

Ms/02

INSTITUTE OF LABOUR RESEARCH BUDAPEST

Hungarian Academy of Sciences (Budapest)
International Labour Office (Geneva)

Subregional expert meeting
on
NEW COLLECTIVE FORMS WORK ORGANIZATION
Siófok (Hungary), 27–30 September 1987.

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THREE TYPES OF SMALL ORGANIZATIONS IN THE HUNGARIAN ECONOMY:
AN EXPERIMENT IN NEW FORMS

Paper No. 6

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THREE TYPES OF SMALL ORGANIZATIONS IN THE HUNGARIAN
ECONOMY: AN EXPERIMENT IN NEW FORMS

by

T. Laky^{x/}

There is hardly any country in the world in which so many forms of 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

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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 smallscale 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 ones 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 main characteristics of the various forms. /Their characteristics will be discussed in the Appendix./

Main characteristics of small organization

Form of membership	Form of organization	Exists since 1982	Authorized size	Form of occupation F = full-time P = part-time	Number of units	Total of employed, full-time and part-time members, employees, family members and apprentices/ 1986	Average membership
1. Small enterprise		x	"smaller"	F	196 ^x	21,300	108,6
2. EWPE ^{1/}		x	30 members	P	21 490	267,000	12,4
3. Contract, leasing							
- retail shops			5 members	F + P	4 470 ^x	8,040	1,8
- catering units			12 members	F + P	7 200	25,000	3,5
4. Auxiliary production unit			not limited	F	about	160,000	
5. Specialized group			not limited	P	no data		
6. Small cooperative		x	15-100 members	F + P	1 185	55,100	46,6
7. Specialized group		x	not limited	P	2 768	102,200	36,9
8. EWPE		x	30 members	P	/within line 2./		
9. Small-scale industry /artisans/			13 members with the owner, employees, family members and apprentices/	F + P	78 260 ^{xx}	130,600	1,5
10. Small shop			5 members	F + P	25 450	42,100	1,6
11. CLP ^{2/}		x	not limited	F + P	1 455 ^{xxx}	5,350	3,7
12. EWP ^{3/}		x	30 members	F + P	10 900	72,500	6,9
13. Agricult. household plot and auxiliary farm			+ 10 employees + family members	P	1,500 000	about 3,000.000	2
14. Private peasant farm			1 household	F + P	about 30.000		

x Data for 1985
 xx The self-employed; + 54500 part-timers + 17800 part-timers
 xxx Including mainly

As the figures of the table above show, these various small organizations substantially differ 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 case of the small enterprises, and of the small co-operatives, leg 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. The average size of the units mainly in the private sector - is too small and has not grown by years at all.

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.

It is only the organization of the EWPs that means any appreciable help in expanding supply. About one quarter of them performe productive work, a further one quarter work in the building industry and, finally, the half do other services /ranging from cleaning to sports schools, from teaching foreign languages to marriage agency service and intellectual services /design, organization, computer programming/. CLP is a similar form, working mainly in the computer-programming field too, but this form of organization has remaned small in member.

So the supply of the new-forms is important for the economy, but the public opinion is somewhat disappointed and discontent because, for the time being, small enterprises have, despite the wide spectrum of their activities, done little to increase supplies of accoustomed goods and services, and no reduction in shortage and no improvement in services can be observed, despite their presence, in a worsening economic situation.

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. 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. And the other main characteristics is the each of capital or keeping the needed funds on the lowest level.

Three pure types of small organizations

The different small forms can be collected into three pure types:

Utilization of one's extra labour-power, self-employed smallscale production and small enterprise. This three types express three sets of socio-economic goals showing essentially different features of participation in the economy on the basis of different interests and values. And, considering that a distinction by form of property has been ingrained in our minds for decades /coupled with a mostly biased attitude to the private sector/, it will perhaps be not without interest to examine old and new small organization from another angle, in the context of economic goals pursued and functions performed in the economy.

Therefore I shall attempt a presentation of their characteristic features or pure types, according to some criteria, at least in relation to the presentday Hungarian economy but without the forms established in agriculture. /It should be ranging into these types too, but I left them out for the simpler discussing only./ Before the description of the three types, I summarize the specific features of each type in a short form, under identical theoretical and logical framework.

