

ROLE OF THE PRIVATE AND THE INFORMAL SECTOR IN SOCIALIST ECONOMIES

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To

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to the best of my knowledge and may be placed before
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The responsibility for any error of opinion or style is mine.

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(GULSHAN SACHDEVA)

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INTRODUCTION

Nowadays dramatic changes have been occurring in the relations of production in some of the socialist economies. Economic mechanisms in all the socialist countries are not exactly the same but for theoretical understanding we generally put all the socialist countries under one umbrella. Particular countries e.g. Hungary, Poland, Soviet Union and Yugoslavia (which we are using for our research purposes) have different types of economic mechanisms but all are socialist countries.

Historically, if we see, even before the October Revolution the abolition of the private ownership of means of production was the fundamental feature of Bolshevik political programme. After the socialists came in power in all the socialist countries, the private sector of the planned economies was regarded as a 'bourgeois remnant' - that should be replaced soon by the state or collective forms of ownership. Because according to Marxist ideology capitalist exploitation is based on private property, thus private property must be abolished and replaced by public property. As Maurice Dobb says, "Socialism has primarily to do with the way that capital and land (or the means of production) are owned."¹ Under Stalinism this was the major objective of all the socialist governments. Because it

1. Maurice Dobb (1966), Argument On Socialism, London, p.39.

was expected that as a result of state ownership, production would be for use, not for profit and productivity would rise rapidly. Dobb further says that "to anticipate this and to take account of it in a structure and functioning of a planned economy, is not just wishful utopia spinning - it is indeed, a crucial article of faith of a socialist".² But Ellman comments that this crucial faith suffers from a large number of limitations. For one thing it pays inadequate attention to the costs involved in the transition from private ownership.³

Consequently, in the course of process everything could not take place exactly within the classical Marxian tradition. Nationalization of property did not take place immediately after taking the power by socialists; and the process of socialization was represented a process of transition. Even about this Brus said that the socialization of means of production is a long process on which nationalization and collectivization is only an initial step.⁴

In the initial years, the main aim of all the socialist countries was to reach pre war level of development. After that

2. Ibid., p. 56.

3. Michael Ellman (1981), "Agricultural Productivity Under Socialism", World Development, vol. 9, no. 9/10, p. 983.

4. For full analysis of socialization process under socialism see W. Brus (1975), Social Ownership and Political Systems London (Especially first two chapters).

recovery, in the period of extensive growth, all the socialist countries, by and large adopted the policy in which high rates of investment channelled into capital goods industries and adopted capital intensive techniques of production in their basic production processes. Agricultural sector in all the socialist countries had faced two contradictory components in that period of transition. The peasants attachment to their land, and the state's need to put it under state ownership. This problem was common in all countries but they could not evolve any general theory in agricultural policy during this period of transition. However, under the heavy state control and with the ideological commitments of the population, both the working class and peasantry positively contributed towards the industrialization process in extensive growth period. As a result, the standards of living of population declined for a while. Subsequently in the period of intensive growth the main objective of the socialist authorities was to increase the living standards of population. But in that period all the socialist economies faced many complex economic problems. The situation of chronic shortages was the main characteristic of all the socialist countries. Chronic shortages damage consumer welfare and buyer forced to adjust with available supply. After that the history of socialist countries contain plenty of examples of changes in the economic policy in favour

of the population made under direct pressure of social action. With the increasing complexities of socialist economic systems there was no other way for the socialist economists to reject some utopian elements of Marxist tradition. As Alec Nove said 'we never forget that perfect system exist only in books, that the real world in East and West abounds in irrationalities, misallocation, mis-employment of resources, various forms of waste. In the real world, wheather socialist or not, some intractable problems and contradictions will exist."⁵

In the reform process (which we mean for the change in socialist economic system, provided that it diminishes the role of bureaucratic coordination and increase in the role of the market) a few steps taken by regimes were really the boldest break in the orthodox Marxian ideology. The main path breaking trend of reform process in socialist countries is the growth of the private sector. It has been assumed that the private sector would be capable of, and ready to, significantly increase the range of choice of consumer goods to satisfy many sorts of demand for services, as well as to organise such activities in the

5. Alec Nove (1983), The Economics of Feasible Socialism, Allen and Unwin, London, p. 141.

sphere of both production and consumption which the traditional organizations are unable to carry out. In this way, by easing the shortages existing in the most different fields, the troubles of the economies could be diminished and the living conditions for the population could be increased. In this way the wealth of income of the population would also be rechannelled into productive instead of being spent on wasteful consumption.

The private sector now formally sanctioned and ideologically tolerated comprehends a vast and varied set of activities that is attracting ever greater attention from all sections of scholars. The size of this sector has increased rapidly when the reforms are taking place more liberally.

In recent years virtually all the East European countries have started encouraging the private sector within the limited sections of the economy. The repeated changes in policies towards the private sector, even after the major nationalizations in all East European countries, indicate that the private sector is a matter of lasting contention.

Along with this legal private sector there are many illegal economic activities which are also widespread in all the socialist countries. Quantitative comparisons are not possible but everybody knows that this informal sector or 'second

economy' exists in all the planned economies of Eastern Europe. "The survival and development of the 'second economy' is usually attributed to the shortages emerging mostly on the market of consumer goods and to deficiencies in the distribution of some scarce goods."⁶ It is one of the phenomena on which public opinion is centered in all socialist countries and a great deal of attention is currently being given to the 'second economy' usually understood as the sphere of illegal or semi-legal private economic activities.

Objectives and Scope of the Study

In the context of forgoing discussion, certain important issues are bound to arise, which the proposed research will try to trace out and examine them critically. At the present (i.e. in the 80's), when the growth rate of the socialist economies are very low, the private sector can play a very significant role to stabilize the economies. With the help of the private sector, socialist economies can keep the wheels of production turning. Up to now the area of the private and the informal sector has been poorly understood

6. I.R. Gabor (1979), "The Second (Secondary) Economy", Acta Oeconomica, vol. 22 (3-4), p. 294.

and been neglected in academic investigations apparently as a marginal phenomenon. The size of the private sector in all these countries may be small but the problem remains big indeed and it should examine not only for the sake of countries in question but for all those who want to learn from the experiences of these countries. Nowadays in all the socialist countries the posture towards the private sector is changing and many new forms emerge which blur the customarily established boundaries. Today, the majority of the economists consider that in the present context the private sector is not a retreat from the basic Marxist theory, but in purely economic terms it has been playing a role of 'built in stabilizer' in socialist economies. The private sector now is not a transitional phenomenon, but it has a permanent role in socialism. Productive activity by private individuals is a fundamental principle of 'mature socialism', so long as the commanding heights of the economy are under social ownership.

Since the private sector and the illegal economic activities are an ideologically sensitive subject for all these countries, many aspects are rarely publicised and the official sources are heavily biased against this. There is not significant official and unofficial information available about the informal sector, so our main thrust

would be on legal private sector. Although in the proposed study we would try to cover all the aspects of private sector, yet private agriculture of all the four countries would be our special focus along with trade and services. Because it has occupied a prodominate role in the overall private sector. It is precisely because of agriculture's lesser economies of scale and greater importance of diseconomies of scale that private agriculture has remained important in all these countries. In the present study with the historical experience we will try to explore future prospects of private and informal economic activities in all socialist economies.

The study has been devided in to four chapters. The first chapter deals with the Polish private sector. In this chapter an attempt has been made to analyse the role of this sector in agriculture as well as non-agricultural activities. The illegal sector of Polish economy has also taken into account.

