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Small organizations in the Hungarian economy: an experiment
in new forms

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There is hardly any country in the world in which so many legally working small organizations exist as in Hungary. Beside the traditional forms - such as small-scale industry, small shops and small agricultural farms - several new forms have been institutionalized during the past 25-30 years (e.g. the leasing or contractual operation of commercial units, grocery stores and restaurants in the state business network; the establishment within the agricultural co-operatives of the so-called auxiliary units performing non-agricultural - industrial, construction and service - activities with a high degree of independence, and also the setting up in agriculture of the so-called household plots and auxiliary farms under family cultivation, etc.). In addition, from 1982 the possibility has been created to establish further economic organizations.

The economic necessity of small organizations

In contrast to the capitalist economy, where the "base of the pyramid" of economic organizations is constituted traditionally by small organizations, such units were gradually eliminated in Hungary after the introduction of the planned economy, and their economic activities were merged into ever larger organizations, primarily in industry. A similar process also took place in agriculture, where co-operatives made up of small peasant farms were united in larger and larger organizations. Also in the service and commercial sector, large state and co-operative firms, often organized in a nation-wide network, were established. Private small-scale industry (artisans) and private shops were reduced to a narrow scope.

The centralization of these activities in the smallest possible number of organizations was beneficial to economic management (the direct management of fewer units is easier), but it proved to be disadvantageous from the point of view of the operational capability of the economy. Virtually lacking were the small and medium-sized enterprises designed to satisfy the special needs of the large undertakings, the small organizations capable of reacting to the changing requirements of the economy as well as the small units able to meet the diverse demands of the population.

An attractive example of the expansion of the scope of the small economic organizations was provided by agriculture, in which the peasant households making use of their small gardens, of the small pieces of land, of the so-called household plots and auxiliary farms brought a steadily growing variety of products to the consumer market.

It could be expected that the shortages experienced in industrial production and in the services - together with the attendant illegal activities - would be reduced and the perpetual, unsatisfied demand would be better met by the products supplied by the new organizational forms. Therefore, the government wished to give a wider scope to private small-scale industry and private shops. It made possible the leasing or the operation, on a profit-sharing basis, of the units of centralized state-owned trade and catering enterprises encompassing large geographical areas.

To the forms thus established new types of organization were added in 1982. They were designed to make it possible for private initiative to gain ground in industry, in construction and in the services.

The table below gives an overview of the various forms.
/Their characteristics will be discussed in the Appendix.)

Table 1.

New forms of organization

Form of ownership	Form of organization	Possibility of their establishment since 1982	
<u>State</u>	1. Small enterprise	X	
	2. EWPE ^{1/}	X	
	3. Contract, leasing in retail trade and catering		
<u>Co-operative</u>	a/ Agricultural		
	4. <u>Auxiliary units</u> performing non-agricultural activities in agricultural co-operative farms		
	5. Specialized agricultural group		
	b/ Non-agricultural (industry, construction, services)		
	6. <u>Small industrial and servicing co-operative</u>	X	
	7. <u>Specialized groups</u> of industrial and servicing co-operatives	X	
	8. EWPE ^{1/}	X	
	<u>Private</u>	9. Small-scale (artisan) industry	
		10. Retail trade	
		11. CLP ^{2/}	X
		12. EWP ^{3/}	X
		13. Agricultural household plot and auxiliary farm	
		14. Private peasant farm	

1/ Economic Business Work Partnership within the Enterprise (Hungarian abbr.: VGMK)

2/ Civil Law Partnership (Hungarian abbr.: PJT)

3/ Economic Business Work Partnership (Hungarian abbr.: GMK)

These various small organizations differ substantially in size. Legal regulations set limits to the membership of the individual forms (e.g. of artisan workshops, of EWPEs and EWPs), while in others - primarily in those based on a looser economic co-operation as, for example, the specialized groups of co-operatives - the membership is not limited. In the cases of the small enterprises, and of the small co-operatives, legal regulation lays down only that their size is "generally" smaller than that of the organizations performing similar activities. Therefore, their staff number may range from two to several hundreds. With the exception of specialized agricultural groups organized for the purpose of producing particular products (rabbits, raspberry, honey, etc.) and employing occasionally as many as 200 to 300 persons, the membership of the small organizations does not generally reach even the legal limits. (For clearer presentation see Table 2.)