I. People making use of their extra labour-power

Typical features include:

1. Goal: to earn extra income and to follow the pattern of consumption of the ^{us}in-reference-group.

2. Economic role: satisfying additional demands in particular activities based on members' performance. The organization reacts to changing patterns of demand /market/ within a narrow scope of activity, in a form

and manner delimited by members' individual performance, with supplies extending to the limit of members' performance.

3. Capital investment: none; is neither required by activity nor is in keeping with members' shortterm interests in earning extra income.

4. Gains result from members' individual performance.

5. Incomes are spent by members and appear as consumer demand on the market.

The features of this type are well known in Hungary.

Legal and illegal /non-taxable/ utilization of one's working capacity, physical labour, skills and knowledge in free time is a worldwide phenomenon, and, if we can believe in international statistical estimates, momentum is gained in numerous capitalist countries mainly by semi-legal or partially taxable /grey/ and illegal /black/ arrangements as a natural concomitant of economic stagnation, setback, and growing unemployment.

In Hungary, lasting labour shortage, short supply of goods and services, and enterprise income regulation have created frameworks, long recognized as legal, for a variety of side-lines, and small organizations have widened those frameworks by large margins.

Any new form of organization /except for small state enterprises employing workers on a full-time basis/ may afford opportunities for extra earnings, and its members may belong to any segment of society, from unskilled workers doing manual jobs through office employees using their aptitude /real or presumed/ in organizing personal match-making services to university teachers marketing their professional knowledge, or even top managers using

their special skills or perhaps business contacts.

The organization is based on members' existing knowledge and skills as well as on business contacts established mainly with state and cooperative organizations. Its founders do not intend the organization to be a long-term profitable venture, but a momentary means of creating a new framework for old goals, those of supplementing individual incomes. Members' activities are the same as before: repairing, fitting, teaching language, drawing up programmes, and making designs in free time, legally or illegally. True, the organizational form is a drawback, because part of the gains is creamed off by taxes, but it offers the advantage of legality, of legal recognition of work and income, which may be of importance to some buyers. Besides, jobs are also obtained by partners, joint efforts thus ensuring more or less permanent activity for all.

The exclusive goal of the organization is to secure for members an additional income, modest rather than too ambitious, one that is stable and can be earned from month to month. If orders are more than members are able to cope with, they may be accepted for later realization or, if there is no other choice occasional helpers are employed. If orders slacken, members relax and look for more orders, but the limit of the organization's capacity is always set by members' own performance, with no intention to grow, but to maintain and make full use of that capacity.

Capital investment is either unnecessary or an undesired alternative. Indeed, a considerable part of activities requires no investment /workshop, office, equipment/, because the workplace is the construction site, the compounds of enterprises ordering fitting work,

or the buyers' households, and, in the case of intellectual work, one's own desk /even a kitchen-table might do in the evenings/.

But investments are not made even where possible or necessary, because investment is contrary to the principal goal, which is to earn extra income. And failing business or development ambitions, the goal is not to make the organization viable, competitive and expansive, and income earned by extra work is used for personal consumption, according to members' needs, whether prime necessities or spendthrift or luxury consumption. Eventual modest investments /a tape-recorder for language teaching, new tools for car repair, a personal computer, a car, etc./ carry no risk because these assets form part of one's household or are objects for personal use and can be used even if the organization is dissolved.

This state of affairs is just to the satisfaction of the majority, who do not aspire to anything more or anything else, their economic mentality being shaped by a multitude of socio-economic conditions into a typical mould in evidence of the fact that it is practicable to build one's livelihood on a job in the socialist sector, which still appears to the best advantage in the public mind and offers security of existence and, moreover, may even be an organizer and a market of subsidiary work. Keeping one's full-time job is therefore a natural endeavour.

The majority of members do not think, even in the case of a flourishing business, of working on their own, giving up their full-time jobs and building an organization affording a means of subsistence and playing an independent role in demand and supply, because, they have no such ambitions. True, for working on one's own account

as an alternative to be seriously considered, there have so far been no real motivations such as encouragement by a clear-cut political and economic course or real pressures such as uncertainty of full-time jobs.