The study of the private sector in Yugoslavia has been made in the second chapter. Since the overall Yugoslav agriculture is dominated by the private sector, so our main emphasis would be on Yugoslav agriculture. Along with that, other non-agricultural private activities has also taken into consideration. In the third chapter we have taken the case study

of both Hungarian and Soviet private and informal sector. While keeping in consideration the space constraint we have dult both these countries in the same chapter. After analyzing the mechanism of the private and the informal sector in both the economies, we have attempted to contrast the role of these activities in Hungary and Soviet Union where its role is maximum and minimum respectively. Last chapter contains the summary of the present study and put lights on the role of the private and the informal sector in socialist economies and the future prospects in an analytical way.

Methodology

Historical and analytical methods would be employed as principal tools of the proposed research. All facts related to the private and the informal sector would be empirically analyzed and effort would be made to reach certain conclusions after varification of available facts. The proposed research will make use of mainly secondary source material, because primary sources related to the proposed study are not available in English. Books and articles in English will be used as secondary source material on which a substantial part of proposed research will rely upon.

CHAPTER ONE

ROLE OF THE PRIVATE AND THE INFORMAL SECTOR IN POLAND

The recurring phenomena of economic and political crisis in the post war Poland establishes the fact that Polish economy has not been a very disciplined command economy. Among the socialist countries of Eastern Europe Poland contains particular characteristics such as a significant private sector; a wider opening to the West; isolation and unpopularity of communist leadership in the country, which is deeply catholic and traditionally anti-Russian. The scope of the present study is confined only upto the private and the informal sector of the economy, therefore in this Chapter an account of the private sector (agricultural as well as non-agricultural) and the informal sector of Polish economy will be taken into consideration. Since the peasant agriculture is predominanting in the countryside, so it would be important to deal primarily with the private agricultural sector.

Private Agriculture in Poland

Current Polish agricultural policy towards private peasants has to be considered against the background of Poland's historical experience and in the terms of specific circumstances which the economy faced in the period of collectivization and in the period of Solidarity. If we see historically, all the socialist countries had the same approach to the landlords and to the poor peasants and the

landless - abolition of feudalism and land reforms leading to the redistribution of land. In Polish agriculture in 1930 a tiny 0.6% of farm holdings (amounting to 28.2% of the agricultural land) existed as large estates, 65% of Poland's farms ranged in size from less than one acre to about 12.5 and another 32% from 12.5 to 50 acres.¹

The war brought crucial changes in the economy and change in land holdings but there was no improvement in the conditions of small peasants. At that time most unequal land distribution and largest agrarian over-population were the characteristic of the Polish economy. Under the Land Reforms Act 1944, the landlords' land was appropriated without compensation and was distributed among the farm workers, landless labourers and small peasants, at the modest price to be paid in instalments over 10 to 20 years.² Of the total agricultural area taken over pursuant to a decree of 6 September 1944 and in the Regained Territories (9.3 mn. hectares), some 6 mn. hectares were distributed among 10,70,000 families the average allotment being 5-7 hectares: slightly over 1.1 mn. hectares - under a fifth - came from estates expropriated in the 'old' territories, and were distributed among

1. Andrej Korbonski (1965), Politics of Socialist Agriculture in Poland, New York, p. 20.

2. S. Ganguli (1972), "Peasant Farms and Socialist Transformation of Agriculture in Poland 1945-75", Economic and Political Weekly, March, p. 50.

almost 40,000 families (at the average allotment of 2.75 hectares) while 4.9 mn. derived from German holdings in Regained Territories, implying that about 700,000 families each received 7 hectares.³ The result of such efforts according to a United Nations study published in 1965 was the creation of 800,000 new farms and increase in size of 280,000 others.⁴ But this reform could hardly be described as radical because land was not nationalized but given into private ownership and many large peasant holdings were still present there. But the policies of the regime were in favour of agricultural labourers, landless peasants and dwarf holders. Landless peasants and labourers got 66% of total area distributed although their percent share of recipient families was only 42%. As against this, 53% small holder families (under 5 hectares) received only 30% of the total area distributed.⁵

The land reforms in Poland created technical problems from the production point of view. Because Reforms created the fragmentation of land into small plots, thus making technical

3. W. Brus (1986), "Post War Reconstruction and Socio-Economic Transformation", in M.C. Kaser and E.A. Radice (eds.), Economic History of Eastern Europe 1919-1975, vol. 2, Oxford p. 592.

4. UN Study Group, (1965) The Social Aspects of Land Reforms and Cooperation, Geneva, p. 14.

5. W. Brus (1986) op. cit., p. 594.

progress difficult. But it was socially beneficial since it helped the peasants. Apart from state sector, no early attempts were made in Poland to induce collectivization; on the contrary, even genuine initiatives by peasants to form co-operatives, caused by shortage of buildings and agricultural equipment were barely tolerated by local authorities in order to allay any suspicion that Soviet type collective farm might be introduced.⁶ In 1945 Gomulka warned "the way to socialism is neither short nor can be shortened. It would be gross oversimplification to claim that a turn of such fundamental importance to Poland can be immediately from today to tomorrow, fully and well understood and accepted by the totality of all classes."⁷ Gomulka's advice applied with particular reference to the problem of Polish peasantry steeped into tradition and religion, land hungry and fearful of socialism which to them meant collectivization. Although Gomulka never explicitly rejected the collectivization as such, he went far in stressing those peculiarities of Poland which made its adoption in People's Democracy unacceptable. In 1946 he said "we have not the slightest need to follow in the footsteps of Soviet agrarian policy. We have rejected collectivization, because in the Polish conditions it would be harmful economically and politi-

6. Ibid., pp. 592-3.

7. Z.K. Brzezinski (1971), The Soviet Block, Unity and Conflict Harvard University Press, Cambridge, p. 342.

cally."⁸ But later ideological commitments of Poland's leaders and with increasing agrarian problems, collectivization adopted in Poland in July 1948. However, to make collectivization a success some requirement would have to be fulfilled: industry must supply enough machines, tractors, fertilizers and other inputs: the state must provide sufficient financial aid; and motivational transformation must be achieved in the minds of individual peasants.⁹ But due to lack of all these, the collectivization did not achieve its objectives. Standards of living of the working population in the year 1951-53 declined.¹⁰ In the cooperatives the majority of the members were middle peasants or even big peasants. Only a small number of poor peasants joined cooperatives. Compulsory delivery of agriculture produce also become the burden on the peasants. Supply of means of production to the farmers were not adequate. Administrative pressures on farmers produced fear and uncertainty about the future which affects investment efficiency and attitude towards work. About this Feiwel writes, "the farmers reduced the average under cultivation, restricted their production of meat, increased self-consumption and reduced marketable share of output."¹¹ In the period of collectivization

8. Ibid., p. 342.

9. S. Ganguli, op. cit., p. 50.

10. For details see Josef Pajestka (1964) "An interpretation of the first stage of Poland's Economic Development", pp. 203-228 in Elec Nove and Alfred Zuberan (eds.) Studies on the Theory of Reproduction and Prices, PWN, Warsaw.

11. G.R. Feiwel (1971), Poland's Industrialisation Policy: A Current

investment in agriculture sector was fluctuating. The lowest investment in agriculture were recorded in 1951; and in the same year investment outlays made by peasants themselves was almost negligible (see table 1.1). After 1954-55 there was an increase in both socialist and private sectors, but rate of increase in private sector was much more higher than the socialist sector.

