STUDIA HISTORIAE
EUROPAE MEDIO-ORIENTALIS III.

General editor:
SÁNDOR GYIMESI
Associate editor:
FERENC POLLMANN

Academic Research Center for Central and Eastern Europe
at the Budapest University of Economic Sciences

SMALL- AND MEDIUM-SIZE ENTERPRISES IN THE ECONOMY OF THE LATE-COMERS SINCE THE INDUSTRIAL REVOLUTION

Studies prepared for the A4b session of the
Tenth International Economic History Congress
Leuven 1990

Edited by
TAMÁS CSATÓ

Aula Kiadó
Budapest, 1990

Teréz Laky

Small Organizations in Hungary — Past and Present

This paper has the aim to review the situation of small- and medium-sized ventures from the industrial revolution up to the 1980s. In the case of Hungary one has to delimit the topic in two respects:

1. One can distinguish three markedly different periods since the industrial revolution which are unrelated to one another with respect to continuance. The first period began with the industrial revolution — which started in Hungary in the second half of the 19th century, that is, with a 50-100 years' delay compared to the leading industrial countries — and ended in 1947-48. In this period the organisational structure of the Hungarian economy was much like that of the neighbouring Central and West-European countries even if the number of persons employed in industry lagged far behind that in the developed industrial countries.[1]

The second period extended to the years 1949-1982. At its beginning the small- and medium-sized organisations were liquidated as required by the needs of a socialist planned economy. By political methods (i.e. constraints) they were amalgamated into large, artificial state and co-operative firms. At that time, the organisational structure of the Hungarian economy was much like that of the East-European and Asian socialist countries. Although the needs of the economy resulted even in this period in a rather cautious opening towards small-scale handicrafts, retail trade, household farming based on the family work of people employed in agriculture, the economic role of these small organisations was declared by official politics to be "secondary, auxiliary" compared to the dominant large organisations.

The third period started in effect only in the early 1980s when the government decided to create small organisations through a deliberate campaign. They tried to decentralise large organisations and announced new, so-called small enterpreneurial forms. Since that time, the organisational structure of the economy follows again the pattern of developed industrial countries.

In the third period, since 1982, a large number of small- and medium-sized units of the economy were created. But the mere numbers are deceptive.

2. First of all, because the majority of Hungarian small organisations are not ventures in a West-European sense of the term, there are three important factors, which distinguish Hungarian small- and medium-sized organisations from their counterparts in developed industrial countries:

a) Small organisations in *state ownership*, unlike the large ones, cannot undertake ventures, because government regulations, the whole system of management restrict them.

b) A host of small organisations in *private property* are based on their members work done in leisure time; the members retain their official jobs in the firms of the government and of the co-operative sector. The security of their living is based on the income earned in their official jobs. From among 553 000 self-employed and employees of private and partnership ventures 410 000 (74%) worked in 1989 in small organisations only in their leisure time.

c) The majority of individual and commonly owned private firms (and also the newly founded small co-operatives) are pursuing activities which require no or only small capital investments. In a host of small organisations, members utilise only their working capacity and skill. Even craftsmen and retail traders, who base their living on venture activity, invest the least possible amount of capital because — for lack of competition — they are not constrained to modernise their activity, to invest capital. From among the 165 000 independent (non-agricultural) small business organisations of the country some 100 000 are small producers, craftsmen, retail traders, people renting a restaurant, a shop, or a partnership of a dozen persons. There are only 100-200 true ventures, with considerable capital investment, where activities are started and abandoned according to the return on capital, where profit is not consumed, but invested in new, profitable activities.

One should have in mind all the above when considering the case of small-and medium-sized Hungarian ventures.

Small Hungarian business organisations in the past

I do not want to give here a complete historical account (it has been made already in several outstanding works), my aim is only to reveal from the past of Hungarian economy those roots and beginnings which may be instrumental in reviving small organisational forms.

1. One such formation is first of all the *industrial district* of Europe and the United States of the pre-industrial revolutionary era.

At that time, as is well known, several towns, regions were famous for for the products produced by the division of labour of hundreds of family work-shops and plants. Famous products of widely-known industrial areas are, e.g., the silk of Lyon; ribbons, hardware and special steel from the neighbouring Saint Étienne; edgetools, cutlery and the famous steel of Solingen, Remscheid and Sheffield; calicoes of Alsace, woolen and cotton textiles of Roubaix; cotton goods of Philadelphia and Pawtucket (quoted by Piore and Sabel (1984)) were popular everywhere. In these areas hundreds and thousands of families handed over from one generation to the other the tricks of the trade, modified, improved tools, materials, technology.

In Hungary, too — even if the majority of the population lived from agricultre, and the improved methods of tillage and capital husbandry were in their infancy — industrial areas already existed. The most famous product was rope made from hemp in the surroundings of Apatin. It was used on sea-faring ships and in shafts.[2]

Industrial districts also emerged in several other areas of the country even if they were less famous. Weaving and spinning, cloth-making for sale were practiced in many areas. Famous was the linen made by the Saxons of Transylvania; Armenian traders bought it for spice. In different corners of the country various products were produced: braid, earthenware, gold and silver articles in the vicinity of ore extraction, just as in other parts of Europe at the beginning of industrial development.