When organizational-operational conditions worsen /lack of orders, increase in tax burdens, growing strains at the workplace because of regular extra income held by others to be high, etc./ the most obvious choice is to wind up business and to use one's free time /ideas, skills, energy/ in any other form of organization existing at the moment, or perhaps illegally.

However, even this type embraces people, albeit few, who has begun to work for extra income only, found a possibility opened by the organization for the attainment of several other goals /working on their own, realization of their ideas, meeting the challenge of the market, etc./.

"With a colleague of mine whom I had worked with for 14 or 15 years I founded a civil-law partnership simply to add to our rather low incomes by doing subsidiary work ... We pondered how nice it would be for each of us to make a monthly average of 2000 or 3000 forints in that way. Then it would be worth while and we would be happy." After the first and subsequent achievements, professional as well as financial, they decided to work on their own, now all of them. They were unsure about avoiding failure, but "we liked it very much, the taste of success, that our products were in demand after all"; they were glad to be able to do a job in a few months rather than in 4 to 5 years as was the case at their previous places of work /Interview with the Chairman of the Precision Engineering Small Cooperative, Vicsek, 1986./.

They necessarily constitute the minority, however. In any country of the world where people may draw two

incomes, but particularly in Hungary, the majority must have strong motivations or be under strong pressures to alter their strategies of life framed by decades-long effects of the socio-economic environment.

Today in Hungary the decisive ratio of new small organizations belong in this type /in 1986 here belonged 50.700 out of 72.500 business partnership members, 1500 out of 5350 CLP members and the part-timer of small cooperatives as well as naturally some 340.000 VGMK and specialized group members who do not engage in undertaking, but supply extra labour to their own enterprises./. According to this calculation, 86 % of about 450.000 persons involved in the new forms of organization utilize their extra labour-power, joining those making use individually of their labour-power in various possible /legal/ economic arrangements, such as part-time licence holders who make up a growing ratio of artisans. /The ratio of the full- and part-timer artisans is 52 : 48 in 1986./

Utilization of extra labour and skill means as many small, personal markets, demand-supply relations geared to individual performance. The existence of such small markets is obviously of benefit not only to the individuals involved, but also to all society, because they supply actual needs in a large part of cases. And they will always have scope for activity in the economy as there will also be needs to be met only by mobilization of extra labour and skill.

Potentially, however, considerable possibilities will remain unutilized if the activities in demand stay confined to supply of extra work, without these organizations respond the challenge of the market, aspiring to growth and undertaking investments as required, that is, leaving the ranks of those adding to but using up their incomes.

II. Self-employed small-scale producers

Typical features include:

1. Goal: to secure /family/ subsistence at the level of consumption of these reference-group.
2. Economic role: supplying demands in specific areas of activity, with the necessary capital investments and performance of work, and responding to changing patterns of demand within the scope of a given activity and existing facilities /capital goods, work organization/. Organizations increase their supplies with caution, in a measure not endangering the basis of existence, and seek no expansion, but stability, and try to establish and keep a clientele necessary for subsistence.
3. Capital investment: the necessary minimum /equipment, machinery and workshop as required for security and keeping a stable position on the market/. Additional capital investments and modernization of means of production as conditions of stability are undertaken under the pressure of competition only.
4. Work done is the determinant element of income derived from the combination of capital and labour, capital input being a function of labour input.
5. The larger part of income provides the means of /family/ subsistence and thus appears on the market as consumer demand. The smaller part, destined for the most necessary investment, is recycled in the sphere of production.

This is perhaps the commonest type all over the world, with people of limited means forming the basis of the economy in capitalist countries by offering their small supplies in the domain of a myriad demands. To cite

Schumpeter's classical example: the butcher tries to sell his goods to the taylor, the taylor to the shoemaker, the shoemaker to the producer of meat for the butcher /Schumpeter 1934/. Though the example may be somewhat naive, owing to the spread of mass production rearranging structures, the substance remains unchanged: small-scale producers and providers of services enter today the mainstream of the economy as a whole with the demand-supply pattern of their own small markets. Moreover, their role has increased again as mass production is being sensibly replaced once more by demand expressing special needs, large-scale industry being accompanied by a widening network of small, home-working, specialized workshops.