Table 1.1

Investment Outlays in Agriculture in Poland 1950-60

Type of Property	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Total	3.3	2.1	2.9	3.3	4.1	5.8	6.0	6.3	6.8	7.4	8.1
Socialist Sector	2.1	1.8	2.1	2.6	3.2	4.2	4.5	3.6	3.6	3.9	4.5
Private Sector	1.2	0.3	0.8	0.7	0.9	1.6	1.5	2.7	3.2	3.1	3.6

Source: G.R. Feiwel (1971), Poland's Industrialization Policy: A Current Analysis, vol. I, Praeger, p. 185.

If we calculate the value of total production per hectare of agricultural land in the years 1951-53, we obtain the following picture: Individual farms produce 621.1 Zlotys, collective farms 617.3 Zlotys and state farms 393.7 Zlotys, at constant prices.¹²

12. Ganguli, op. cit., p. 51.

Immediately after Gomulka's speech to Eighth Plenum, in which he strongly criticized the practice of collectivization, four fifth of the 10,000 collective farmers were spontaneously dissolved by the members, without official approval. The breaking up of the collective farms, so labouriously built up over seven years is a matter of some seven days was a massive demonstration of their unpopularity. It made it impossible to advocate collectivization in the foreseeable future if the PZPR (Polish United Workers Party) were to retain a minimum of peasantry's good will.¹³

The causes of this failure of collectivization in Poland are complex. Adams and Adams pointed out many causes for collapse. The first thing was the attitude of the peasants, his stubborn love for his land and independence, that made resistance possible. Some operational features e.g. disorganization and incompetency of early collectives, poor mechanization and primitive character of collective farming made difficult to fulfil the promise of greater productivity. In the national scene during 1948-56 many economic, political and cultural problems clamored the immediate attention, preventing party leaders from giving thought to the needs of new agriculture.¹⁴

13. R.F. Leslie (ed.) (1980), The History of Poland Since 1963, Cambridge, p. 363.

14. For details, see Adams and Adams (1971), Men Versues System, Agriculture in the USSR, Poland and Czechoslovakia, The Free Press, New York, pp. 101-7.

About collectivization necessary decisions were put off and party policy vacillated from one unrealistic decree to the next. At one time local activists were ordered not to liquidate Kulaks but to restrict him: next, they were told to support and strengthen the middle peasant; still later they were directed to offer machine tractors supplies to the Kulak. Ultimately such conflicting and impractical instructions confused and infuriated local party workers.¹⁵

In the early 1950's agricultural policy as Feiwel said was forced, albeit, gradual collectivization drives, neglect of the agriculture sector, large size compulsory deliveries at low distinctive prices, application of non-economic instruments of pressure and coercive methods, insufficient allocation of resources for fertilizers, farm equipment, tractors and agricultural implements.¹⁶

Oscar Lange conceded the failure to attempts to socialize agriculture in Poland. The agricultural techniques adopted in the early 1950's was copy of Soviet-American type i.e., extensive farming operating in large acreage of arable land where the aim was to much lesser extent a higher yield per hectare than the saving of labour inputs. It was not recognized

15. A. Korbonski, op. cit., pp. 223, 225, 231, 234.

16. Feiwel, op. cit., p. 183.

that the circumstances in Polish agriculture were vastly different from the prevailing in the USSR and United States. To create conditions for socialist transformation in agriculture it was indispensable to provide the farmers with modern techniques of agriculture (chemicals, mechanization, electrification, motorization) only under such conditions Lange asserted, could the individual farmer recognize the necessity of new forms of working in agriculture -- a need to go beyond individual farming.¹⁷

Agricultural Policy in Poland 1956-1970

The failure of collectivization led to introduction of new agricultural policy. By the end of 1956 Poland moved furthest away from rigid economic policies. Under the impact of 20th Congress of the CPSU in Soviet Union, in which Khrushchev strongly criticized Stalin's policies of repression and workers revolt in Ponzan compelled the authorities to adopt radical reforms in the economy. Recognition of the need for peasant farming, improvement in the performance in the state farms and dissolution of the inefficient cooperatives were the main features of the 1956 agricultural policy. Till 1956 agriculture made a considerable contribution through compulsory delivery system

17. Ibid., p. 183.

which was mainly developed for industrial crops for industrialization. But after 1956 the difference between the compulsory delivery price and the market price was returned to the peasants as their collective property. Now this surplus to be invested in the agriculture itself mainly through 'agricultural development fund' which was established in 1959. That fund was handled by 'agricultural circles' of the villages and used for the purchase of the means of production, the tractors owned by these circles played significant role in raising the output of the peasants. At the end of 1967, there were 34,000 agricultural circles with 2100,000 members - including women circles. Their activities covered 84.2 percent of the villages.¹⁸

In the period of 1961-65 socialized agriculture also registered some progress, but this was not to collectivization of private farms but increase in the state farming and development of agricultural circles. By 1965 the number of those employed in state farms was 360,000, in state machinery and repair shops over 50,000 and in agricultural circles 114,000, as compared with 5 mn. estimated on some 3.5 mn. private farms.¹⁹

18. Ganguli, op. cit., p. 51.

19. W. Brus (1986), "1957 to 1965: In Search of Balanced Development", in M.C. Kaser and E.A. Radice (eds.) Economic History of Eastern Europe, 1919-1975, vol. 3, Oxford, p. 82.

Let us see the developments of different type of farms in the table given below:

Table 1.2
Percentage Distribution of Total Arable Land by Type of Farm, 1949-1968

Year (June)	Private	Collective	State owned
1949	91.4	0	8.6
1951	84.9	3.2	11.9
1953	80.4	6.7	12.9
1955	77.3	9.2	13.5
1961	86.3	1.2	12.1
1965	85.0	1.1	13.3
1968	84.5	1.2	13.8

Source:- Feiwel, op. cit., p. 609.

Table 1.2 shows the share of private farms dropped from 91.4 percent in 1949 to 77.3 percent in 1955. But after that most of the collective farms were dissolved and their share in total distribution becomes negligible. After that the policy of the socialist regime was not to direct socialize the peasants but to link them with the socialized sector. Because as the Brus said "the resistance of Polish peasants to collectivization was probably the strongest in Eastern Europe

that is why even at the peak of Stalinism there was never 10 percent of collectivized land in Poland.²⁰ Keeping in mind all these facts government did not try to reverse to collectivization drive and avoiding commitment to it. But despite all this, collective farms remained in a privileged position vis-a-vis private farms.