Industrial areas, even if they created patterns of industrial culture and of production co-operation, did not blossom anywhere in Hungary, and did not become carriers of industrial development. Part of the crafts were practiced in small shops and manufactures (others were driven back into households, and survived only in the form of making household supplies), but industry developed through the establishment of characteristically new activities. Everywhere in the country, first of all on the estates of landlords who knew about Western tanneries, sugar factories, paper mills, oil-presses, distillaries, tobacco, nitrate, natron soda, woollen and other cloth, linen and silk manufactures, even steel-making factories were erected rooted not in regional knowledge, but in Western patterns.

At the end of the 20th century, industrial districts revived in many areas of Western Europe following the ancient patterns of family venture, small shops, social-economic co-operation based on modern technology.[3] Hungarian economy is farther from catching up with Western Europe, from implementing its experiences than it was two hundred years ago.

2. Crafts, small-scale industry. The main protagonists of industry were the artisan shops in the slowly developing Hungarian towns as in all towns of the world. Handicrafts developed at a relatively rapid rate. At the end of the 18th century (according to a census from 1792) there were 904 guild-affiliated craftsmen and merchants in the country; 15 years later, the census of 1807 found 1 416 masters and 3 472 apprentices, that of 1836 registered 2 332 masters in 143 trades (Horváth, *op.cit.* p.320). Bácskai (1988), relying on the material of the 1828 census, found that the majority of craftsmen working in towns produced apparel (the most popular trades were: boot- and shoemaking, furriery, tailoring, felt-cloak making, hat-making), 10% were engaged in food industry and construction, 9% in wood processing and almost 9% in metalurgy. The majority of craftsmen produced end products.

Parallel with the diffusion of large-scale industry development in small-scale industry was rigorous, as is clearly demonstrated by the analysis of Csató (1989). At the beginning of the 20th century the number of those employed in large-scale industry was still less than the number of those engaged in small-scale industry. (According to the data of Berend and Ránki, the 110 000 workers employed by factories constituted in 1880 only 21% of the total industrial employment, the remaining 79% was employed by small-scale industry. At the turn of the century the 306 000 factory workers constituted 40% of total industrial employment, the remaining 60% were allotted to small-scale industry (*op.cit.*, p.64). The relationship turned around from 55% to 45% only between the two world wars (*op.cit.*, p.170). In 1940, almost 185 000 craftsmen were active with 283 000 employees. The shops of small-scale industry produced — from the early 20th century onwards — a shade more than one fourth of industrial production. This means that small-scale industry — first of all with its activity based on local needs — was an integral part of the economy, first of all in the clothing and food industries as well as construction (these branches accounted for 70% of the production of small-scale industry).

It is quite another thing that small-scale industry hardly developed in terms of technology. Shops of the small-scale industry meant handicraft even in the thirties: only 8% of workshops used machine power, and this was "only the power of a few horses".[4]

The bulk of small-scale industry remained — as it traditionally does all over the world — a family venture, an organisation employing 1-2 people. The craftsmen's shop of the 18th century employed only a few persons, preferably members of the family, and the craftsmen's shop of the 20th century is organised essentially along the same lines. According to Bácskai, in the textile industry only 2 apprentices were allotted to 5 masters; in the tanning industry every second shop had one apprentice. The number of shops employing three or more apprentices was 24 in both trades, and each of them employed 86 apprentices. This means that in the tanning industry only 2%, in cloth- and linen-making only 1% of the masters employed 3-6 apprentices. (Bácskai, *op.cit.* pp.72-77)

According to a statistical survey from 1930, the breakdown of independent craftsmen and small industrial shops by number of employees was the following:

	No	Units with					Total
		1	2-5	6-10	11-19	20 and more	
		employees					
Number	90 870	32 455	27 855	3 416	1 144	587	156 327
Percentage	58.1	20.8	17.9	2.1	0.7	0.4	100

Source: Farkasfalvy (1935., p.539.)

After 1948, the planned economy liquidated the family shop sector, which employed in 1940 already 400 000 people, almost half of total industrial employment.[5] With this the smallest units, the capillaries of the economy, disappeared. After the worst year of 1953 — when total employment in small-scale industry was a mere one-fourth of that in the year 1940 (47 000) and the number of employees no more than 3% — , small-scale industry started to grow, even if with casual fallbacks due to the hesitations of politics. But the original broad network could not be reconstructed up to the present.

Considering its employment and production capacity, small-scale industry is, with its 90 000 independent craftsmen in 1988 at the same level as it was at the turn of the century. In the meantime, a large number of small-scale organisations has been established in industrially developed countries, most of them individual or family ventures, with just a couple of employees.[6] As far as the importance, the role of small-scale industry is concerned, Hungary is at present far behind the developed industrial countries more than it was at the turn of the century.

3. Small plants. Up to 1948, an organic part of the industrial structure, plants employing 20-50-100 people were in an intermediate position between small shops and factories employing several hundred workers. Part of them grew out of small-scale industry through organic development. (Even if — as centuries-long trends demonstrate — only a relatively negligible number of family shops can embark upon the road of becoming small plants and ventures undertaking new activities.)