Although the number of the small organizations has increased significantly, most of them do in fact not expand the active labour force available to them as they perform the same work in the same place as they did earlier in the framework of the larger organizations. The same applies to all state-owned organizational forms. The small enterprises are, practically without exception, recent independent units of the large, nation-wide service network; the EWPE (also in the co-operatives) usually performs the tasks done in the regular working time within partnership framework, helping thereby to ease the local labour shortage; small retail shops, and restaurants also carry on their work on the old premises. The same situation prevails in the co-operative sphere, too, where the majority of the small co-operatives became independent units out of the larger co-operatives, while specialized groups - like the EWPEs - serve mainly to cope with the labour shortage.

Table 2.

Form of ownership	Form of organization	Authorized ownership	Number of units	Total of employed	Average membership
<u>I. State</u>					
	1. Small enterprise	"smaller"	157	13.000	83
	2. EWPE	30 members	19.070	228.260	12
	3. Contract, leasing				
	- retail shops	5 members	4.470	8.040	1.8
	- catering units	12 members	8.200	25.010	3.0
<u>I. Co-operative</u>					
a/ Agricultural					
	4. Auxiliary production unit	not limited		about 160.000	
	5. Specialized group	not limited	no data		
b/ Non-agricultural (industry, construction, services)					
	6. Small co-operative	"smaller"	368*	16.000*	43.5
	7. Specialized group	not limited	2.500	87.880	35
	8. EWPE	30 members	1.200	13.300	11
<u>II. Private</u>					
	9. Small-scale industry	13 members	77.280**	195.000	2.5
	10. Small retail trade		25.455	42.100	1.6
	11. CLP	not limited	154	900	5.8
	12. EWP	30 members	9.300	54.700	5.9
	13. Agricultural household plots and auxiliary farms	1 household	1.500.000	about 3.000.000	2
	14. Private agricultural farm				

Data for 1984.

Only those employed in full-time jobs.

It is only the organization of the EWP's that means any appreciable help in expanding supply. About one third of them perform productive work, a further one third provide intellectual services (design, organization, computer programming) and, finally, one third do other services (ranging from cleaning to sports schools, from teaching foreign languages to marriage agency service).

In the small organizations there is a variety of employment relations. In some of them the activities can be performed exclusively as full-time jobs, in others exclusively as subsidiary occupations. There are organizations which can, and others which cannot hire employees. The possible varieties are summed up in the following table.

It is an important characteristic of the Hungarian small organizations that only a few forms are based exclusively on the full-time job of the members of the organizations (or of its leader). The majority of the small organizations are based on the free-time work of the membership.

The fact that supplementary productive activities can be done in organized forms on a large scale, is closely related to full employment and to labour shortage - phenomena that have perpetuated for several decades. Full employment and labour shortage - which ensure great security for the individuals - also have their seamy sides. This makes itself felt mainly in the low level of economic efficiency, and in such regulation of personal income distribution as makes it possible for everybody to earn his living, but the narrow limits of income growth provide only moderate incentives to perform more efficient than average economic activity. Therefore, the twofold aim of expanding the scope of supplementary occupations is the elimination of chronic labour shortage and, at the same time, the possibility to increase, by means of surplus work done in the small organizations, wages and incomes rewarding a more intensive and demand-satisfying activity for practically all strata of society.

Table 3.

Form of ownership	Form of organization	Form of occupation		The organization may employ	
		full-time	part-time	paid labour	family members
<u>I. State</u>					
	1. Small enterprise	X			
	2. EWPE		X		
	3. Contract, leasing			X	X
	- leader	X			
	- employee	X	or	X	
<u>I. Co-operative</u>					
a/ Agricultural					
	4. Auxiliary unit	X			
	5. Specialized group		X		
b/ Non-agricultural					
	6. Small co-operative	X	or	X	X
	7. Specialized group		X		
	8. EWPE		X		
<u>II. Private</u>					
	9. Small-scale industry			X	X
	- artisan	X	or	X	
	- employee	X	or	X	
	10. Retail trade			X	X
	- small shop-keeper	X			
	- employee	X	or	X	
	11. CLP	X	or	X	
	12. EWP	X	or	X	X
	13. Household plot and auxiliary unit			X	
	14. Private peasant farm	X			

International differences

Data relating to the average number of labour employed in the small organizations testify that these organizations hardly differ in size from those operated in other parts of the world.

