and activities making it feasible for them.

There are several factors, however, running counter to giving up the self-employed status, first of all the distinctive feature of this form, namely the integration and interdependence of the enterprise and the household.

Even if the opportunities are good, the majority of the self-employed will only develop their business activity insofar as it increases the assets and income of the family, its primary purpose being to provide the family with the best possible living. They are consumption and not growth oriented. (In Hungary, tax-paying ethics is also subordinated to that, as no distinction is

⁶ The proportion of the self-employed -- members of the producers' co-operatives included, in accordance with the definition of ILO -- is definitely high in Hungary. This, however, is not reflected by statistics, given the deficiencies of the accounting system.

⁷ OECD prepared a comparative study entitled "Small Business in Transition Economies" on the development of enterprises in the Hungarian, Czech, Polish and Slovak republics. The general experience is that self-employment has played an important role in the evolution of the market economy in all the countries concerned, but especially in Hungary, but "it will take a considerable length of time before a large number of the small firms which have been created over recent years are successful on the market and develop into medium-sized firms". (OECD, 1996. p.38.) That is to say that the assumption is that they may grow, even though this would take a long time.

⁸ It is general knowledge that the old operational problems of the economy, the collapse of the Eastern European markets, the protracted depression in Europe etc. Hungarian national income declined by 17 per cent from 1989 to 1994, and some 1.5 million of the nearly 5 million jobs were liquidated.

made between the taxation of the household and the enterprise⁹.) Data suggest that somewhat more than one-quarter of the enterprises re-invest their savings into the enterprise (Czakó *et al*, 1995).

Reasons for Sticking to the Self-Employed Status

Empirical experiences of several kind suggest that a decisive segment of the hundreds of thousands of voluntary or involuntary self-employed either a) possess an entrepreneur's certificate, but are inactive or b) operate not as main but as second job -holders or pensioners; c) masses of them carry out activities requiring no capital, only the smallest amount of investment, d) they mostly work alone or with the assistance of family members and e) adhere to the traditional patterns of living centred on earning a living, on consumption and on the accumulation of family wealth instead of development-oriented investment.¹⁰

a.) Proportion of Active Enterprises

In Hungary, in principle, practically all (non-agricultural) activities not remunerated by wage or salary are subject to having an entrepreneur's certificate. This certificate is registered by the Tax Office and by Social Insurance, and authorities and statistics alike consider certificate holders "entrepreneurs", often called "small entrepreneurs", an expression inherited from the eighties, in everyday speech.

The more permissive political climate of the eighties induced many to go independent. The number of small (often one-man) private enterprises rose from 180 thousand in 1980 to 419 thousand in 1990, and some 27,500 new unincorporated partnerships were formed. From 1990 on, their number rose by 80-100 thousand every year, to nearly 900 thousand in 1995 (791.5 thousand private enterprises, 111.1 thousand partnerships).

⁹ The Tax Office reprimands small entrepreneurs every year for declaring less income than those living on wages and salary.

¹⁰ I have been collecting data relating to Hungarian small enterprises -- with special regard to the self-employed circle -- since the early eighties; my first study summing up their essentially different typical features appeared at the end of the eighties (Laky, 1987).

By that time, there had already been some signs of the inactivity and elusiveness of quite a significant proportion of these enterprises, called phantom (pseudo-) enterprises in everyday speech.¹¹

Statistics has been distinguishing active firms explicitly since 1996. According to the relevant findings, more than half (52.7%) of the private enterprises are active, the corresponding proportion for unlimited partnerships, constituting the decisive majority of unincorporated companies, being 76 per cent (and for incorporated companies 83 per cent).

The Hungarian achievement of having created a "country with more than one million enterprises", winning international acclaim¹², was suddenly cut down to the size of a bit more than 600 thousand active units. The others, although maintaining their entrepreneurial status, have officially suspended operation under the impact of slack demand and high taxes and mandatory contributions. Of course, we ignore whether their appearance in the world of entrepreneurs was the "chaff of recession" (Foreman-Beck's expression, 1985) in the first place, or whether they have lost hope in enterprising subsequently.

b.) Proportion of Main Job Holders

In the eighties, many have tested the ground of enterprising by selling their professional skills in the form of second jobs first, by undertaking extra work, generally in the services sector: car repair shop in the family garage, electricians, plumbers and gas-fitters and cleaners offering their services individually or collectively to the neighbourhood on throwaways put into the mail-box. Second job-holder entrepreneurs enjoyed highly appreciated tax reliefs. Pensioner-entrepreneurs were also granted relief provided that they pursued their former activity.

¹¹ CSO and the Budapest University of Economics carried out a joint survey covering sole proprietorships and partnerships. It turned out that one third of the addresses chosen from the register referred to pseudo-enterprises. *Enterprises and Entrepreneurs, 1993* (CSO, 1994.). CSO also initiated the preparation of a representative sample allowing to investigate small enterprises with a staff of under 10 more precisely. Several thousands of the addresses proved useless.