Although the nascent large-scale industry in Hungary based its development preponderantly not on the already existing factories and manufactures, but rather established new, large, concentrated organisations[7], the presence of a multitude of small plants has remained characteristic since the beginning of the industrial revolution. To return to the already cited data of Berend and Ránki: *three quarters* of the 2 300 firms functioning at the beginning of the 20th century employed 20-100 workers. Over the decades, parallel to the concentration of large-scale industry, the number of the smallest units contintuously increased. According to the data of Gyula Rézler, in 1938 some 3 900 plants were operated in the country with an employment of 288 500 workers. More than half of the factories were small plants employing at most 20 workers; their share, together with those employing at most 100 workers, was 87%. (At the same time, the 109 plants with more than 500 people — 3% of the total — employed 44% of all workers. (Rézler, 1940, *op.cit.* p.13))

The large number of small plants was treated by Hungarian economic historians as a sign of underdevelopment because industry was much more concentrated in the leading industrial countries.

On the other hand, it is undeniable that a large number of small plants constitute a broad base of the organisational system of industry. In the years after 1948, small plants were also liquidated. Large organisations, created artificially to serve the interests of central economic management, introduced paradoxically a scheme which was already downhill in the developed industrial countries.[8] With the winding up of small organisations, Hungary entered a road contrary to the tendencies of the developed industrial countries and could still not return to the mainstream of development.

The organisational system of the economy at the end of the 1970s

It is characteristic of the overcentralised organizational system created in the interests of easier central management of the economy (bureaucratic co-ordination, to use Kornai's expression), that in 1950 only 1 632 industrial units were operating instead of the 4 075 in 1938 (Pető-Szakács, 1985. p.114). In 1947, the number of 222 000 independent craftsmen and 129 000 employees fell — as I already quoted — to 47 000 independents and 7 400 employees by 1953. (At the same time, in 1953, 110 000 people were employed by the 1 606 craftsmen's co-operatives — Géza Kovács, 1987). Gradually, small-scale agricultural production was concentrated in large organizations. Private retail shops were merged into large, partly state, partly co-operative firms. Traditionally small-unit construction, too was organized into large, centralised firms, in the same way as every other branch of the economy.

In the centrally managed economy, productive capital was transferred from private hands into state and very similar co-operative firms. Traditionally small-unit construction, too was organised into large, centralised firms, in the same way as every other branch of the economy.

In the centrally managed economy productive capital, transferred from private hands into state and the very similar co-operative property, lost its profit-oriented, initiative, organising and venturing function. The supply- and demand-oriented activity of the many thousand smaller and larger producers was replaced by central economic management, central planning, by goals established in central plans and business organisations reduced to the role of mere executives.

But already in the early 50s there were troubles in the functioning of central management (Hungarian economists were quick in recognising them). Increasing and constant shortages of commodities and services — one of the most evident functional troubles — together with other measures were compelled to assume a peculiar form of decentralisation of agriculture in the 60s. The most important step was the reorganisation of production and sales co-operation between household and auxiliary plots meant for the satisfaction of co-operative members themselves, on one hand, and large business units (co-operatives, state farms), on the other, a co-operation beneficial to both sides, and the authorisation of auxiliary, non-agricultural activities in agricultural firms with the intention to ease employment problems and countervail the losses in the main activity. (With their success their solutions — simulating, approaching private property — they served as norms in the early eighties for new types of small organisations.)

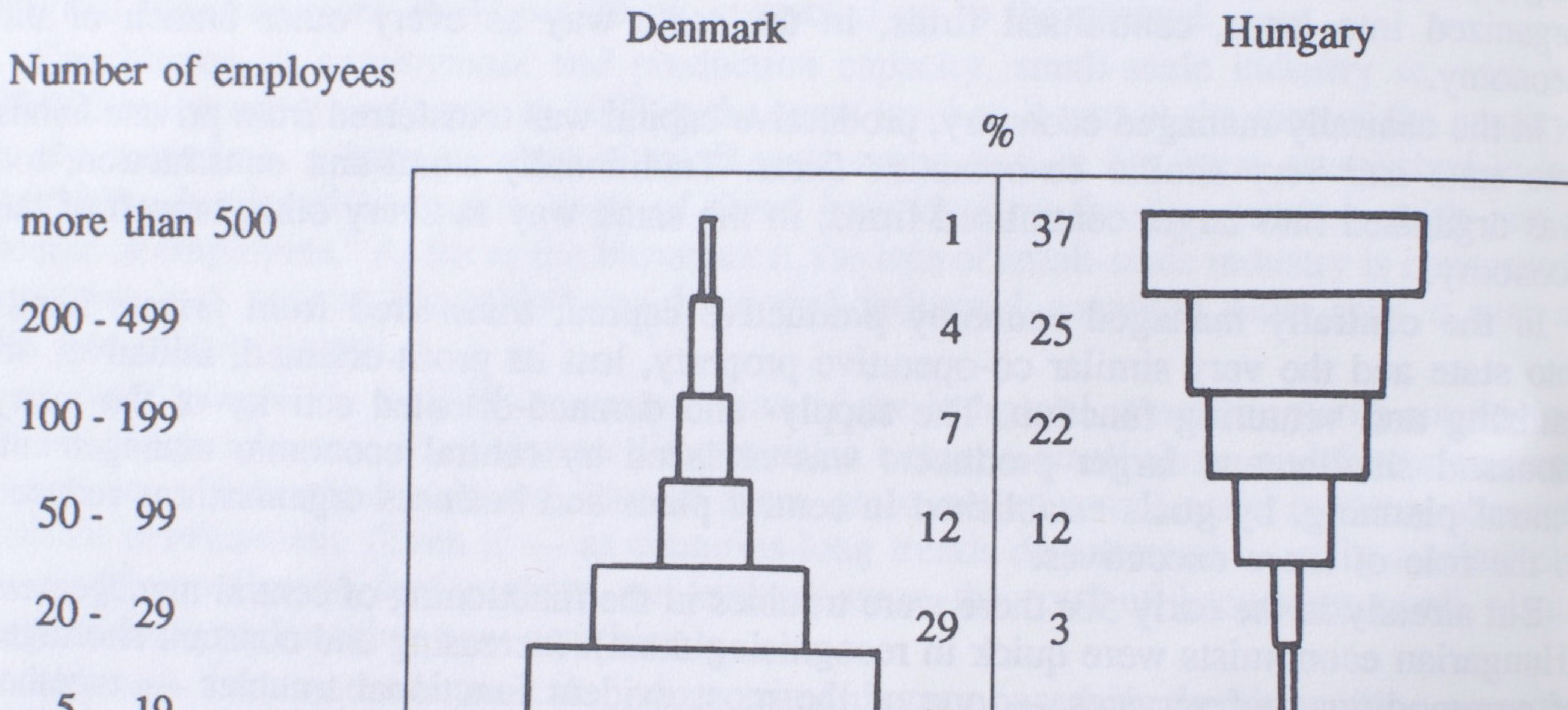
As the shortage of services was strongly felt, the revival of small-scale industry was put several times on the agenda (first in 1953 by the Imre Nagy government), and from 1954 small-scale industry began to grow. The peak was attained in 1958: at that time more then 120 000 self-employed craftsmen were in business, even if the number of their employees was not more than 14 000. Since the early 60s — as a result of new restrictions — it began to shrink again and by 1970 the number of craftsmen fell to 69 000 and by 1975 to 60 000. From 1968 the shortage of craftsmen was somewhat eased by the fact that those having a skill could obtain a craftsmen's licence and operate legally in their free time even if they retained their official jobs. (But illegal, untaxed activity was, and still is in some trade, a multiple of the legal one).