It is typical of agriculture in all parts of the world that plant growing and stock breeding are based on the common work of the members of the household, of the family, and that a significant part of families either do not, or do only seasonally employ outside workers.

In small-scale industry and in the services, too, similar features are, in my judgement, more frequent, than the differing ones. The small units employing at most 10 persons each and operating as family undertakings, are predominant all over the world. Their main function is to ensure the economic existence of the family, very often the continuation of an inherited occupation, such as the operation of a work-shop, of a small hotel, of a small undertaking within the traditional framework.

As regards the scale of the small organizations, there is one very important difference: except for the state-owned small enterprises, small co-operatives, the auxiliary units of agricultural co-operatives and the very loosely organized specialized groups of the co-operatives (which, all combined, make up just a very modest proportion of the small organizations), the scale of the small organizations cannot increase even if their growth were justified by increasing demand. The socio-political set-up and the value system of the country are intended to let private enterprise, both in its individual and partnership form, play a role only to a limited extent.

Accordingly, they have, from the very beginning strictly restricted the size of the land cultivated by the household and auxiliary farming, the personnel of the small industrial

workshop (which has been allowed to employ 13 persons only since 1982 as against 6 members allowed earlier) and the staff number of both the EWPEs and the EWPs. (The only exception among the new units was the CLP, but a very high, 40 per cent, corporate tax was imposed on its activity - while the tax rate of the other new organizations was only 3 per cent. Owing to this high taxation, the CLP has not proved to be a viable form.)

It is one of the consequences of the practice following traditional principles that, though the number of the small organizations has increased, the economy, with the exception of agriculture, is practically missing the small units, employing 10 to 20 persons, and, further, that in the economy as a whole a wide-strip is lacking in the pyramid of the small and large organizations, namely the medium-sized units with 100 to 500 employees. For a number of years, the government has made efforts to counterbalance the distortion of the organizational system of the economy causing disturbances in its production and adjustment by breaking up the large state enterprises and trusts into smaller units and to restore the independence of the earlier, artificially amalgamated units. As a result primarily of this government measure, the number of the larger industrial organizations rose from 1360 in 1980 to 1715 in 1984. In addition, the units of the larger enterprises - factories, subsidiaries and plants - are to be granted various benefits if they initiate their independence by the end of 1986. The bulk of the present-day small enterprises also owe their existence to these endeavours, which have made it possible for some of the co-operatives to gain their independence. But the small state-owned enterprises established so far have not proved to be successful, mainly because state management has ranked them in the same strict, hierarchic order as the one in which it operates the large enterprises.

Another - also economic - consequence of this policy is that the small organizations are not growth-oriented. Even if their activity proves to be highly successful, they cannot envisage an expansion of their scale. This involves the socially undesirable consequence that the economic achievement does not become capital boosting economic activity, but is consumed, and the profit is often wastefully spent.

I find the most important differences between the various small enterprises in Hungary and in the developed countries in three characteristics. These are: the lack of capital investments; the measure of labour input designed to replace capital; the preservation of the original workplaces, the perpetuation of the small organizations as "part-time work organizations". In the following, I shall outline these three, organically interconnected differences.

a/ Small organizations - without capital investment

The amount of the investment needed to establish and operate a small organization depends, basically, on the character of the activity of the organization. Starting industrial production presupposes the availability of a workshop, of machines and materials. For writing computer softwares, however, all that is needed, beside knowledge, is a piece of paper and a pencil.

In Hungary, such new small organizations have been typically established as do not require any, or only very little investment, and there are just a few for which capital is needed.

The small enterprises of the state sector can be created at the very outset only from state investment (or capital reallocation). Typical of the small enterprises established since 1982 is the fact - as I have already mentioned in another context - that most of them are products of the decentralization of two large enterprises with a nation-wide network. (The one was

a motor-car repairing company, the other a firm repairing electric household appliances.) For operating the small enterprises thus established no new investment was needed: they used their plant sites, machines and equipment even after gaining independence.