The 1956 policy of promoting private farms was in fact never fully reversed but gradually curbed. The issue about the agrarian policy is that, to what extent the regime was committed to supporting private farming. The leadership's attitude towards agriculture was that, private farming would have to be endured until conditions were ripe for collectivization. Hence, state was reluctant to take some steps like outright sale of tractors and machinery to private farmers because they might preserve private farming. Compulsory deliveries at below market prices were maintained throughout the period; and pressure was slowly building up land owned by old and disabled farmers to be surrendered to the state. There were virtuous statements about the socialized agriculture, therefore farmers were labouring under uncertain conditions of their position and consequently were reluctant

20. W. Brus (1980), "Lessons of the Polish Summer", Marxism Today, November, p. 8.

to invest in their holdings. Be that as it may some sort of socialization injected through 'state outlay system'. Kalecki pointed out 'Polish farmer could no longer be described as a private businessman but only as a "cattager" within the socialist system.²¹ The production increase from 1961 to 1970 was achieved through comparatively high increase in employment and higher investment i.e. labour productivity was not very high. In 1968-69, the rate of accumulation in the group 7-10 hectares was 15%, 10-15 hectares 14.6% and in the group 15 hectares and above was 12.4% of the income earned in respective groups.²² Therefore, there was inverse relationship in agriculture as far as the investment was concerned. With the above factual background we can see that policies towards fully fledged private farming were the most ideologically biased. In the 1966-70 quinquennium the hidden ingredient of pressure for socialist reconstruction was growing and was adversely affecting the conditions of production on private farms particularly the 'terms of trade' between peasants and the state and the supply in the industrial output.²³ In the second half of the 60's, the main objective of the policy

21. Feiwel, op. cit., p. 469.

22. Ganguli, op. cit., p. 54.

23. W. Brus (1986), "1966-1975 Normalization and Conflict" in M.C. Kaser and E.A. Radice (eds.), Economic History of Eastern Europe 1919-1975, vol. 3, Oxford, p. 158.

was to raise crop production especially grain production. State gave preference to crop production instead of live stock production in price policy. As a result pig production declined. Attempts by Gomulka to increase food prices in December 1970 led to riots and strikes; and there were some incidents of shooting. Poor economic performance in the late 1960's; and civil unrest in December 1970 led to a political crisis. A change in party leadership elevated Edward Geirek, First Party Secretary of the Polish United Workers Party (PUWP).²⁴

Agriculture Policy in Poland After 1970

Soon after Geirek come to power, PUWP adopted a more active policy towards agriculture; and decided on a clear change away from the autarkic economic policy of the 1960's. The theme of this policy was gradual socialization of agriculture. "The basic step forward in the process of the socialization of agriculture was taken in the declaration of the VII plenum of the PUWP and Chief Committee of UPP (United Peasants Party) from April 1971, as well as declarations of the VI Congress of the PUWP in December 1971."²⁵ Despite hostile

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24. D.M. Kemme (1987), "Productivity Growth in Polish Industry", Journal of Comparative Economics, March, p. 3. For details of the incidents see Z.A. Pelczynski (1973), "Downfall of Gomulka", Canadian Slavic Papers, 15, pp. 1-23.
25. Edward Cook (1984), "Agricultural Reform in Poland: Background and Prospects", Soviet Studies, July, p. 408.

policies towards private agriculture in Geirek era, this particular sector occupied a predominate place in Polish agriculture. This we can see from the following table:

Table 1.3

Ownership of Agricultural Land by Farm Type 1970-80
(percentage of total)

	1970	1975	1980
Private	81	79	75
Socialized	19	21	25
<u>of which</u>			
State farms	15	17	20
Collective farms	1	2	4
Agricultural Circle farms	1	1	1

Source: Edward Cook, op. cit., p. 408.

Actually during the 1970's agricultural development policy was based on the thesis that the state could successfully force the expansion of the socialized agriculture without harming the performance of private sector.²⁶ In the early years of 1970's a number of favourable actions were taken by the Gierek regime

26. Ibid., p. 406.

for private farmers. For the improvement of peasants compulsory delivery system in agriculture abolished from 1972. There were large increases in the procurement prices. Greater supplies of machinery, fertilizers, building materials and other inputs for peasant farmers assured. Free medical facilities for the farmers introduced. New regime tried to reduce direct and indirect administrative control from the peasant agriculture. The aim of the new policy was not to finance the modernisation and industrialization at the expense of private agriculture but mainly through credits from abroad. Main reason behind all these measures was rapid increases in agricultural output by increasing farmers incentives. About all these policies a CIA report submitted by Joint Economic Committee of the US Congress stated "during the early 1970's, Geirek gave greater support to private farmers by increasing purchase prices of grain and livestock, reducing land taxes, abolishing compulsory deliveries and granting private farmers national health insurance and retirement benefits. Geirek's efforts together with favourable weather helped lead to a agricultural boom."²⁷ But by the year 1973 agricultural circles became fully integrated in state bureaucracy. The state appointed the directors of the circles who were responsible for implementing

27. "Polish Agriculture Policy and Prospects" - Analyst CIA (1986), in East European Economies: Slow Growth in the 1980's, vol. 3, Joint Economic Committee Report to US Congress, Washington, D.C., p. 451.

the directives. With that large part of private farmers who were member of these circles got disappointed. With this system of management many milk cooperatives and marketing cooperatives were shut down, which could help the private farmers. Following some initial success, by the middle of 1970's agriculture policy returned to the policies that discriminated against private farmer and become more and more oriented towards ideological objectives. Credit, investment and price policy now concentrated on promoting the state sector. Geirek's policy of gradual transformation of private sector into socialized sector was well planned. Under his strategy socialist relations could be strengthened through powerful state control over agricultural services, peasant and marketing cooperatives and increasing their dependence on these. In this way in the long run socialization of land could be possible. "By 1977 the Ministry of agriculture had developed guidelines of socialization of land and passed them down to 'wojewodstwo' level. These guidelines foresaw about 44% of the agricultural land socialized by 1990 compared with 25% socially owned and 19% socially farmed at the end of 1970. According to central authorities, this socialization was to proceed without harming the productivity of the private sector. However, the impact was just the opposite.²⁸ As a result of Government policies the share of investment directed to private agriculture fell from 49% in 1966-70 to 45% in 1971-75 and just

28. Edward Cook, op. cit., p. 410.

33% in 1976-80. Over the same period, the share of investment for state farms increased from 26% to 34% and for collective farms from 3% to 13%.²⁹ Private farmers invested very little to improve their land because they believed it would ultimately be confiscated by the state either by force or after their retirement. Low incomes discouraged private farmers from more storage facilities, new farm implements and improving the quality of land.

Although in a pure centrally planned economy, money, prices etc. are used only for calculating physical commodity flows and this plays a passive role but in a modified central planning model like Poland the prices of agricultural products could play an active role to some extent. Because the state is playing the role of monopoly buyer of all major agricultural products as well as major supplier of agricultural inputs. Therefore, the influence of state agricultural price policy on private agriculture is very much important. After abolishing compulsory delivery prices since 1972, the state free purchase price has played a major role. Another type, the 'contract prices' are mostly higher than those of free market prices. In this type contracts are concluded in advance with peasants with date of delivery, quantity and quality. The period of

29. Ibid., (Table No. 2) p. 411.

1970's was a period of effective price policy. In this period a marketed rise in state purchase price and producer prices. In 1976 prices of grain increased but along with that prices of farm inputs, fertilizers and pesticides also increased. This was a setback to the modern private farmers whom were producing better quality grain even on proper soils because of the use of fertilizers, pesticides and better seed. This rise in prices create an obstacle in the way of modernisation of private sector. Actually in 1970's prices adjustment took place irregularly and were not based on any uniform criteria.