This means that after agriculture, double employment obtained a legal form in industry and the services, too. This proved to be an attractive solution: in 1970 the breakdown of craftsmen into full- and part-time ones 85:15, in 1975 75:25, in 1980 69:31 and in 1985 60:40.

Till the end of the 70s only 3% of active wage earners was self-employed small producer or retail trader; compared to the 4.8 million wage earners of the state and co-operative sector, their number was a mere 180 000 (the 28-30 000 agricultural small-producers included).

Those researching the industry's organizational structure often use the term "reversed pyramid" to characterise the organisational system of the economy. Schweitzer (1982) compared industrial firm sizes in Hungary in the 70s with those of Denmark.

Breakdown of firms according to employment (percentage)*



* Without small-scale industry
Source: Schweitzer (1982), p.130.

The picture would be certainly different if the author took into account small-scale industry, too; the more so as a large part of Danish firms with 5-19 employees are also craftsmen's shops.

But nevertheless, the comparison shows the most important thing, namely that Hungary's economy is overcentralized, it is dominated by large organizations, and that the role of small- and medium-sized organisations is negligible.

Although Hungarian economists and historians, keeping track of international developments, recognised early enough the triumphal march of small organizations in developed industrial countries, the changes in mass-producing large organizations and their production relations, small organizations gained ground in the Hungarian economy as a result of the ever-growing economic problems only in the early 80s.

Small organizations in today's Hungarian economy

In order to create small-scale organizations, three campaigns started at the end of the 70s and at the beginning of the 80s:

1. decentralisation of large state firms by government decree;
2. the starting of new, so-called "small ventures";
3. the easing of the earlier very strict employment constraints put on small-scale industry and retail trade, and improving their conditions.

I can characterise the three campaigns only in a concise form.

ad.1. The government envisaged a large-scale decentralisation of overcentralised, large state firms. Its determination, however, was quickly broken by the strong resistance of monopoly firms (who thought that their bargaining position based on the monopoly situation was in danger). The resolve of the government was weakened by the ambivalent interests of central management, too, for — as it was demonstrated by several authors — the re-organised central management invariably needs large enterprises which may be controlled through direct agreements and justify at the same time the existence of bureaucratic management organs (Vincze, 1984; Voszka, 1984).

To sum up, the result of the campaign was meagre. Successful was only the decentralisation of the large regional firms of the food industry and the splitting up of two large, nation-wide service firms (one engaged in the repair of motor-cars, household appliances and consumer electronics) with their independent service points all over the country. All in all, the family of "traditional" state firms was enlarged thereby by 150-200 new firms.

Part of them are invariably large, employing sometimes many thousand people. But there are among the state enterprises, first of all among the state co-operatives — firms such as employ at most 300 people. The number of these firms was 1 813 in 1987, employing a total of 307 500 people. (At the same time, in the 748 firms employing more than one thousand people each, the total of people employed was about 2 million.

ad.2. *Small Ventures*

A. *Small-plants forms*

From the decentralisation of the state firms two small-scale plant forms arose. Besides the already existing small-size firms other *small-scale* plants could also be established in a new organisational form. (This form was intended to be widely used, but in the end only the local units of the above mentioned two large, decentralised service firms took on this form). The small state firm as a new organization differed from the previous small-scale firms in that it obtained several tax exemptions and had simplified management and accounting rules. But if not successful, it could not expect the assistance of the government. The "small firm" became one of the so-called "small enterpreneurial forms".