The EWPEs (formed out of the workers and employees of the enterprises and co-opeatives) have become something else than what they were expected to be for reasons that we cannot dwell upon here. Before they came into existence, it was hoped that the EWPEs would lease the underutilized machines of the enterprises and produce on them - with the help of the enterprises' market-research, materials and sales departments - goods that would mitigate the protracted shortages of the consumer market. This expectation supposed - among other things - the financial contribution of the EWPE members to starting the enterprises' joint undertaking. But the enterprises did not demand any joint venture. They wanted to make use of it almost exclusively as a work group releasing the labour bottleneck and performing surplus work. (The reasons for this are discussed in more detail in my paper published in the Acta Oeconomica (1985., Vol. 34 /1-2./ pp. 27-49.). Therefore, the EWPEs were established without the material contribution of their members. They only covered the minimum costs charged by the Court of Registration for the establishment procedure.

The "investment" of the lessees of the state-owned shop network was the usual deposit payment corresponding to 1 to 3 months' rent. Contractual business - which has become general practice in the catering industry - requires a somewhat larger investment: the contract is concluded with the bidder who appears to promise the highest profit to the enterprise. Although the original installation constitutes the property of the enterprise, the contract manager of the restaurant may also make his own investments (in freezing counters, various slot-machines, etc.). Although about 20 per cent of all shops

and restaurants are operated in these forms, only half the units offered for leasing purposes have been sold. A major cause that keeps away the applicants is that the lessee and the contract manager are liable for any losses or damage and for the inefficient operation of the business not only up to their capital invested but also to their private assets.

In the co-operative sector, the auxiliary units performing non-agricultural activities of the agricultural co-operatives are undertakings of the parent co-operative.

A significant part of the industrial and servicing small co-operatives have also been formed out of the large co-operatives (hence from the already available co-operative assets), while another large group of them has been established for the purpose of performing activities that require no capital and can be based on knowledge as intellectual capital (e.g. computer technology). In the case of the latter it is exactly the essence of co-operation that is lacking, and they are, in this sense, pseudo-co-operatives, which, however, offer their members more favourable operation and taxation conditions than the organizations of the private sector. Capital investment - usually a very cautious one - can only be found in a few of them.

In the co-operative sector, the EWPEs and the majority of the specialized groups of industrial and service co-operatives have also become - just as in the case of industry - means to resolve the labour shortage.

The private sphere is also reluctant to make investments. Poor equipment is typical of traditional small-scale industry and of small trade. Private small-scale industry has so often been afflicted by a particularly hard taxation practice that most of its representatives are cautious and distrustful even if the government gives them now a larger scope of operation. Very few artisans have available up-to-date workshops with any appropriate equipment.

In the household and auxiliary farms the necessary production conditions are ensured by the large-scale economies (improved varieties of plants and animals, and of machinery). Therefore, the production and marketing co-operation of the small and large farms appears to many to be more attractive than the autonomous and therefore more risky undertakings. In the small farms, investment on a modest scale began only recently (hothouses, plastic tents, boilers, etc.). Anyway, the small-scale of the household plots and auxiliary farms set strict limits to investments.

Of the new forms, civil law partnerships (CLPs) have concluded contracts mostly for activities based on intellectual capital - i.e. knowledge - usually for tasks related to computer technology.

The EWP - as a form of partnership - does not require the availability of commonly-owned capital. It is sufficient if the would-be members of the partnership place the money resources and materials needed for common work and administration at the disposal of the partnership as loans or, in the case of equipment, lend it to the partnership. (This form is therefore more attractive than the co-operative form which, in principle, presupposes a community of assets, although taxation in the case of the co-operatives is more favourable.) Nevertheless, the majority of the EWPs are also based on activities not requiring capital investment. Intellectual and other services like, e.g., marriage agency service, sports schools, language teaching, etc. or the repair of special technical equipment from boilers to measuring instruments which the firms of the nation-wide service network are unable to cope with, but which the EWP members - full-time employees of the same repair firm - are willing to do in their off-hours, etc.) It is only some manufacturing EWPs which are ready to make capital investment - because they are compelled to do so - but there are very few of them wishing to engage in up-to-date, and therefore capital-intensive, production.

Capital shortage and the cautiousness to make investments are explained by the following: still alive are the generations which have experienced the nationalization of the small plants employing 10 members, and the measures taken so far by the government have not proved sufficient to strengthen their shattered confidence.

b/ Labour as investment

The small organizations operate therefore not as enterprises risking capital but as organizations making profitable use of labour - of specialized skills - and of working time. And most of the small organizations invest - mainly at the expense of their leisure - very much work.