After the effectless revision of prices in 1978 there were a tremendous fall in livestock production. Overall agriculture price policy was unable to maintain its motivating effect on private farmers in the 1970's because prices and thence profit rates, were only adjusted irregularly.³⁰ Agriculture prices also determine the level of distribution of incomes in private agriculture. The effect of the price policy on peasants' income was not adverse. Polish calculations show that only in the two years during the 1970's (1978 and 1979) did price changes have a negative effect on peasant agriculture. In all the remaining years, prices exerted a positive influence on the trend of incomes of peasant farming. The studies also show that

30. Wolfgang Quaisser (1986), "Agricultural Price Policy and Peasant Agriculture in Poland", Soviet Studies, October, p. 576.

during the 1970's some 42% of the 100% rise in total income per person employed in private agriculture was attributable to the effect of price increases. There were little differences between the 5 year periods (1971-75 and 1976-80) in this respect (the figures were 39% and 44%).³¹ But the regime had failed to ensure the profitability to private farmers. In the early 1970's Geirek temporarily increased the real income of private farmers by raising procurement prices much more than input costs. Between 1970 and 1981, according to a recent study input prices for private farmers rose 128% while increasing only 58% for state farmers. In real terms private farm income increased almost 20% from 1970 to 1974 but stagnated between 1975 and 1980, dropping by 5% in 1979 and again 8% in 1980.³²

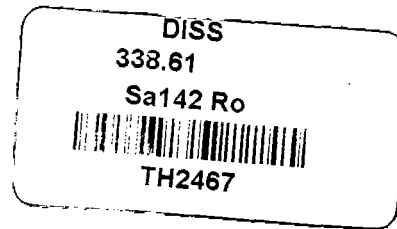
As far as network of machinery repair stations for private farmers are concerned, state failed to provide it. Without this the fullest use of fixed assets in private agriculture was impossible. Various state servicing organisations like agricultural circles cooperatives, the Technical Agricultural Services Centres and repair facilities on state farm were generally working for the socialized agriculture. "As a result

31. Ibid., p. 572.

32. Study by L.W. Institute of Financial Research, coded in C.I.A. Report (1986), op. cit., p. 454.



-: 21 :-



in 1979 private farmer relied on state repair stations for only 9% of their machinery repairs, an additional 5% were performed by rural craftsmen working with fairly basic tools. The remaining 86% of repairs performed by private farmers themselves."³³

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About this Monty Johnstone and Andreas Westpal writes, "preference was given to state farms in the supply of machinery, fertilizer and spare parts. About two thirds of investment funds, two thirds of fertilizers and one tractor for fifty acres were granted to the socialist sector whilest in the private sector there was one for every hundred acres."³⁴ The situation of other inputs was also very bad in the private sector. With the result of all this capital and labour ratio was higher in the socialized sector.

In order to get pensions farmers were required to transfer their land to state land fund; and priority was given to socialist sector to purchase these lands. As a result share of agricultural land actually farmed by socialist sector increased 19% to 25% in the period 1970-80 (see table 1.3). In that particular

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33. Edward Cook (1986), "Prospects for the Polish Agriculture in 1980's." in East European Economies: Slow Growth in the 1980's, vol. 3, Joint Economic Committee Report to US Congress, Washington, p. 481.
34. Monty Johnstone and Andreas Westpal (1982), "The Polish Crisis, Is there way out", Marxism Today, January, p. 17.

period a separate class of private farmers namely 'specialized farms' were established. The area of these farms were approximately double than average peasant farms. These type of farms got some favourable treatment because motive behind all these policies was to establish commercially viable farms. In the 1970's state always supported the notion that large scale agriculture was progressive and efficient. That was sufficient reason to support the socialist agriculture. Alongwith land policy and legal restrictions peasant's production and investment decisions also influenced by social and psychological climate which was hostile throughout the period. Therefore government failed to provide private farmers sufficient economic and political support. Despite all this neglect, net-marketed production per hectare was 14% higher in the private sector than in the socialist sector in 1971-75. Value added per hectare in the private sector was close to 13,000 zlotys, in the socialist sector it fell by more than 40% between 1971-75 and 1976-80 and averaged just 3190 zlotys in the latter period, and throughout the decade the amount of net final production per hectare in the socialized sector remained roughly 70% of the private sector.³⁵

According to a 1980 report by the Polish Academy of Sciences, private farms have much more efficient than state

35. Figures from Edward Cook (1984), op. cit., Table Nos. 6, 8 & 9, pp. 413-416.

farms. The report claims that in 1979 the private farm sector generated 0.414 zloty worth of net output per one zloty of capital stock, while the socialist sector produced only 0.166 zloty. Furthermore grain output per kilogram of mineral fertilizer sown was 5.5 kg. in private farms compared to 2.5 kg. in state farms. Energy consumption per 1000 zloty worth of final output was 22 zloty in private farming and 72 zloty in socialized sector.³⁶ This policy also creates many other problems for the economy as Fallenbuche writes "In agriculture discrimination against the relatively more efficient private sector reduced agricultural exports and made imports of grain necessary, and this contributed to balance of payment difficulties."³⁷ About the policies of 1970's Brus said in an interview in 1980 that 'collectivization should not be regarded as the only way to modernisation of agriculture and it is latter which is boldly needed in Poland. Instead of allowing and helping family farms to modernise, the 1970's have become the period of creeping PGR-isation (PGR stands for state farms in Polish). The day to day policy toward private farming fluctuated but it never created secure long term prospects indispensable for any

36. Report by Tygodnik Powszechny, No. 13, March 27, 1983; also in CIA Report (1986), op. cit., p. 455.

37. Z.M. Fallenbuche (1982), "Poland's Economic Crisis", Problems of Communism, March-April, p. 5.

serious financial and psychological commitment to modernisation.³⁸

By the end of 1970's Geirek strategy had been proven ineffective. Even before the rise of Solidarity, Polish government realized the need to keep satisfactory relations with private agriculture for the sufficient food supply. The beginning of 1980's made vigorous criticism of past agriculture policy. After the formation of Solidarity farmer groups began demanding a change in agrarian policies with the increasing pressure from the peasants. Polish government agreed on an extensive list of agricultural reforms. On 18 February 1981 an agreement popularly known as 'Rzeszow Agreement'³⁹ was signed. In this agreement private agriculture received legal guarantee of right of ownership and accepted the private peasant as lasting an equal parts of the economy. Private farmer received priority in purchasing land from state land fund. Legal limitations on land sales simplified. Some conditions for agriculture credit for all sectors guaranteed. Increased share of investment for private farmers, stress on

38. W. Brus (1980), op. cit., p. 8.

39. For text of 'Rzeszow Agreement' See Peter Raina (1985), Poland 1981, Towards Social Renewal, Allen and Unwin, London, pp. 59-67.

the production of small machinery and adequate supply of spare parts for peasants assured. Increased profitability with favourable prices and more favourable pensions system promised. More educational and religious freedom for peasants guaranteed. All these points were a major break in the agricultural policies of 1970's and as a whole very much useful for private farmers. 'In March 1981, 3 major private farmer groups Rural Solidarity, Peasant Solidarity and Agricultural Producers Solidarity merge to form 'Private Farmer Solidarity' with Jon Kulaj as its Chairman.'⁴⁰ Later in May 1981 Supreme Court registered Private Farmer Solidarity. In the same year for the permanent status of private farmers, government did a constitutional amendment. It stated that Polish People's Republic:

"Protects private family farm of working peasants, guarantees the permanence of such farms, gives them assistance in increasing production and raising the agro-technical level of production, supports the development of agricultural self-management, particularly the agricultural circles and cooperatives, supports the development of cooperation and production specialization, and broadens the ties between private farms and the socialist economy."⁴¹

40. Edward Cook (1984), op. cit., p. 418.

41. Ibid., p. 419.

But here the wording of "peasants as the permanent element of the economy" has not mentioned which again creates fears in the minds of peasants. But overall result of this agreement was very much positive. After that with increasing interest of private farmers in agriculture, the use of fertilizers and share of investment in private farms increased substantially and in state farms its share declined as given in table below.