The other new form is the *subsidiary*. It is different from its market economy counterpart in that its autonomy is rather nominal. The majority of Hungarian subsidiaries are large firm units seeking independence, and the offspring of a compromise with the mother company which tries to counteract this endeavour with whatever measures are at its disposal. Part of the subsidiaries obtained operational favours and tax exemptions, similar to those of the small firms.

A further organisational form of small venture is the small *co-operative*. Small co-operatives may be created in two ways. Part of them split away — mainly in the beginning —

from the huge (non-agricultural) co-operatives and gained independence as autonomous units with the employment of under 100 people. They inherited — in the same way as the decentralized small state firms — existing plants, tools, capital.

New co-operatives could also be formed as small co-operatives if their membership was at least 15 persons. Most of them were established without or with just a symbolic capital (one-month salary of the members), and they are cautious not to create common — and therefore indivisible — co-operative capital. Members use the income of the small co-operative as purely personal income.

Small co-operatives enjoyed from the very beginning the same allowances as state-owned small firms and subsidiaries. (The allowances of these three forms were abolished by the unified enterpreneurship law introduced in 1988.)

This group of small ventures figures in official statistics as "small plant forms".[9] In 1987 there were

	213 small state firms with	24 829 employees,
	277 subsidiaries in small firm form with	24 079 employees,
	2 126 small co-operatives with	95 364 members.
Total:	2 616 "small plant" units with	144 272 members and employees.

(Since 1988 as a consequence of the new legislation on the unified conditions of business, the state-owned small enterprises and subsidiary firms have lost their privilegies. These legal forms of businesses classified as equal to other state-owned firms.)

B. *Partnerships*. Small enterpreneurial forms made possible the creation of 4 new kinds of partnerships.

— Enterprise work partrnership (VGMK, in Hungarian usage) is formed from at most 30 employees and pensioners of a firm. The authorisation of the director is needed. The original aim of this common venture of the firm and its employees was to produce goods in short supply on unused capacities in overtime, or to provide services to customers relying on the skill of the firms' employees. But the majority of VGMKs — with the exception of a dozen — never became a venture. Their own firm used their work in leisure time, a kind of overtime work, not falling, however, under central wage regulation. The partnership of workers, which arouse interest both in the East and the West, was successful primarily as a self-organising work brigade.

By the way, the Partnership Law introduced in 1989 will abolish the VGMKs in their present form. From 1990, those which will function as true ventures in co-operation with the firm and enter with their products and services a market outside the firm, may be reorganized in a new form.

— Specialized group: It is a partnership similar to the VGMK, what may be formed in non-agricultural co-operatives. The important difference is, however, that there is no membership limit, and the taxation is simpler than that of the co-operative and not like the state sector. The majority of specialized groups work only for their co-operative. A smaller part of them, is, however, an autonomous unit under the umbrella of a co-operative with a membership of several hundred people and a sizeable capital, i.e. they are serious ventures.

— Business Partnerships (GMKs in Hungarian economic practice) are partnerships of private persons. The upper limit is 30 for its members and 10 for its employees. The main characteristics of this very popular form: low membership from the start (an average of 6); 70% of members retain their full-time jobs and participate only in their leisure time in the activity of the GMK; three quarters of them have no fixed assets at all, i.e. the majority is satisfied to invest its own work and to have the auxiliary legal income earned thereby.

The GMKs doing industrial and construction work (almost 60% of the total) have polarised during the years. Among those having fixed assets, partnerships with considerable capital were also established and are functioning in essence as small-scale ventures.

Before 1988, when the unified venture law was enacted, the most successful GMKs transformed themselves into the more preferred small co-operation form which was less restrictive (as regards the employment limit). Growth-oriented GMKs, for whose activity the members have unlimited liability, will choose in the future the limited liability company as an organisational form.

Civil Law Partnership (PJT): this form has no employment limit. It is open to trading activities, may be established by individuals. Up to the enacting of the unified venture law it was heavily taxed and was therefore not popular. In the last 2-3 years PJTs were established only by retail traders.

In 1987, almost 35 000 partnerships (with all VGMK-members and the large majority of specialised group and GMK members) operated with more than 400 000 members (89% of them took part in work only in their leisure time).

The number of partnerships and their members in 1987

Partnership	Number	Member
VGMK	19 120	241 194
Specialised group	2 336	85 123
GMK	11 186	68 047
PJT	2 200	6 875

Under the 1988 Act on the Economic Associations VGMKs and PJTs as legal forms have been eliminated, these businesses are to be transformed to other forms.

ad.3. In 1982, the crafts and retail trade were given new operational rules and growth possibilities. Several constraints applied to their sphere of activity were lifted (private taxi cabs and common carriers appeared, boutiques with fashionable clothes, shops selling a wide range of industrial goods). To establish an independent source of living is a citizen's right, the authorities can no longer decide — if the professional and other preconditions are fulfilled — whether to accord a licence to a craftsman or a tradesman or not. It was allowed to increase the staff of craftsmen's shops from the previous 5 first to 15, later — under the partnership law — to 500 people. Gradually, the very strict staff limitations on retail trading were eased too. Since the end of the 70s state retail outlets and restaurants have been rented to privates; in 1988 12 000 such rental contracts existed. As a result, private crafts and private retail trade began to grow even if cautiously. All in all, the number of the self-employed and their employees grew by 93 000. (Nevertheless, in small-scale industry and retail trade the total number of the employed — family members and apprentices included — was only half that of 1940.)