In agriculture, according to repeated statistical surveys, 1.5 million households spend on average 4.9 hours each day of the year on small-scale production. (This is more than the compulsory annual working time of 1.2 million workers and employees.) Similar data on the labour input of people working in specialized groups are not available, but experiences testify that the ratio is about the same.

The average monthly labour input of the members of the EWPEs and of the specialized groups of co-operatives working in the manufacturing and service industries is, according to experience, 40 to 60 hours. This means - in addition to the regular weekly working hours - either 2.5 to 2.7 surplus hours a day, or at least one full surplus working day each week (on Saturday and/or Sunday). (At some enterprises, where EWPE members did surplus work in 100 or more hours a month, the number of overtime hours has been limited to 60 per month.)

In the small co-operatives, the CLPs and EWPs with members engaged in secondary jobs, just as in the case of artisans working in their spare time, the working time is equally long. Working

10 to 12 hours a day and the sacrifice of Saturdays and Sundays, are common experience. (This is, by the way, also typical of the full-time artisans and shopkeepers of the private sector and of the members of the CLPs and EWPs, too: their working time is not 8 hours a day, but as many hours as the work requires.

I wish to note that this ruthless drive to enforce work is typical of the self-employed only and not of their employees. Employees usually follow the labour-saving pattern of behaviour also known elsewhere. More intensive work is here, to the result of a stricter and more direct supervision, of higher pay and of the awareness that they may be fired and exchanged for another employee at any time.)

The utilization of labour power, of labour input - especially under the conditions of a shortage economy - is nevertheless beneficial to the economy and society in that way, too. In agriculture, the household and auxiliary farms have taken over, in the course of the 25 years of their activity, the production of labour-intensive products from the large economies: especially the vegetable and fruit exports with their high quality requirements are almost totally produced by small farms, and most of the vegetables, fruit, pork and eggs for domestic consumption are also turned out by them. Their operation has already become indispensable in the supply of the population.

Amidst the lasting shortage of the commodities and services, a competition for customers has not developed, and the endeavour to force back illegal activities has not been successful. But the existence of the small retail shops and restaurants, the increased taxi supply in Budapest, the appearance of a novel type of services are nevertheless indicative of a promising beginning.

The exchange of leisure for working time is also beneficial to the members of the small organizations: they have access to surplus income in a legal way and without taking any financial risks.

c/ Preservation of the original workplaces

Only about 90 to 95 per cent of the members of the small organizations discussed here take up part-time jobs in these workplaces.

As already mentioned, work in the small organizations requires full-time jobs only in a few forms. Such are the forms in which the participants may choose between full-time and part-time jobs. The overwhelming majority have retained their workplaces in the state or the co-operative sector. (This is the case, for example, among 75 to 80 per cent of the CLPs and the EWPs, a considerable proportion of the new small co-operatives. Moreover, only half of the 195 thousand persons working as craftsmen are in full-time employment.)

Hence, for the majority of those who work in the small organizations it is not these organizations that provide the basis for their livelihood, but the original job retained in the large enterprises belonging to the state or to the co-operative sector. Since their secure incomes derive from their full-time jobs, they are not really interested in the prosperity of the small organization. Even if a small organization does not prove to be viable, it is only this form of the utilization of leisure that ceases to exist.

I think that the above three characteristics of the Hungarian small enterprises distinguish them markedly enough from the small - typically entrepreneurial - organizations of the capitalist countries. Paradoxically, it is, in all probability, the absence of capital investments, on the one hand, and management concentrating on skill, labour and working time, on the other, that account for the very small proportion of dissolved organizations. This is all the more surprising as in the case of a declining demand all that is needed is to devote less leisure to work. Greatest has been the ratio in the case of restaurant leases and of contracts

involving capital risk and, though to a lesser extent, of the EWPEs and enterprises not requiring further labour supply. A significant part of the statistically registered dissolutions were changes in form only: transformation of the CLPs and EWPs into small co-operatives of the EWPEs into EWPs, etc.

All this gives rise to the formation of peculiar patterns of behaviour, and in the following I shall attempt to give a short account of them.