In Hungary, self-employed small-scale producers /other than agricultural/ represent a disproportionately narrow sector of the economy which, though not homogeneous socially, is made up mostly of artisans working in industry and services. Given their typical economic mentality, however, a number of new small economic units, civil-law partnership, business partnerships and small cooperatives are also to be considered as small-scale producers, again irrespective of the form of organization.

The inner segmentation of this sector is essentially as heterogeneous as that of agricultural small-scale producers, household farmers and auxiliary farmers, who are recruited from all strata of society. Nevertheless, the basic difference between agricultural and non-agricultural small-scale producers lies in that, at least under our prevailing conditions, small-scale production is a source of extra income for the former and the basis of subsistence for the latter. /Some 70 % of artisans also have household plots and earn extra income from small-scale agricultural production. /Á. Vajda, 1986./

Work on one's own account is a distinctive feature of this type, but is not necessarily for one's lifetime, its duration depending, as everywhere in the world, on a number of socio-economic and personal circumstances. Yet the figures for independent existence and its relinquishment, the function of artisans, seem to show that, under our prevailing conditions, the reason for temporary or lasting withdrawal, creation or relinquishment of one's independent existence lies not so much in the contraction or expansion of economic possibilities or demand as rather in changing concepts of the ideological role of property relations in economic policy practice and in the relaxation or tightening of legal and fiscal regulations based on them. /More than half /!/ of artisans became independent within four years during 1983, that is to say, "in the period of a more liberal ... economic policy approach to the small-scale industry in the late 1970's and the early 1980's". /Á. Vajda, 1986./ And in 1985, according to macrostatistical data, 19 % of artisans who had worked on a full-time basis in the preceding year abandoned practice or returned their licences, and the ratio of new licence holders was 21 %.

Self-employed small-scale production does not necessarily require skill or special knowledge that can only be acquired through years-long training /and the widening range of services includes a spate of occupations like ladder-mending, ball-point refilling, freighting, key-copying, cigarette lighter, refilling, pattern-printing/. As noted earlier, in numerous trades /in those just mentioned as well as others like joinery, tailoring, watch repair, which require special skill/ one can do with a few tools or small equipment, but the majority of trades requiring skill presupposes independent workshops, special

machinery and equipment and, in some cases, considerable capital investments.

As against the first type, an essential feature of self-employed small-scale producers and providers of services lies in capital investment required for running a business. The magnitude of investment may vary, and funds may originate from gifts from abroad /e.g. the first key-copying machines/, systematic savings for years, income from subsidiary work or moonlighting, a workshop and tools inherited from parents whose families traditionally practised the trade in question.

The capital invested is realized through work done, which is the determinant element of income derived from the combination of capital and labour.

In their case, "work" implies also the time factor, namely keeping the workshop or shop open, being always at the disposal of potential customers, because clientele is the real basis of existence, winning and keeping them guarantee the security of existence. The capital necessary for the practice of trade is understood to mean, not an "investment" promising returns, not an asset, but a working tool, a condition for proper attention to buyers.

Also, family members take a smaller or larger share of work as the basis of subsistence. The shop or workshop of a small-scale producer is often a family work organization, the number-one helper being mainly the spouse, but also relatives and, less frequently, children. /In 1986, 78.200 full-time artisans were assisted by 21.300 family helpers, as were members of business partnerships and civil law partnerships, but their participation may likewise be influenced by progressive tax rates on personal income./

These work organizations employ as few people as possible because, among others, it costs much /a few years ago, artisans working with employees in a number of West European countries were granted tax allowances in the struggle against unemployment/ and because they are reluctant to expand the family work organization, not to mention that in Hungary it is rather unpleasant to be self-employed, let alone an "exploiter". /Thus only some 10 % of artisans engage employees, 1,6 persons on average. In 1985 there were in Hungary all in all 43 artisans engaging more than 6 employees. Also in 1986, employees totalled 5000 in nearly 11,000 business partnerships, 40 % of them working in the building industry and 30 % in industrial business partnerships. Employees included mainly those who did not enter business partnerships. In the civil-law partnerships are engaged 168 employees.