¹² According to the already quoted study of OECD, "Comparatively the strongest development of self-employment has occurred in Hungary, This is based on the particularly vigorous development of sole proprietors and the notable increase in the number of corporate bodies and partnerships. The Hungarian economy has maintained its leading position as regards the fostering of private entrepreneurship, which it held at the start of economic liberalisation due to the earlier reform attempts of the communist government" (*ibid*, pp.31-32.).

In the mid-eighties, more entrepreneurs operated as second than as main job holders (in 1986, for example, 70 per cent of the small artisans were second job holders).

With the introduction of personal income taxation and the concurrent loss of the former reliefs, in 1988 the number of second job holders declined (in 1991, one third only of the sole proprietors belonged to that category), but by 1995, their proportion, on the rise again, had totalled 44 per cent.

Unincorporated partnerships had actually been based on second job-holding (in 1991, 90 per cent of the members worked in this form). As a result of unemployment and the lack of other work opportunities, by 1995, the number of main job holders increased and that of the second job holders fell to approximately 40 per cent.

All in all, that is to say, only somewhat more than half of the self-employed are main job holder entrepreneurs. In spite of the massive job losses and the high rate of unemployment, entrepreneurial activity is still but a supplementary -- not single or primary -- source of income - minor to some, major to others -- for more than 40 per cent of this group.

More than three-quarter of the 323 thousand officially registered second job holders are sole proprietors. Tax Office data for 1994 suggest that 58 and 39 per cent of the freelance intellectuals and small artisans, respectively, were second job holders. Among freelance intellectuals possessing an entrepreneur's certificate, this form is typical for designers and technical supervisors (65 per cent), tax consultants and accountants (59 per cent), veterinary surgeons (66 per cent), doctors (50 per cent) and other intellectuals (58 per cent). In their case, the certificate serves to legalise a second income (or part of it) expensed on the most favourable terms this way (by deducting costs, for example). These persons do not wish to give up their main job -- that is, not unless they have to -- or earn their living as entrepreneurs.

The lower proportion of second job holders in production areas requiring some capital (a workshop, equipment) and their higher proportion among those providing services requiring little or no investment is a general tendency in the industrial job groups as well. Second job holders made up 15 per cent of the licensed entrepreneurs in the light industry, 17 per cent in leather and hide, 23 per cent in the textile industry and 15 per cent in handicrafts, the corresponding proportions in precision engineering being 50 per cent, among those repairing household appliances 48 per cent, those

specialised on radio/TV repair 45 per cent -- in the latter cases, professional skills and a tool-bag is all that is needed.

Second employment is typical in a special branch of trade: some three-quarter of the numerous group of agents, 50 thousand in 1993, 57 thousand in 1994, worked this way.

One can hardly expect the group of second job holder entrepreneurs, totalling hundreds of thousands, to produce viable enterprises capable of growth. One can only hope that those becoming main job holders among them will do so as a result of their successful marketing activities, and not under the constraint of losing their main job.

c.) Self-Employment and Investment

Contrary to the experiences in Serbia where poor placement chances drive people to seek jobs abroad (Bolcic, 1995), Hungarians prefer to create their own jobs. Their main assets are professional knowledge and skills, experience and social and labour contacts from the old days -- accompanied by little or no money in most cases.

No capital investment data are available, but certain circumstances allow to draw inferences concerning the capital-intensity of entrepreneurial activities.

As may be obvious from the above, a significant proportion of the enterprises, especially those of the second job holders, had actually been established to pursue some activity requiring no capital at all.

This, however, is not rare for main job holders either, as indicated by their strength distribution by major activity types.

Table 3.**Distribution of Sole Proprietors by Activity Type**

Year (December)	Freelance intellectuals	Artisans	Retailers	Farmers*	Total
1992	165.689	237.687	199.047	3.784	606.207
1993	193.888	242.023	241.353	11.579	688.843
1994	243.093	257.245	255.205	22.493	778.036
1995	273.453	260.511	233.775	23.757	791.496

* Under the Hungarian taxation system, income originating from agricultural activity is free of taxation up to a certain limit. Statistical coverage is limited to the group of those holding an entrepreneur's certificate and subject to taxation, i.e., persons with an annual gross revenue exceeding HUF2 million (annual net revenue in excess of HUF1 million) representing a small segment of the agricultural self-employed. A CSO Survey carried in the Autumn of 1994 registered 51 thousand main job holders among the self-employed agricultural entrepreneurs. (CSO, 1995).

Source: *CSO Monthly Bulletin*, February 1996.