Typical behaviour patterns and endeavours

Although our observations that have been made particularly in the field of the new organizations originate in the relatively near past, yet we can already attempt to outline a few typical patterns of behaviour. I want to single out three characteristics: the endeavours that can be observed a/ in the formation of the organizations, b/ in the business aspirations and c/ in the objects of life as well as in changes in the individuals' life style.

a/ In discussing the establishment of the organization, I will leave out of the analysis the household and auxiliary agricultural farms because work organizations in that field can only be based on the members of the household. Similarly, the organizations formed earlier, under different conditions (state-owned small enterprises, auxiliary units of agricultural co-operatives, small co-operatives divorced from the large co-operatives) will not be discussed either.

What is unambiguously characteristic of the establishment of any other form is that the formation of the organization is built upon the closest possible family and friendship relations. Family relations, the joint undertaking of the family members is a characteristic trait that can be met with not only in traditional small industry and shops, where the family division of labour takes place within well-definable activities, but in several new EWPs, too.

Where the family cannot be involved in common work, or its contribution is not sufficient, the organization is made up of friends. (The new small co-operatives, the CLPs and the EWPs not involving family members have been typically organized from these friendship circles.)

The organization principle in the case of the EWPEs and the specialized groups established at state enterprises and in co-operatives is also the appropriate selection of fellow-workers who can be trusted for their working capability and readiness and who are always willing to help each other. Hence, the communities are organized primarily in the spirit of confidence based on the closest possible relations. Family members and friends as a work community ensure not only greater security in the division of labour, but also a higher degree of protection of the closed community against harmful outside effects. (Not against market competition, because competition in a shortage economy is a rare phenomenon. Protection is rather needed to mitigate the tax burdens by manipulating; for example, the internal allocation of incomes.)

Economic organizations are making efforts to secure protection based on close relations all over the world, especially where the risk of losing invested capital is jointly taken, where the failure of a joint venture involves the existential danger threatening all participants. It is also worth noting to what extent close personal relations constitute the basic principle of the small organizations even without capital investments, without taking risk for the capital.

In our experience, the small organizations - with the exception of contract-based restaurants - have been dissolved so far not primarily on account of their business failures, but owing to the weakness of internal relations: either because they were originally organized not according to the closeness of the relationship, or because confidence - and with it the relationship - has weakened among the members.

b/ Business aspirations - under the conditions outlined above - are generally insignificant as, for example, growth cannot be an objective. The scale of an organization cannot transgress the officially set limits.

Therefore, the traditional artisan mentality, keeping income at the already attained level within the unchanged limits of the undertaking, is a general feature of the small enterprises.

An entrepreneurial attitude can hardly be experienced. There are of course members - if their expertise makes it possible - who strive to exchange their activities for more profitable ones. (The leader of an EWP performing industrial activity, wishes, for example, to invest the profit made by his undertaking in the more profitable catering industry because "money grows faster in it".)

But most of them cannot effect this change-over because their activities are closely tied to their skill competence and working capability. Therefore, although the new legal regulations encourage the small organizations to accumulate capital, to increase their technical equipment, very few would be willing to make investment in any small organization even out of the profit that is possibly made. It is conceivable that several years of undisturbed operation will make them more inclined to invest the business profit, but for the time being distrust still prevails. (There is a further constraint: everybody can invest only in his small organization, and with his capital alone nobody can be a fellow-owner as participation is always tied to work performance.)

Hence, it is the limit to growth and other restricting conditions that determine the business endeavours. And since the small organizations mean anyway only supplementary occupations for most people, therefore the general objective is not to make the organization "thrive", but merely to maintain its capability to produce a reasonable profit.

c/ The personal aims of the members of the small organizations

What is the surplus income from the very much work performed in the small organizations used for? One of its main uses is, practically for all social strata, to maintain and further improve the living standards in the deteriorating economic situation. Another important incentive within the former is to raise the money needed for dwelling purposes. In Hungary, the conditions for having a flat are very bad for all social strata: there are practically no tenement houses to let, and the almost exclusive possibility for those needing a dwelling is to build one from own resources. But the costs are practically impossible to secure for all wage and salary earners. (Average monthly payment is about 5000 forints, and the building costs of a flat range from 15.000 to 20.000 forints per square meter.) That is why so many people are willing to work so much for the acquisition of a dwelling place. If they cannot do it legally, they are ready to try it in the illegal sphere, using illegal ways.

Besides this objective, the preservation and improvement of the living standards assume a content varying with the members of different strata.