The economic ventures of small-scale producers are characterized by sober restraint or, rather, caution /particularly in respect of expansion or investment/. Artisans are more inclined to keep and protect what they have rather than to start a new line of business at the cost of additional, perhaps considerable, investments. /"I can tell you that, in certain aspects, we were born with a silver spoon in our month. We did not have to create demand for our products as they were in demand already. That is one of the reasons that we have become lazy. We have no plans to expand our product-mix, because our capacity utilization is fully secured by the existing volume of orders ... We have made it a rule to distribute all gains at the end of year, to empty the "cash-box", but from next January we shall pool resources again according to need." - Interview with the leader of a business partnership in the machine industry, Labour Research Institute, in manuscript./

Even in case of steady demand - depending not only on the political climate, but also on artisans' own economic mentality, which is, of course, likely to be effectively strengthened or weakened by policy measures - artisans take great care in developing workshops or business in order to maintain the balance between family subsistence and investments, because the foremost goal of activity, to secure family subsistence, must not be put into jeopardy. To invest - to buy a new machine, new tools, or a new workshop - is permissible, even in the hope of subsequent increase in income, only if the likely result is reduction in costs or family subsistence is not jeopardized by the fiscal system as in operation at the time. /The product of the leader of a business partnership - who had been an artisan and started production of a special plantprotecting agent of his own invention - has a good market. It is turned out practically by two families, and several times its present quantity could sell easily. "Do you not think of running up production over time? - we asked. The answer was categorical: "I have no intention to outgrow the present framework". He wants to buy a small truck, because having primary materials and finished goods conveyed by hired light truck proved to be too expensive. "I hope nobody will find fault with this plan of mine, for the relevant regulation provides that accumulation is free of tax so as not to jeopardize the family income level." - Interview, Labour Research Institute, in manuscript. / When the risk of losing the clientele is coupled with the challenge to maintain the accustomed or desired level of family consumption, competition may act as the main driving force in investing capital, procuring more efficient equipment or streamlining a shop or workshop. /This, too, is a source of problems because competition presents no such pressure in Hungary, while countless new technical instruments and procedures are also spreading through

channels opened by masses of small workshops across the world, continuously adding to the potential of the economy. /

Under our set of conditions, reluctance to capital investment tends to reinforce the already existing consumer-mindedness and, as part of it, luxury consumption in some cases, because these people see the sense of their work in the possibility of achieving a social status as expressed in the way of life and living conditions.

In their way of life they follow social patterns rather than business considerations in an effort to become like groups of people in higher income brackets than their own, and the organization of small-scale production is a means to that end. The goal is to have a house of their own or a larger apartment with more modern convenience, to buy a weekend plot, to educate children, possibly for occupations requiring a diploma, to use up income, possibly in such a way as not to arouse the attention and suspicion of the authorities and the social environment. And the range of these pursuits is wide enough to include, on the present-day scale of social values, numerous forms of luxury consumption such as expensive sports /skiing, yachting/, costly travel abroad or dressing in the latest fashion.

Under our set of conditions, competition or contraction of demand is rarely a factor in preventing people from reaching an income level deemed fail by the social environment, narrow or wider; the greater danger comes rather from worsening conditions of operation, first and foremost from increase in tax burdens.

Complete retreat, abandonment of trade and, with it, the existential base as well as loss of clientele and waste of invested capital are but the last move enforced by circumstances and one that people try to avoid taking

as long as they can. For a while they try, even at the price of sacrifices, to keep the business running and choose to increase extra income, going to work to the state or the cooperative sector and keeping only part-time practice as they did on a mass scale in 1984-1985/ and the spouse taking up employment as well. But, if possible, they do not dispose of equipment as long as the hope for a new start exists and choose, not to withdraw, but to offset tax burdens by higher charges, increasing the ratio of jobs done without an invoice, postponing investments, and suspending practice of trade.