The number of those engaged in private small-scale industry and retail trade 1981-1988

	Small-scale industry			Retail trade		
	1981	1988	Change	1981	1988	Change
Full time	68 915	90 299	+21 384	13 439	37 984	+24 545
Employee	18 224	55 921	+37 697	3 023	13 287	+10 264
Part time	30 837	53 052	+22 215			

Some 90% of craftsmen and retail traders work — as 150 years ago — alone or with family aid. Only 8% of small-scale industrial ventures employ up to 10 persons and only 2% reaches the level of small plant with an employment of 10-100. Retail traders, too belong to the category of 1-5 employees.

A host of craftsmen's shops are operated with tools of small money value, practically without capital. Partly because competition does not compel them to modernize and to employ modern technologies, partly because stop-go policy relating to small-scale industry made this social stratum very cautious, risk-averse (as it did with partnerships of individuals).

To sum up what was said in paragraphs 1-3, let us have an overview of small-scale organisations operated in Hungary in 1988:

Small organizations in Hungary in 1988

Form of ownership		Form of organization	Member of units	Total of employed	Full timers*	Average membership
			in 1988			
I.	State	1. Small firms (under 100 employees)	647	28 621	28 621	80
		2. EWPE	15 427	178 018	—	12
		3. Contract, leasing (retail shops catering units)	12 000	no data	no data	no data
II.	Co-operative					
	a. Agricultural	4. Auxiliary production unit	no data			
	b. Non-agricultural industry, construction, services)	5. "Traditional" coops, under 100 member and employees	383	14 866	14 866	39
		6. Small cooperative	2 366	80 012	80 012	39
		7. Specialized group	1 530	47 828	12 546	31.3
III.	Private	8. Small-scale** industry	90 299		169 414	1.8
		9. Small retail trade	37 984		51 271	1.3
		10. CLP	3 284	14 872	13 045	
		11. BWP	10 889	72 199	26 662	

* Self-employed, full-time members, employees and helping family-members

** Self-employed, without pensioners and part-time licence-holders

Source: CSO data, in manuscript

Changes in the organizational structure

With the expansion of small-scale organisations and within it the number of craftsmen and retail traders, the organisational structure of the economy has markedly changed. We have left out — as not autonomous market actors — the VGMKs and similar special groups and also — owing to the lack of data — auxiliary activities in co-operatives.

The number of units of the economy in 1981 and 1988

	1981	1988
(Large) state and co-operative firms	4 860	5 121
Small state firms, small co-operatives	—	2 851
Partnerships of private people, GMKs, PJTs, autonomous specialised groups*	—	9 383
Independents	85 354	140 213
of which: craftsmen	68 915	90 229
retail trader	13 493	37 984
contract	3 000**	12 000**

* Employed full-timers only
** Estimated
Source: CSO data, in manuscript

Parallel with the 60% growth in the number of organisations, the whole organisational scale structure of the economy (measured by employment) has been reshuffled.

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

Number of employees	Number of organisations	Breakdown %	
More than 1 000	797	0.5	
500 - 1 000	866		
301 - 500	916	1.2	
101 - 300	2 021	1.4	
51 - 100	1 068		
21 - 50	1 869	35.4	
11 - 20	2 442		96.9
2 - 10	46 124		
Independents	89 535	61.5	

Source: CSO data, in manuscript

Although the present size structure, if considered mechanically, is not so bad in international comparison, yet it has a grave default: the breakdown of both capital and labour employed preserves the characteristics of an overcentralised organisational system. In the early eighties "traditional" organisations of the state and co-operative sector employed 97% of the 3.8 million wage earners of the economy. In 1988, 88% of wage earners belonged to "traditional" organisations, and a further 4% to small-scale state and co-operative organisations. Full-time employees of partnerships of individuals, self-employed craftsmen, private retail traders, tenants and their employees — some 300 000 people — made up only 8% of wage earners of the economy.

The shift — even if perceptible — is not very important. The preponderance of large firms and co-operatives remains: the share of organisations employing more than one thousand people was 17% in 1987 (19% in 1988); they employed 58% in 1985, and still 55% of wage earners in 1987.

More than that: the big firms own the productive assets.[10] We have no data on the productive assets of independents, but of the total assets of the other forms mentioned here 98.8% was in the property of "traditional" organisations in 1985, the bulk of it in the property of the biggest (Gálik *et.al.*, 1986). In 1987 still 98% of the assets was owned by traditional firms.

This means that even if the size structure changed, the *propagation of small organisations did not alter the position, the dominant role and property forms of the big. Despite changes up to now, the organisational system created under planned economy has remained almost intact.*

Thus a peculiar dual organisational system emerges: on the one hand, there are overweight, inflexible, large organisations that are difficult to change, while on the other, there are large masses of people selling only their labour force (part time!) and independent or family-based small producers with their restricted supply. Small ventures — however important — are at present hardly perceivable agents of the economy. The spheres of large and small organisations hardly touch one another. The big ones pursue autarchy, therefore they do not need the activity of the small, or they rely on them only if they have no free capacity. There is no system of subcontracting, co-operating satellite firms around the big enterprises. The market range of small organisations is the smaller or larger local environment. They do not attach even to larger regional markets, let alone national and international ones. Regional markets — where they emerge at all — are dominated by large organisations, whose local units are stripped of the possibility of autonomous economic action. Therefore, no strong durable relationship with participants of the local market can arise, their goods and services are used in a hap-hazard way.