Table 1.4

Share of Investment in Agriculture by Farm Type
1978-82 (Annual)

	1978	1979	1980	1981	1982
Private farms	31.2	32.1	36.5	48.0	59.2
State farms	34.7	34.8	33.8	25.6	20.2

Source : Edward Cook (1986), op. cit., p. 475.

In 1980's under new agricultural price policy state guaranteed higher profitability for farmers and adjustments with the rise in prices. State adjusted prices in favour of crop production because due to bad balance of payment situation imports of grain was not possible. In the beginning of 1980's relationship between purchase indices and farm inputs prices moved in favour of peasant agriculture. If we see the price

ratio between prices paid and prices received by farmers from 1970 to 1984 then we will find that in whole Geirek era (except 1978 and 1979) this ratio was against the farmers but after 1981 it is favourable to farmers.⁴²

Despite all these achievements even in the eighties state remained politically committed with the socialized sector. This commitment means continued privileged treatment of this sector though not the extent of seventies. Even after improved operating conditions for private farmers doubts remains about the long term preferences of the government.

Even after the unfavourable treatment the performance of the private agriculture in Poland in the post war period is better than socialized sector. A detailed study by Brada reports the coefficients of variables of output, yield and seeded area for Polish state, collective and private farms for the years from 1960 to 1982. An analysis of the coefficients in harvest of an acreage sown to individual crops than do private farms. Thus for example in the case of wheat state farms have a significantly higher variability in acreage sown than either collective or private farms and a higher coefficient of variation in yields than private farms. For other crops either collective

42. For detailed figures see W. Quaisser, op. cit., Table 1, p. 579.

or state farms or both existing greater variability in the allotment of land to individual crops than do private farms.⁴³

On the basis of what has been analysed regarding the agricultural policies of the Polish government towards private peasants and the performance of the private agriculture since fifties, we can say that private agriculture in Poland is working very successfully even under hostile conditions and socialist sector was unable to compete with it. After 1981 due to better performance and favourable treatment, the area under private agriculture is increasing with a very moderate rate. But the question of long term permanent status of private agriculture in Poland is very much in doubt, because every decision that had taken by Polish regime about private agriculture was the decision taken under the situation of chaos.

Non-Agricultural Private Sector in Poland

In the non-agricultural private sector the dominance of the private sector is not the same as in agriculture sector. But still its role in the non-agricultural sector is not

43. For details see J.C. Brada (1986), "The Variability of Crop Production in Private and Socialized Agriculture, Evidence from Eastern Europe". Journal of Political Economy, June, Table 4, p. 557.

insignificant. This sector has been facing many positive and negative policies towards itself from the beginning. Since statistics on the number of enterprises are not available, let us take the nearest physical measurement, employment which represent the development of the non-agricultural private sector. The table 1.5 gives the complete picture of updowns in the employment in the non-agricultural private sector in Poland. With these figures one can find the different attitudes of the policy makers towards this sector. "A major nationalization law was enacted on 3 January 1946. Seventeen important branches of industry and all industrial enterprises employing more than 50 people in one shift were nationalized."⁴⁴ In the law the compensation was endorsed, but hardly any was distributed. Communist grip on state power strengthened after 1947 elections. Previously leaders were not totally against the urban private sector but slowly they tried to win the 'battle over trade' after the battle over production.

The period of Stalinism (1949-56) had clear aims of ruthless and rapid suppression of all private activities. In this period currency reforms and tax reforms play major role to eliminate the private sector. But even in that period the importance of this sector realized. Party Chairman Bierut could not refuse for the help and care of the private sector.

A. Aslund (1984), "The Functioning of Private Enterprise in Poland", Soviet Studies, July, p. 429.

Table 1.5

Private Employment in Non-Agricultural Sector in Poland 1949-1982

Year	Total in (Thous- ands)	in which (%)							% of the total non- agricultural Employment
		Industry	Constru- ction	Goods Trans- port	Trade	Housing and Commu- nity services	Hairdressing photography services	Others	
1949	483	52	3	1	26	3	3	12	(11.6)
1955	221	48	4	1	9	8	4	26	(3.6)
1957	333	50	6	3	13	7	4	17	(5.0)
1960	335	48	8	3	10	8	4	19	(4.8)
1970	442	46	16	2	6	9	4	17	(4.4)
1980	602	45	17	2	8	12	3	13	(4.9)
1982	699	47	16	2	8	13	3	11	(5.9)

Source: Figures calculated from A Aslund (1985), Private Enterprise in Eastern Europe, The Non-Agricultural Private Sector in Poland and GDR 1945-83, Mcmillan, London, pp.230-31.

After the reversal in power Gomulka only criticized the period after the battle when he was not in office. This period was slightly fevrish revival of private enterprise. Because there was criticism against market imbalances, declining quality and the wastage of resources caused by mounting stocks of unsaleable goods, industrial stoppages and growing indifferences towards work. Foreign trade was another important concern. The generally acknowledged causes were excessive centralisation, bureaucratisation and over emphasis on heavy industry and accumulation due to dogmatism.⁴⁵

With the elimination of small scale production, living standards of the population was deteriorating. Actually to improve the living standards of population and to create employment the private sector was necessary. This could also help to utilise free resources and to develop the backward regions. Oscar Lange and Lipinski give economic reasons for the existence of the private sector. Lipinski stated that the necessity of the existence of handicrafts, small private industry and trade arises from our economic underdevelopment.⁴⁶

After 1956 government gives immediate liberalization in licencing, taxation and price regulation. But soon there

45. Aslund (1985), op. cit., p. 48.

46. Ibid., p. 48.

was sharp criticism against the private sector because it was engaged in many types of irregularities. But the criticism was specially faused on private trade. It was creating excessive illegal incomes and it competed with the socialized sector. But overall 1958-64 was the period of most stable policy on private enterprise. Although in 1965 Gomulka stated at the congress of the Democratic Party that handicrafts have a permanent (trwale) place in the socialist economy;⁴⁷ yet he could not consider that there was a change, but a continuation of the policy hitherto.

The attitude of the government even after change in power from Gomulka to Geirek, was the same. In fact Geirek was struggling for his own survival, so his administration had no time to think about such marginal fields. In his early policies he even ignored the non-agricultural private sector. Till 1976 there was no great change in the policies. In January 1976 in the Congress he promised favourable conditions for private crafts, services and retail trade. He assert 'we favour lending the help and protection of the state to every tradesman who plies his trade well and who honestly fulfils his duty towards society.'⁴⁸ After 1976 the whole urban private sector was under government support and many other

47. Aslund (1984), op. cit., p. 430.

48. Aslund (1985), op. cit., p. 92.

private branches other than handicrafts grew more rapidly than before. In the Solidarity movement, 'Artisans Solidarity' and 'Private Drivers Solidarity' were set by entrepreneurs and became a part of Solidarity movement. In its programme, adopted by Solidarity Congress in Gdansk in October 1981, Solidarity demanded the abolition of prevailing restrictions on the activities of the private entrepreneurs.⁴⁹ Stable conditions and same rights as other entrepreneurs demanded. Members demanded either privatization or self-management of the small and medium size entrepreneurs.

After 1981 attitude of the regime grew more positive towards private enterprise, but the 1983 tax reform was a serious blow to them. After that no major change in the policy has come and private enterprises are working under same conditions for many years.