Of course, there may be more or less capital-intensive vocations in every activity area. Setting up a dental surgery, for example, is a very expensive venture, whereas many other freelance intellectuals (tax consultants, accountants, technical supervisors etc.) need not invest more than, say, a PC -- unless they had already had one -- allowing them to pursue the activity at home. The number of sole proprietors rises most dynamically in this circle.

Growth is definitely slow, on the other hand, among artisans, another group including many more service providers (from the repair of household appliances to cleaning) than producers.

Setting up the workshop of an artisan (whether a fancy leather goods maker or someone producing special equipment or fittings) is also a capital-intensive venture in most cases, and although some excellently equipped small workshops, often the result of a life's work, exist all over the country, it is not by accident that their proportion relative to the number of small entrepreneurs is very modest.

The collective term "retail dealer" covers many activities, from agent to street vendor, green-grocer or restaurant or family hotel manager, i.e., from activities requiring no capital at all to highly capital-intensive ones. The number of entrepreneurs declined in this branch in 1995; the experience is that many second job holders resigned. Capital invested usually exerts a withholding impact.

From our point of view, the essential question is what proportion of the current activities may be expected to be capable and able of development and growth. The activity-specific analysis gives little ground for illusions.

d.) The Employment Capacity of Micro-Enterprises

Available data, albeit limited to sole proprietorships once again, fit into a spatially and chronologically persistent trend.

In 1995, the nearly 800 thousand Hungarian sole proprietorships had 170 thousand employees (and some 33 thousand registered unpaid family workers). Three-quarter of the main job holder entrepreneurs worked alone (the corresponding rates for second job holders and pensioners being 92 and 90 per cent, respectively).

Another 14 per cent (second job holders 5%; pensioners nearly 7%) had one employee and 10 per cent (second job holders 3%; pensioners more than 3%) two or more.

The employment propensity of private entrepreneurs has been governed by the same values for centuries. According to the findings of Hungarian economic historians based on the 1828 tax census covering those subject to taxation by earning activity, artisans and tradesmen included, one-fifth of the urban households consisted of artisans, mostly producers of clothing articles. The great majority of the artisans -- producers of short coats, boots, hats or basket-weavers, bakers etc. -- worked alone (with family assistance), and a small group with one apprentice (Bácskai, 1988).

Small entrepreneurs, typically active on the local market, are the most rational employers, wishing to satisfy as much demand as can be met by their own capacity. Even if the opportunities of growth are good, they prefer to rely on family members, distrusting outsiders. The small artisan is afraid lest the employee should not be reliable enough or become a future rival, the retailer is reluctant to trust an outsider with the cash desk or the commodity stock etc. -- a universal phenomenon, for that matter.

The employment propensity of this group would only improve in case of lasting growth, but distrusting everyone but themselves would be a serious limit even in that case.¹³

e.) Traditional Patterns of Living

The economic history paper quoted above reveals some striking data on the similarity of the way of life and goals of the small entrepreneurial stratum one-and-a-half century ago and today. Let us quote three of its statements here:

1. "The majority of those pursuing the most lucrative vocations had neither the capital, nor the economic horizon of the middle class citizen" (*ibid*, p.91.).
2. At the same time, they constituted the urban middle stratum; 60 per cent had a house, one-third a piece of land mainly to produce what was required for the family, but they strove to purchase a vineyard in the first place, both for consumption and to increase their wealth.
3. The real success of the enterprise, however, was signified by purchasing a house and renting it, i.e., by owning real estate yielding an income even after retirement. (*ibid*, p.97.).

On the basis of the social mobility survey carried out by CSO in 1983, Á. Vajda (1987) analysed the social composition of the small artisans and retail dealers of that period and some statistical parameters of their conditions of living.

Although, socially speaking, the self-employed of that period still failed to ascend to the status of "middle class citizen", they obviously had higher standards of living than the other, comparable, social groups (represented by urban wage and salary earners in the sample); they were living in larger flats -- mostly a house of their own --, and the majority possessed a piece of agricultural land as well. The survey did not cover goals, but the explicit objective of this circle has been and still is to amass wealth, to have a more

¹³ This, of course, does not exclude the possibility of co-operation or the establishment of a network if this is what their interests demand. However, the oft-quoted example of Third Italy demonstrates, among other things, the very fact that what were mostly private or family enterprises have rationalised their respective operations by a mutual and flexible exploitation of each other's capacities (and not by extending their staffs).

beautiful and larger flat, a house of their own (often luxury-built) at some nice place, a good (and better) car, trips abroad, a better school for the kids -- i.e., to ascend to the standards of living of the more well-to-do social strata. The specific activity they pursue is regarded as a means thereof; economic efforts are crowned by social progress.