This type includes, with few exceptions, virtually all small organizations not belonging to the first type, namely full-time artisans, as well as business partnerships and civil-law partnerships which do more than perform extra work in industry, the building industry, and services. /The scope could be widened to include also small shopkeepers who operate mostly in a family work organization, state and cooperative shops, and keepers of public catering units on contract or lease./

The modest supplies offered by each unit in the mass of self-employed small-scale producers is a natural and indispensable part, now more than ever, of the operation of a modern economy. For decades, our economy has dispensed with this segment of people seeking stability and under constant pressure to meet demands and to streamline their means of production in order to secure their livelihood within their respective spheres of activity.

Most of small-scale producers are content to keep the business running with a lifetime of work and to see themselves and their families maintained by their line of business. However, under favourable economic conditions, it is from this group of people that enterprises ready for expansion and change emerge.

III. Enterprise

Typical features include:

1. Goal: to seek profit, i.e. returns on capital invested and equipment used.
2. Economic role: supplying demand in spheres of activity open to entrepreneurs and promising profit within a scope of action delimited by available capital. The organization responds sensitively to changing demand, organizing or giving up activities, its endeavour being to make use of possibilities at hand rather than to secure stability.
3. Capital investment: the possible maximum depending on probable profit and risks. In addition to private funds, external resources are sought to lay the groundwork for activities promising higher profit and to widen the scale of supplies quickly and dynamically. When profit is on the decline, investments are reduced or completely withdrawn and diverted to activities that promise to be more profitable.
4. Capital is the determinant element of income derived from the combination of capital and labour input, with work, intellectual, physical, organizing and other, subserving the realization of capital, its profit-generating capacity.
5. A decisive part of income is reinvested to expand profitable business or to organize new lines of activity. Personal consumption remains at the level of the reference-group and does not increase in any significant measure even if profit rises rapidly.

Quoting Schumpeter in the introduction to one of his major works /Schumpeter, 1934/ published in Hungarian as well, Aladár Madarász states that "The entrepreneur ... is a phenomenon sui generis, one who, like the poet, is

not to be, but is born; is characterized by foresight, imagination and, above all, a will capable of resisting the pressure of habituated routine, an ability to seize and realize possibilities inherent in the new. He is the perfect opposite of the type of subject of a static economy not only in terms of attitude, but also his relationship to the economic process, his action being motivated and determined not by that process, but it is he who determines development; he is not an object, but a subject".

To the present-day mind this homage, particularly the praise of personal qualities and abilities, provokes a smile. Today even a person less versed in psychology knows from the wealth of experience offered by our own history, if from nothing else, that the marks of personality among the welter of qualities and abilities strengthen or pine away under the impact of the human environment, subject as they are to the order of social values and to the effects of a legion of economic conditions, and that, verily, an entrepreneur is not born, but is to be, if he can. Yet we must accept this much of Schumpeter's characterization: the entrepreneur who brings about something new instead of routine-like combinations of production and dares to confront the socially accustomed and to face risk is bolder than the average individual. Therefore the entrepreneur seeking change and daring to disobey traditions is seen by every economy as its most important actor who launches an enterprise, creates an organization of economic activity that is sensitive to the pattern of demand and supply. The main criteria of this, the now commonly accepted definition of enterprise, have likewise been formulated by Schumpeter /Schumpeter, 1928/, relying mainly on, and quoting, Max Weber /Max Weber, 1967. /pp. 125-136/ and 1979./

I can only try to summarize the main features that

are related to the circumstances of the socialist economy and society, determining the difference between the two types.

In the classical sense of the term, enterprise is profit-oriented. Accordingly, "profit", or the income deemed to be satisfactory for the enterprise /subject to the influence of traditions, income regulation by the State, etc./, is to exceed the value of invested capital. If an enterprise fails to produce the surplus expected above investment, capital is withdrawn and diverted to another area. An enterprise consequently participates in the economic process for the purpose of gaining profit and until such time as profit is promised. It takes risks in the hope of profit: risks the investment of founders /realization of the capital necessary for the foundation and operation of the enterprise/ and the income of those involved in it /as the result of intellectual or manual work, or as the gain expected on the capital invested/.

Active participation of capital, or investment mainly in money or value terms, in economic activity is thus a condition sine qua non for enterprise. Dispensable or reduced to a role subsidiary to human labour in the previous types, investment in the case of enterprise is the principal factor and economic goal, a necessary prerequisite to the realization of invested capital. Labour input is no longer the determinant element of profit, or gain derived from a combination of capital and labour /the function of "labour" may also be performed by "ideas"/, but other circumstances such as quick response to demand, an ability to create new demand, and resolve to give up unprofitable activities.