Only 10 per cent of those engaged in agricultural small-scale production are members of an agricultural co-operative farm, and a further 10 per cent of the family members are double earners: they work both in the co-operative and the state industry. But a further 30 per cent are workers living in the countryside, 25 per cent are employed in non-manual jobs, and 25 per cent are pensioners. They consume, in general, their incomes from small-scale farming. Their economic activities are governed by their demands: they work more as long as they want to make saving for a flat or a house, and work less when they deem their earnings to be sufficient to ensure their livelihood. Although the patterns of living are subject to changes, but very few can get rid of

the traditional ways of agricultural work (to produce a little of everything) and specialize in the quasi-entrepreneurial production of a given product (plant or animal). It is usually among the intellectuals and the employees living in the countryside that the imitation of the living style of other strata - e.g. of urban professionals - appears as a demand for a well-furnished and well-equipped flat, for a better motor car or for a trip abroad, etc.

In the EWPEs and the specialized groups of the co-operatives mostly industrial workers can be found. (Industrial workers cultivating an auxiliary farm have not entered the small organizations. Agricultural work is a satisfactory alternative source of income for them.) The general objective of industrial workers - as also testified by several opinion polls - is the preservation and modest improvement of the living standard satisfying their already established demand.

A considerable part of the EWPs have been formed - as already mentioned - for a variety of services. Among their founders there are many employees who wish to make use of their special skills (for example, mountaineers undertake to clean the windows of high buildings), or simply of an idea (for example, to establish a partner-seeking agency service). They also use the income deriving therefrom as a means to secure a somewhat more comfortable livelihood for themselves.

In the EWPs and the CLPs there are a great many highly qualified intellectuals. For them, the small organization means two important possibilities. On the one hand, the satisfaction of professional ambitions, for which there are often no opportunities in the hierarchic division of labour in the large work organizations. This is occasionally more important for them than the income they can earn in them. On the other hand, income is also important especially because the earning level of the intellectuals is low, compared partly to the incomes of workers, partly to the average income level in the neighbouring

West-European countries. This is true, first of all, of young specialists, who would like to catch up with the living standards of their elder colleagues established by them a decade earlier, in the years of economic prosperity. It is, by the way, in this group that the specialists can be found who belong to the vanguard in their skills and are able to turn out high-quality products even by international standards. They are ready to invest and to take risks. It is usually from among them that the potentially successful entrepreneurs derive.

It is primarily in the EWPs that those skilled workers can be found who are capable of creating an independent existence similarly to those who constitute year by year the mass of people starting independent ventures in the developed countries, too. This stratum, appreciated everywhere, is now given the first attractive opportunity in Hungary. (Small-scale industry, owing to its earlier constraints, has been less attractive to this stratum.) Many of them would be ready to establish up-to-date, well-equipped small productive plants - even at the cost of cutting their consumption demands for a few years. But the strengthening or weakening of their endeavours depends on the nature of economic policy to be taken in the years to come.

Hence, the majority of the small economic organizations in Hungary - despite the great variety of their forms - are not undertakings, but rather work organizations in their character, although in some forms one can find the germs of entrepreneurship. The behaviour of most of their participants is also closer to an employee than to an entrepreneurial behaviour. But these small organizations provide excellent examples of work organization and work performance, such patterns of initiatives, inventiveness and intensity as are hard to find in the hierarchic set-up of the large organizations. This may be a promise of their viability - and perhaps also of their turning into real undertakings.

A n n e x

The characteristics of small organizations

State-owned

1. Small enterprise

These can be established by making certain units of the already existing great organizations independent, or by the means of new capital investment. The small enterprise is managing the means assigned to it by the founder /ministry, trust, Chamber of Commerce/ or re-grouped from other economic units, but the assets remain also further on in the state's possession. There is no prescription regarding its size except that "the staff number is generally lower than that of enterprises of similar activity", i.e. it may employ in principle several hundred or several thousand persons. Its director is appointed by the founder, its operation is regulated - with slight policy relief - by the rules being in force. The employees of small enterprises carry on this work as main job and are judged equally with the staff members of state enterprises. The employer's rights are practised by the director. The small enterprise pays taxes on its returns to the state.