Private enterprises has always been dominated by handicrafts. The number of handicrafts enterprises increased from 98 thousand in 1945 to 164 thousand in 1970 and 265 thousands in 1982 and total handicrafts employment (including apprentices) increased 245 thousands in 1945 to 548 thousands in 1982. As against this total members and employment in private industry decreased throughout the period. The total

49. Ibid., p. 113.

number of enterprises which was 22 thousands in 1945 decreased 8 thousands in 1971 and employment in private industry decreased from 184 thousands to 28 thousands during the same period. Total sales of the handicrafts were 214 billion zlotys in 1982 of which 96 billion zlotys were services. Out of total sales of handicrafts 62 and 152 billion zlotys of the sales to the socialized sector and to the population respectively.⁵⁰ Until 1980 private shops were allowed to trade only in flowers, vegetables, fruits and fancy goods i.e. where both producers and consumers were private individuals. But after that many other fields where socialist sector was not working efficiently, private activities encouraged by state. Many fields where private initiatives were needed e.g. tourism etc. the private sector allowed by regime. As a result 97% of all taxes were in private hands in 1981.⁵¹ In the non-agricultural private sector, number and revenue of private tax payers liable to income and turn over taxes is increasing substantially. It means that incomes of the people engaged in these activities are increasing. The total number of private tax payers was 189,000 in 1950, in which 108,000 came from handicrafts, 43,000 from trade, 17,000 from services and 21,000 from other

50. figures from Aslund (1985), op. cit., Table A2 pp. 232-3, Table A-3, p. 234, Table A-4, p. 235.

51. Aslund (1984), op. cit., p. 430.

activities. Their number declined to 155,000 in 1955, but after that it is increasing rapidly. In the year 1982 the total number of taxpayers were 357,000 in which 187,000 from handicrafts, 97,000 from services, 29,000 from trade and 44,000 came from other activities. The revenue collected from these taxpayers in the year 1982 was 19639 million zlotys in which the largest share i.e. 13963 million zlotys came from handicrafts.⁵²

Incomes of the private enterprises and wages are much higher in private sector than the socialized sector. In handicrafts even thousands of enterprises have more than one million zlotys turnover per year. Monthly average of the self employed persons are more than twice the socialized sector. This we can see from the table 1.6.

This is the impact of the higher incomes in the private sector that most of the workers are influenced by the working of the private sector. Recent research of two big Polish factories by Prof. Pavel Bozyk and Marian Guzak varified this fact. Three quarters of the workers interviewed were in favour of replacing state property with a new forms of ownership and over half accepted the idea of selling shares to their enterprises to all Poles.⁵³

52. All figures taken from Aslund (1985), op. cit., Table A-7, A-8, p. 239.

53. Coded in "Privitizing Marx (1988), The Economist, January 30, p. 11.

Table 1.6

Average Net Income of Self-Employed in Poland 1960-82

Year	Total Net Income of Entrepreneurs (billion zlotys)	No. of Self Employed (thousands)	Monthly Averages (Zlotys)	Ratio to wage in Socialist sector (percentage)
1960	9.5	218	3630	233
1965	12.3	216	4750	254
1970	16.1	266	5040	226
1975	21.4	287	6210	164
1980	45.6	373	10180	176
1982	117.2	441	22150	199

Source:- Aslund (1985), op. cit., p. 242.

The above discussion shows that although in Polish economy the share of non-agricultural private activities are marginal, yet no one can deny the importance of these activities. Actually shortages of consumer goods and services has been the very reason for liberalisation towards private enterprises since the late 70's. But the government is reluctant to take more liberal steps because already with the help of this sector income inequalities are increasing in the economy.

Informal (Illegal) Sector in Polish Economy

Generally people observe that due to systemic differences, economic mechanisms of socialist type are free from informal sector. But in the Polish economy this particular sector plays a very important role in certain branches of the economy. In this sector all productive, commercial and financial activities are included which worked in order to obtain monetary income but are not registered with state statistics. This sector in Poland generally belong all transactions that are not included in the formal private sector, but state sector may also be connected with this sector. This link with the state sector is important because it has continuous source of supply of raw material, manpower and final goods to informal sector. The scope of the informal sector depends on the economic mechanism. If the economic mechanism is efficient than the scope of informal sector is very limited. A few studies are available about the Polish informal sector, which indicates the importance of this sector in the economy.

In the Stalinist period there were monotonous production and many items were under short supply in the small scale socialist sector. So conditions were ideal for this sector. It is impossible at any time to access the size of underground economy. But there is one point agreement among economists

that Polish underground economy was never as large as during the Stalinist period.

After 1956 its scope diminished and until the 1970's it remained smaller than the command period. But in the Gierek era conditions for informal sector again developed. Market imbalances were growing quickly. Supply of the informal sector facilitated by diminished control in non trade activities. In construction the scope of the informal sector was much larger than any other sector. In the 1980's the sale of meat on peasant markets has been allowed in some parts of the country. Since then considerable quantities of meat are sold illegally during supply crisis, therefore, in these parts black market prices exists with state toleration.

Recently a seminal work about this sector has come by Martin Wisniewski.⁵⁴ He accepted that the redistribution of income in the secondary flow, resulting from the operation of the multiplier, is off set by unobserved stream of the first type of unsatisfied demand. The second economy is taken as serving only the inflationary gap (i.e. the difference between the flow of personal incomes and the flow of goods and services

54. Martin Wisniewski (1986), "The Economy and Its Shadow", East European Economics, Summer, pp. 29-39.

during a certain period) and inflationary overhang (i.e. the accumulated sum of the past inflationary gaps, or the accumulated cash balance in the hands of the population). For his analysis he assumes the following assumptions: (1) $1/3$ of the inflationary gap creates the unsatisfied demand that creates second economy i.e. ($a=1/3$); (2) $1/4$ of the inflationary overhang creates the unsatisfied demand that enters the second market i.e. ($n = 1/4$); (3) the value of price multiplier is $k = 1.75$.

With these assumptions he concludes the following result for the years 1982-84.

Table 1.7

Items	<u>Primary and Secondary Flow of Income in Poland</u>		
	(billion zlotys)		
<u>Primary flow</u>	1982	1983	1984
1. Nominal disposable income (y)	3210	3980	4490
2. Deliveries of goods and services for the population (c)	2815	3690	4240
3. Inflationary gap ($L = y - c$)	395	290	450
4. Inflationary Overhang (NI)	320	490	630
<u>Secondary flow</u>			
5. Primary flow of unsatisfied demand in the second market ($P = aL + nNI$; $a = 1/3$, $n=1/4$)	210	220	245
6. Income created in the second economy ($D = KP$, $K = 1.75$)	370	385	430

Note: According to generally accepted estimate, the inflationary overhang was 320 bn. zlotys at the end of 1981 and it was going by half of the inflationary gap in subsequent years.

Source: Martin Wisniewski, op. cit., p. 36.

It is clear from the table 1.7 that money circulated in the year 1982 was 1/9 and in 1983 and 1984 it was 1/10. These are not exact figures but only estimates because one can only estimate about the informal sector. More studies about this sector are not available because of the reluctance of regime and biased official information. But with the coming informations, it is clear that in any particular year it can vary, but it is not less than 7 or 8 percent at any time.

On the basis of what has been expounded in the present chapter, one can evaluate that private activities in the Polish agriculture are very much influential and have some striking role in handicrafts and services. The opportunities for illegal economic activities are also very high because since last 15 years Polish economy has been facing various crisis one after another. After 1981 share of the private agriculture is more or less stable but in non-agricultural sphere it is going beyond the conventional sectors (catering, handicrafts, services) to manufacturing (bricks, sport equipments, clothing) even to high technology (computers and soft wares).