The same attitude, however, also confines this economic activity to a large extent: these people will only invest -- if they can afford to at all -- to the limit allowed by the next priority family objective ever; they are cautious and take no risks: family first, business after. Millions of small entrepreneurs -- the Austrian car mechanic, the family hotel manager of the small Swiss town, the English plumber and the French baker -- adhere to this philosophy the world over.

Of course, the livelihood and progress of the family are essential goals, responsible, to a large extent, for the prosperity, accumulated generation after generation, of today's wealthier societies and also for the up-to-date equipment of the small enterprises of our days. In present-day Hungary, there exists a very narrow stratum only of those who had acquired their wealth earlier. The majority are new starters trying to earn a living, but they all intend to live better and become rich as soon as possible.¹⁴

Too Many, Too Small

Today, the proliferation of small enterprises in Hungary is causing some anxiety already.

As stated by the already quoted OECD study (with respect to all four countries figuring in the comparison): "A particularly high self-employment quota does not indicate *per se* a high degree of maturity in the economy. A cross-comparison shows that developed countries tend, as a rule, to have important and mature industrial economies and relatively low self-employment. The importance of self-employment could, therefore, decrease in the course of industrialisation. In this context, a very sharp increase in

¹⁴ Masses of small enterprises are aimed at earning a living, as witnessed by a multitude of empirical studies. I would like to quote the findings of J. Wheelock's survey (1992) carried out in an economically ruined town of England (named Wearside by the author), according to which sole entrepreneurs produce little or no profit. Their incomes are so low that many families are entitled to such social aid as free school meals or preferential rent and cheaper medicine. This supplementary revenue is essential for many enterprises. Most small entrepreneurs rely on their own workforce and professional skills.

self-employment in the transition countries could be regarded as an expression of particularly problematic developments ..." (p.28.)

International data suggest that, in the majority of the European countries, self-employment has stabilised at a certain level, higher for poorer and less developed and lower for developed countries, with minor fluctuations only at the annual level.

Table 4

Self-Employed in Percentage of the Total Employment within the European Union

	1991	1992	1994
Belgium	14.9	15.1	15.3
Denmark	9.0	8.8	8.4
Germany	9.2	8.6	9.3
Greece	35.2	35.4	34.4
Spain	20.4	21.3	22.1
France	12.6	12.5	11.8
Ireland	21.5	22.4	21.6
Italy	24.3	25.6	24.1
Luxembourg	9.2	9.1	9.7
Netherlands	9.8	10.2	11.1
Portugal	26.4	23.9	25.2
United Kingdom	13.1	12.6	12.9
Austria			14.5
Finland			15.5
Sweden			10.3

Source of data: *Employment Observatory*, No 24, 1996, Page 19.

The situation in Hungary -- where the proportion of the self-employed is still on the rise -- resembles that of the poorer and less developed countries of Europe, especially those among them where major employment capacities are more often than not created with external assistance provided by the EU or by multinational companies moving into the country.

The current, relatively high, rate of self-employment in Hungary cannot be considered final as yet: in the context of further job losses, the continuing decline of the number of earners, the low GDP of the country, its transition economy and immature market relations, self-employment may well seem the main alternative to unemployment to many in the future, too.

Not a very promising forecast from the point of view of economic development. R. István Gábor, one of the most well-known researcher of

Hungarian economy called this the "too many, too small" syndrome, considering even the present multitude of micros, incapable of development and growth, an economic blind alley, and urging to limit their further proliferation by imposing mandatory entrance thresholds (e.g., initial equity) (R.I. Gábor, 1994).

Of course, he is absolutely right as far as economic growth is concerned, although it is a considerable achievement that hundreds of thousands have undertaken to provide a living for themselves and their family, as in Schumpeter's classical example (1912) where the butcher, the dress-maker, the bootmaker and the agriculturist sell their produce to each other.

Socially speaking, however, it is a most encouraging sign that, in a collapsing economy, amidst massive redundancies, hundreds of thousands have taken their fate into their own hands, undertaking to organise their living, even if we are aware of the fact that this course offers growth and development perspectives in the classical sense for a very few at best.

The proportion of micro-enterprises and self-employment within it -- especially in the less developed countries --, however, not only indicates the transformation of the size structure of the country's system of economic organisations. The relevant figures conceal a more important process, namely the irreversible transformation of the relations of employment. The growing share of self-employment, part-time work, casual work, wage-work and other, so-called precarious forms together indicate the fast spreading of new forms of economic activity that cannot be reversed any more.

Although governments and international communities come forward with new programmes to develop small and medium-sized enterprises all the time, the essential goal is "to create more jobs in all sectors of the economy of the European Union" (Council of Europe, 1995). The reality, however, is that enormous efforts are needed to achieve a modest degree of success even in the wealthier countries of the EU. As for Hungary and presumably the other Eastern European transition economies as well, keeping the current and would-be micro-enterprises operational would be a considerable result in itself.

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