2. Economic Business Work Partnership within the Enterprise

/Hungarian abbreviation: VGMK/

Any economic unit may establish partnerships comprising 30 persons max. from its own workers and pensioners; the enterprise or other commissioners can contract different kinds of work with these partnerships. The VGMK is working in the premises and with the means and devices of the enterprise, against payment; it shares the profit originating from the special tasks with the enterprise. The VGMK members pay partly partnership- and partly personal income taxes on their earning obtained from extra work.

3. Partnership contract, leasing business

Persons and partnerships undertaking such engagement operate primarily state-owned retail trade and catering trade units on basis of a contract signed either on leasing or on profit-sharing with the enterprise. The leaseholder or contractor becomes an independent entrepreneur /its labour relation is suspended/ and pays personal income tax on his income. The workers of such units remain in labour relation with the enterprise, receive their wages and salaries from the enterprise, but this can be supplemented from the unit's own income.

4. Auxiliary units

Units carrying on rather industrial, construction and service than agricultural activities have been operating within agricultural cooperatives for several decades. These employ full-time workers /i.e. the employees need not to be cooperative members/. The operation of such units - similarly to the state sector - is regulated by prescriptions. The mother-cooperative pays taxes on the activity of the unit and on the workers' income.

5. Specialized agricultural group

Specialized groups of unlimited staff number contracting for different kinds of productive activities /e.g. rabbit-breeding, bee-rearing, raspberry cultivation etc./ formed by members and by non-members have been operating in agricultural cooperatives for rather a long time; these groups are in close production-and sales relationship. Taxes are paid by the cooperative on their activities.

6. Small cooperatives

Within the frame of non-agricultural cooperatives /i.e. industrial, construction and service cooperatives/ there can small cooperatives be established - similarly to the small

enterprises -, either by separating from already existing large cooperatives or by establishing a new one. With respect to the size the regulations are the same as in the case of small enterprises: the small cooperative should be smaller than the already existing cooperative of similar activity. The founders are obliged to pool the capital needed for the operation as common resources of the cooperative, and are obliged to participate in the cooperative's work. The cooperative may employ also paid employees. The cooperative pays taxes to the state and also the taxes on the earning of the members and employees.

7. Specialized group, other than agricultural

Since 1982, industrial and service /that is, non-agricultural/ cooperatives may establish specialized groups composed by their members and pensioners, following the pattern of agricultural specialized groups, the staff number of which is not limited.

8. EWPE-s can be established also in the sphere of cooperatives according to the rules and regulations described under item 1./

9. Small /artisan/ industry

The staff number of small artisan's workshops - including family members, apprentices and employees - may not exceed 13 persons since 1982. The artisan is paying taxes on the earning of his employee, on the turnover of his shop and on his income, resp.

10. Retail trade, private

These are characteristically family ventures; the staff number working in the shop - similarly to artisans - may not exceed 13 persons including the shopkeeper himself, his family members and the employees, if any. The retail dealer pays the same taxes as the artisan.

11. Civil Law Partnership

/Hungarian abbreviation: PJT/

The possibility to create such unit has been existing already since the past century, but in the practice it has been established only since 1982. The staff number of these partnerships composed by persons of different kinds of economic activity may consist of private persons and the staff number is not limited. The members may form a common capital; their capital investments are to be considered as common assets and are utilized as common resources. These partnerships are not allowed to have employees. The partnership pays taxes on its activity /and while the rate was 3 per cent until 1985 and 6 per cent since 1985 in the case of all the other forms of partnership, PJT-s had to pay 40 per cent taxes from the very beginning/; and its members pay personal income tax.

12. Economic Business Work Partnerships

/Hungarian abbreviation: GMK/

It may consist of max. 30 persons. The capital input of the members form a common fund which can be divided or the assets needed for the operation can be offered for common use - eventually against paying a rent. GMK-s may employ family members and other employees, as well. The partnership pays tax on the results of its operation, while the members pay income tax.

13. Household plots, auxiliary farms

The household plot not exceeding 1 hectare and being in the ownership of cooperative and state farm members, further the so-called auxiliary farms not exceeding 1500 square metres and being in the ownership of persons living in rural areas have been operating similarly for several decades in the agricultural production. Agricultural production on the household plots is carried out theoretically exclusively within the working organization of the family.

14. Private peasant farm

This kind of farms is cultivated by a family, carrying on local agricultural production and stock-breeding. The farmer pays tax on its income originating from the products sold.