What an enterprise seeks is not continuation of activity, but maintenance of flexibility, standing ready to change its line of products, services, and size of organization in response to demand.

When demand is steady, an enterprise is ready to widen supply and to expand capacity, by supplementing its own resources with the involvement of external capital. Credit at acceptable interest rates may be part of a reasonable risk taken.

Participants have a greater interest in the success of enterprise, or in economic performance, than in prestige in the immediate social environment; they seek recognition of the profession at home or abroad. Personal consumption is subordinated to achievement: when the enterprise requires investment all needs of the family and household take second place. /It is a different matter that in case of success the level of household or personal consumption may exceed the level typical of the social strata of entrepreneurs./ A decisive part of profit, however, is reinvested in the enterprise, in an interminable succession of expansion projects, more advanced and more efficient equipment, and new possibilities.

In case of lasting failure, enterprises are liquidated and the still valuable part of capital goods is directed to new and more promising lines of business.

For a long time, our existing conditions penalized rather than encouraged the emergence of this growth-oriented strata of entrepreneurs, which is valuable to any economy. Now we may be witnessing the revival of a political and social tolerance capable of taking note of or accepting, even if not liking, the presence of enterprise along with the utilization of extra labour-power and, more or less, small-scale production. In a climate of political, ideological and social opinion, consciously restrictive of enterprise and becoming rigorous from time to time, the very emergence of the enterprise - is a wonder. A few scores of artisans, business partnerships,

civil-law partnerships, and small cooperatives operating as enterprise. /For example, the press gave broad coverage of József Pintér, an artisan in a village not far from Budapest, who was making export equipment-meeting special requirements and had invested tens of millions of forints in a workshop and machinery necessary for filling a growing flow of orders. In 1985 his net income exceeded one million forints, but he and his family lead a modest life "in a house neither poor nor luxurious, just like those of which there are some 200,000 in this country" /Ballai, 1987./

Again, the weekly Élet és Irodalom reported József Csóke's featurette about Dezső Koszó, a peasant of an other village, who had completed only six grades of primary school and, by making use of scrap-heaps, organized the supply of spare parts, always and hopelessly in short supply, for the huge machine park of cooperative and state farms. And as he did it well he became a millionaire. The beneficiaries of his millions are his own village and the Economic Association operating the enormous fish-pond system he has created. Since he has no family, his fortune will start a fund in benefit of the orthopaedically handicapped /Zöldi, 1987/.

In a different context I have already cited from an interview, published in the periodical Mozgó Világ, /Morning World/, with the Chairman of the Precision Engineering Small Cooperative, who is a development engineer and, together with a colleague of his, has gone all the way from a part-time civil-law partnership through a full-time business partnership of 30 members to a small cooperative that may even become 100-strong, from the first order of 120,000 forints to an annual turnover of 600 million forints in 1986. They use 10 to 15 % of profit for wages and the rest for materials and investments under a development project /Vicsek, op. cit./.

"For that matter, we are now effecting an investment of 100 million forints, all through self-help" - said the Chairman of the Small

Cooperative last February /Szauer, 1987/.

One more example from our own collection. A metallurgical business partnership has 7 members, four on a full-time and three on a part-time basis. Now earning an income of several million forints, the business partnership follows the principle of allowing an annual pay of 100,000 forints to full-time members and 50,000 forints to part-time members /The average income for a full-time carner in the industry was 70-75.000 Ft/year/ /"Of course, these are no rigid figures, but are subject to some variations by a margin of 10,000 to 15,000 forints./ All returns after deduction of taxes are invested /in a new workshop, machinery, a truck./ And, moreover, "the idea struck me when I was installing central heating in my house. I heat with oil; the tank is buried in the garden. I realized I should not buy it ready-made, for I could make one with a minimum of effort, using my own iron. But if it is that simple, why could I not make another tank and to get a licence to sell household heating oil? We got it. Yes, but people do not buy oil except in winter and perhaps at the end of summer. And if someone is to be sitting there anyway, he could be selling something else too. This is how the idea of trading in building materials came across my mind. We undertake procurement and delivery. The customer tells us what he wants, and we locate and deliver it in two weeks. We ask 50 % of the estimated price in advance. This comes very handy, for that sum of money can be circulated splendidly ... We have 100,000 forints invested in trading activity. Capital is circulated five times a year. Our markup is 10 %, and we do not want more ... Now I am seized with the idea of running a tavern. I have picked out a house on the outskirts of the town. Some people smiled at me, saying there was already an eating house on the opposite side, but I know what I am up to. So do many others. One of our town officials said that if this business partnership