Several decades-old experiences of developed industrial countries show that the role of the small units is today much more than simply to provide for and serve the population of an area and to take part in the production of larger firms. Today, the new activities and products of the future are invented all over the world in a host of small units, the many technical novelties of tomorrow are shaped in their shops and the new structure of supply and demand appears on their small, markets together with the new social relations of the small, local communities.

Small organisations constitute a growing market for the population and for one another. This is — together with the continuous growth of their number — a healthy phenomenon. But small units can develop only in co-operation with medium-sized and large ones, and only if the dual market is replaced by a rational division of labour between organically connected organisations.

Possibilities of modernizing the organizational system

From an organizational point of view, the decentralisation of large organizations is made easier by the fact that in artificially merged large firms there are a host of small units, and decentralization would only restore original circumstances. Industrial economists and statisticians have known for a long time that in the about one thousand firms of the Hungarian industry there are some 10 000 plants, and the majority of them were independent small- and medium-sized firms before nationalization.[11]

Industrial examples are the best known ones, but *hidden small organizations* do exist in other branches of the economy, too, concealed today by large corporate and co-operative frameworks created according to the requirements of central management.

The objective bases of the autonomy are therefore present. Moreover, even in statistically assessed *plants* there are several activities — from maintenance to the production of spare parts — which may be detached and made thereby marketable.

The key problem is the change of proprietor: to hand over the most possible activities to the true proprietors, be they individuals or collectives. The natural property form of small units is private property. Today it is already evident for many people in Hungary that only self-interest can enforce a continuous matching of supply and demand, the calculation and reorganisation of activities.

It is not enough to stimulate private property — as was the case with household plots in agriculture and with incentive contractual and lump-sum reckoning forms in trade and services. (Here, too it is the interest of the large organization that lurks in the background — camouflaged by ideological dogmas — to hold together capital in state and co-operative property). For a truly efficient management it is ncessary to perform a propriety function, to calculate with success and failure, with the chances of enlarging and reducing its activity.

This is the only way to take Hungarian economy — with its viable small organizations — back to Europe, to the turnpike of development.

Notes

[1] At the end of the 19th century only one tenth of wage earners worked in industry *(Berend-Szuhay 1973)*; this was the case even in the 1940s with their share of only 35% *(Berend-Ránki*, 1972, p.184).

[2] According to the report of *Mihály Horváth* (1840), the Fiume (Rijeka) administration made in 1825 a comparison between the tensile strength of ropes made from Italian or Hungarian hemp and found that Hungarian rope was stronger. At that time, English tradesmen sent agents to hemp-producing districts to teach better methods of treatment. From the most famous areas the rope was shipped to Fiume, Vienna, Linz and to mining towns (*op.cit.* pp.283-284).

[3] Hungarian researchers examined Italian experiences of this process watched with keen interest all over the world. See e.g. *Simonyi* (1987), *Szikinger* (1986), *Hamar* (1985).

[4] Machine power was used first of all by food producers (20% of shops in this industry), by metallurgy shops (14%), and in wood processing (9% of shops). (*Farkasfalvy* 1935, pp. 538-539).

[5] Aslund's perfectly documented book presents the scenario of the liquidation of small units which were not manageable by central plan instructions. The procedure followed in the GDR and Poland was employed in Hungary, too. (Aslund 1985). On the history of organising co-operatives in Hungarian small-scale industry excellent studies were written by Gyula Tellér (1972, 1989).

[6] In France, e.g., in 59% of firms there are no employees, in 35% there are 1-9 employees, i.e. 94% of firms have less than 10 employees.

[7] Hungarian large-scale industry, which rapidly developed since the last third of the 19th century, was the offspring of venture capital. It was with the participation of West-European, mainly Austrian capital, that the largest firm were formed; according to Berend and Ránki 40% of the capital invested up to World War I came from abroad. It is noteworthy that the concentration of industry followed a path similar to that in the developed industrial countries; corporate empires were created including raw-material sources, too. A telling example is that of the Austrian State Railway Corporation which founded mines and factories to become later the bulk of Hungarian iron production. The Corporation — write Berend and Ránki — "developed on its iron-ore deposits an industrial combine of European fame, which produced iron from own ore, with own coal, with timber from its own woods, refined and processed it in its own Resica engineering factory into rail and trains in order to supply its own railways with them. (*Op.cit.* p.51)

In this way, at the end of the 19th and the beginning of the 20th century, several large firms employing more than 1 000 people were established. At the beginning of the 20th century, the 41 largest industrial firms employed one fourth of all industrial workers (Berend-Ránki, *op.cit.* p.65).

[8] These processes are analysed in detail by the already cited excellent work of Piore and Sabel.

[9] We quote our data on small enterpreneurs from statistics published since 1985 and based on the budget statements and tax assessments of firms (*Gálik*, 1986, 1987, 1988 and 1989).

[10] The necessary statistical data are lacking: we can only estimate the situation at the beginning of the decade, comparable data being available only since 1986. The data show the accounting value obtained with the use of artificial and not real market prices.

[11] At the beginning of the decade a study dealing with the internal structure of industry analysed the size and role in intra-firm relations of 2 000 industrial plants. 43% of these plants employed less than 100 people, and with 16.5% of the employed did not reach 20 people. Very important was extra-profile activity (mainly as a reaction to shortage economy); according to the author, 56% of the industry's employees are engaged in such activities.

References

Aslund, A.: *Private Enterprise in Eastern Europe. The Non-agricultural Private Sector in Poland and the GDR, 1945-1983*. Macmillan, in association with St. Anthony's College, Oxford, 1985.

Bagó, E.: *Diverzifikáció az iparban* (Diversification in industry) Industrial Economics Research Group of HAS (Hungarian Academy of Sciences), 1984.

Bácskai, V.: *Városok és városi társadalom Magyarországon a XIX. század elején* (Towns and urban society in Hungary at the beginning of the 19th century) Akadémiai Kiadó, 1988.

Berend, T. I. - Ránki, Gy.: *A magyar gazdaság száz éve* (A century of Hungarian economy) Kossuth - KJK, 1972.

Berend, T. I. - Szuhay, M.: *A tőkés gazdaság története Magyarországon, 1848-1944* (The history of capitalist economy in Hungary, 1848-1944) Kossuth, 1973.

Csató, T.: Small-Size Enterprises in Central and South-East Europe since the Industrial Revolution. (See in this volume.)

Farkasfalvy, S.: Kisipari statisztika Magyarországon (The statistics of small-scale industry in Hungary) *Magyar Statisztikai Szemle,* Vol.XIII. 1935, pp.529-548.

Gálik, L. - Hallgató, F. - Kamarás, G. - Urbánné, J.: *A gazdálkodók szervezeti struktúrája és annak változása* (The organisational structure of economic actors and its change) Pénzügykutatási Intézet Dec. 1986.

Gálik, L. - Hallgató, F. - Kamarás, G. - Urbánné, J.: *Az újtípusú kisszervezetek 1986-ban* (New type small-scale organisations in 1986) *A Publication of the Institute of Labour Studies* (Munkaügyi Kutatóintézet) *Ed.:* Laky. T. 1987.

Gálik, L. - Hallgató, F. - Kamarás, G. - Urbánné, J.: *Az újtípusú kisszervezetek 1987-ben* (New type small-scale organisations in 1987). A Publication of the *Munkaügyi Kutatóintézet Ed.:* Laky. T. 1988.

Gálik, L. - Hallgató, F. - Kamarás, G. - Urbánné, J.: *Az újtípusú kisszervezetek 1988-ban* (New type small-scale organisations in 1988) (Work in progress).

Hamar, J.: *Az olasz kis- és középvállalatok sikerei a lemaradó iparágakban* (Success of Italian small- and medium-sized firms in backward industries) *Konjunktúra és Piackutató Intézet* Budapest, 1985.

Horváth, M.: *Az ipar és kereskedés története Magyarországon* (The history of industry and trade in Hungary), Buda, 1840.

Kornai, J.: Bürokratikus és piaci koordináció (Bureaucratic and market coordination) *Közgazdasági Szemle* 1983, Vol.30, No.9, pp.1026-1038.

Kovács, G. J.: *Sikeres talponmaradás — kurdarcos integráció. A magánkisipar útja a magyar szocialista gazdasági fejlődés különböző szakaszaiban* (Successful survival — failured integration. The development of small-scale private industry in different phases of Hungarian socialist development) Budapest, 1987, *mimeographed.*

Pető, I. - Szakács, S.: *A hazai gazdaság négy évtizedének története. 1945-1985. I. 1945-1968* (Four decades of Hungarian economic development 1945-1985. I. 1945-1968) KJK, Budapest, 1985.

Piore, M. J. - Sabel, C. F.: *The Second Industrial Divide*. Basic Books Inc, New York, 1984.

Rézler, Gy.: *A magyar gyári munkásság* (Factory workers in Hungary), Budapest, 1940.

Simonyi, .: *Nagyvállalatok alkalmazkodása, rugalmas kisvállalkozások Olaszországban* (Large-firm adaptation and flexible small ventures in Italy. *Ph.D.* thesis, Budapest, 1987.

Schweitzer, I.: *A vállalatnagyság* (On firm size), KJK, Budapest, 1982.

Szikinger, P.: *A kisvállalkozások állami támogatása Olaszországban* (State subsidisation of small ventures in Italy) *Munkaügyi Kutatóintézet*, 1986, *mimeo*.

Tellér, Gy.: *A magyar kisipari szövetkezetek története* (The history of Hungarian craftsmens' cooperatives), *1972, Institute of Cooperative Research.*

Tellér, Gy.: *A magyar ipari szövetkezetek 40 éve* (40 years of Hungarian industrial co-operatives). *Gazdaság*, 1989, №1.

Vince, P.: *A vállalati szervezeti rendszer decentralizálásának dilemmái* (Dilemmas of decentralisation of the corporate system) *Gazdaság*, 1986. №4.

Voszka, E.: *Átszervezés, kampány, reform* (Reorganisation, campaign, reform) *Gazdaság*, 1986. №4.