were to issue bonds, he would buy one for 100,000 forints at once" /Interview, Labour Research Institute, in manuscript/.

Enterprises are as yet rare, although the examples I have cited are illustrative mostly of their situation. The majority of entrepreneurs feel neither compelled nor inclined to go all the way the Precision Engineering Small Cooperative or other prosperous enterprises have. /Yet the Chairman of the Small Cooperative was not born an "entrepreneur", nor does he feel himself to be one today. "I myself was completely shocked to find that I was practically a man of a fully managerial type after 13 years of research and development work, not the one who had been sitting in libraries and rummaging in literature. Once I spent a great amount of time in the Geophysical Library and the National Technical Library, studying and again studying .../

While it is an encouraging portent that enterprises do exist already and they are also instrumental in the process of more and more of flourishing business partnerships and civil-law partnerships transforming into small cooperatives, which offer wider frameworks for activity and growth, the swinging of the pendulum is as yet next to imperceptible. To illustrate the orders of magnitude, people utilizing their extra labour-power number hundreds of thousands, self-employed small-scale producers total some 100,000, and the number of entrepreneurs ranges between 100 and 200, including a few scores of artisans, business partnerships, civil-law partnerships, small cooperatives and specialized groups of cooperatives. I might even put it this way: the old and new small organizations embrace disproportionately few small-scale producers and even less entrepreneurs. This makes it perhaps needless to sum up the consequences ensuing from the non-utiliza-

tion of possibilities because of the suppressed activity of numerous small organizations: a barely widening supply of more and better and, I do not even dare to say, less expensive goods and services we all want and the reasons for our dissatisfaction despite the many benefits offered by the operation of small businesses.

Continuing hesitation

The changing ratios between the three types of economic organizations and the resultant emergence of new demand-supply patterns as well as of widening and strengthening markets created by the numerous small organizations continue to be checked by powerful forces. Without pretending to be exhaustive I shall confine myself to indicating a few, virtually commonly known, circumstances under which we barely witness any change, despite the economic policy endeavours, in comparison with the situation of 5 or 6 years ago.

The most important aspect is perhaps the official attitude to the private sector embracing the bulk of small organizations. Although daily political practice keeps emphasizing the indispensability of the private sector, it invariably does so keeping a distance by referring to its "subsidiary" or "ancillary" role. However, an interpretation according to types of ownership covers up a variety of economic roles or functions markedly differing and independent of property relations and relies on different socio-economic criteria for drawing a line of division between the large organizations of the socialist sector as well as the various forms of small organizations.

No doubt that the approach by type of ownership is responsible for maintaining to this day the differences in conditions of operation and ^{mostly in} tax rates between the state, cooperative and private sectors in respect to small organiza-

tions as well.

Under the given conditions, it is understandable that only people with particular ambitions choose to run a small organization in form of enterprise, the rest rather do not and are content with the gains derived from the utilization of their labour-power in free time. To start an enterprise these individuals and groups of them should be given clearer stimulation and encouragement in building their numerous small markets at the elementary level of economic activity, thus supplementing the market of large organizations, which is built from above. But as long as their role is looked on with hesitation and uncertainty their efforts to bring about change and move ahead will also remain uncertain, meanwhile, small-scale private activities are allotted a new and larger role by modern economies. The contemporary development of the economy has allowed a new scope for small organizations, which in turn open up new resources for the economy.

Today we are aware of what small organizations are able to do and know that they still have great possibilities to make use of. But a political will seeking a better performance of the economy is capable of ensuring that economic organizations will not only be small, but will also include a growing number of enterprises.

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