CHAPTER TWO

ROLE OF THE PRIVATE SECTOR IN YUGOSLAVIA WITH SPECIAL
REFERENCE TO AGRICULTURE

Private Sector in Yugoslavia: A General Overview

The economy of Yugoslavia has been a subject of great debate since 1953 due to her peculiar economic mechanism of self management. It is a country with wide disparities in income productivity, in terms of its cultural aspects, in northern and southern parts and serious divisions between its different nationalities. With all these natural, cultural and economic varieties within its borders, Yugoslavia differs markedly from the other countries of Europe. Judging from the policy documents of the past three decades it can be deduced that "the long term development programme of the Yugoslav economic system was founded on a theoretically unexpected and historically necessary amalgamation of market economy and socialist self-management. This gives rise to the creation of historically novel type of system. Such an orientation was not accidental, rather it was based on knowledge acquired through experience."¹ Without ignoring the objectives of rapid industrialization, Yugoslavia embarked in the same period upon the path of institutional development entirely different from strict centralization of other East European countries. The multinational and federal structure of Yugoslavia makes a somewhat special case particularly prone to decentralization. "Relative to other East European

1. Alexander M. Vacic (1986-87), "Why the Development of Yugoslavia Deviated from Socialist Self-Management Market Economy", East European Economics, Winter, p. 3.

countries, the Yugoslav economic system is quite interesting study of (the economics of) socialism. Yugoslav institutions are supposed to simulate production efficiency of capitalism while perserving the socialist character of the economy."² The socialist sector in Yugoslavia was formed under different conditions from that of those in Soviet Union and other East European Countries. Here the socialist sector was created concurrently with the confiscation of the enemy property in the war. Thus the socialist revolution to a large extent took place under mentle of action against a national enemy. There was no blockade of Yugoslavia by capitalist countries and no civil war after the revolution. On the contrary Yugoslavia was given aid by United Nations, IMF and many countries of Europe. The formation of the state sector developed much faster than in the Soviet Union and the process was comparatively less costly in human lives. In 1946, that is only one year after the revolution 82% of industries including mining was in the hands of state.³

All the People's Democracies of Eastern Europe brought the phase of Stalinism only by stages. But in Yugoslavia under

2. Steve Pejovich (1987), "Freedom, Property Right and Innovation in Socialism", Kyklos, vol. 40, Fasc 4, p. 461.

3. For details see Rudolf Bicanic (1973), Economic Policy in Socialist Yugoslavia, Cambridge, pp. 29-30.

the genuine popular front government, Stalinism had come from the moment of victory, with the only exception of peasants. After the Communist Party seized the power in 1945 the formation of socialist owned property was considered the most important action in the building of socialism. For nationalization of property the plan of action was worked out even during the liberation struggle. In the programme of the Communist Party of Yugoslavia transfer of property was considered the main factor in building socialism. Therefore, the transfer of property was not for any short term economic proposition but it was an ideological postulate of its socialist revolution. Even before the liberation, in Yugoslavia there had been state ownership of railways, roads, great areas of forests, many coal mines, sugar refineries and number of big banks existed under strong public property sector.

After liberation under nationalization process in Yugoslavia banks and other financial institutions came first. After that big industrial and mining enterprises came under state control which followed by means of transport, commercial services and last of all agriculture. Local and small industries came after three years of the liberation. The forms by which transfer of private property to the state took place were : sequestration, land reform, nationalization, confiscation, expropriation and gifts.⁴

4. Ibid., pp. 25-28.

Despite of all these efforts of nationalization, due to her unique economic mechanism, private sector has been playing a dominant role in the economy of Yugoslavia. About the uniqueness of the Yugoslav economic system Brus writes, "the changes in the economic mechanism have never been conceived in Yugoslavia as simply an economic reform, but always a part of grand scenario of constructing a self managed socialist society distinct from the state socialism of Soviet Union and People's Democracies."⁵

Yugoslavia have moved further along the road to market socialism than the rest of the East Europe and the Soviet Union. It is of the some interest to note that in attempting these tasks Yugoslavia has been able to win for itself much greater flexibility in policy making than any other country of East Europe. Because under the leadership of Marshall Tito, Yugoslavia was able to adapt the Soviet model of economy due to the particular needs of the country.⁶ Tito's major departure from the Soviet model of development was that he allowed and encouraged the survival of the private sector within the socialist economy. The

5. W. Brus (1986), "1950 to 1953: The Peak of Stalinism" in M.C. Kaser and E.A. Radice (eds.), Economic History of Eastern Europe 1919-1975, vol. 3, Oxford, p. 21.

6. Andrew H. Dawson (ed.), (1987), Planning in Eastern Europe, Croom Helm, London, p. 280.

abandonment of forced collectivization of agriculture in 1953 was the first step and later in 1970's private cooperatives in non-agricultural sector using private capital encouraged.

Like any other socialist country since 1945 in Yugoslavia, the commanding heights are under the state control but the private sector still has an important role to play. The private sector plays its role both independently and with the partnership with the public sector. But it does not threaten the socialist basis and the system of self management in the economy. In the social sector the assets are socially owned and there is self-management and in the private sector people work with their own assets and many employed a limited number of other workers. The scope of the private sector in People's Democracy is increasing. State tolerates the private sector even beyond agriculture and retail distribution of food. Article 64 of the 1974 constitution states:

"The freedom of independent personnel labour with means of labour in citizens' ownership shall be guaranteed. Conditions for performing activities with independent personal labour, with means of labour in citizens ownership and property rights to these means of labour and business premises used for the performance of activities with independent personal labour shall be regulated

by statute."⁷

Article 65 also opined the way to form profit sharing cooperatives. It states:

"Working people who independently perform activities with their own personal labour and privately owned resources may form a cooperative and in it, in accordance with the principles of equality, pool their labour and means of labour at jointly dispose of income earned by cooperatives"⁸

Article 67 permits the establishment of contractual organizations of associated labour. This is also a private enterprise working under legal restrictions.

In Yugoslavia privately owned farms, small industrial and trading enterprises provide employment for hundreds of thousands of workers. Lydall calculates that nearly 40% of the Yugoslav active workforce is still employed in the private sector (if the hours worked by 'moonlighters' were also included the figure might well be about 50%).⁹ He observed that the Yugoslav economy is divided into a social and private sector

7. The Constitution of the Socialist Federal Republic of Yugoslavia (1976), Cross Cultural Communications, Merrick, N.Y., p. 49.

8. ibid., p. 50.

9 Herold Lydall (1984), Yugoslav Socialism: Theory and Practice Clarendon Press, Oxford, p.92.

and simultaneously into the productive and non productive sector. He estimated the workforce in the different sectors as follows:

Table 2.1

Estimates of Numbers Engaged in Four Sub-Sectors of the Yugoslav Economy, 1980 (thousands, % in brackets)

	Productive Sector	Non-Productive Sector	Total
Social Sector	4826 (58%)	972 (82%)	5798 (61%)
Private Sector	3503 (42%) ^a	200 (18%) ^b	3703 (39%)
Total	8329 (100%)	1172 (100%)	9501 (100%)

a -- including working properties, family workers and paid employees. Excluding part time student workers, cover farms, road transport, catering and artisans, but apparently not shopkeepers.

b -- intended to cover shops, private services (such as hairdressers) and self employed professional workers such as doctors, lawyers who do repair and other jobs are included in the social sector where they are officially employed, although they may in some cases earn more from moonlighting than from the official jobs.

Source:- H. Lydall, op. cit., p. 93.

From the beginning the policies of the government regarding the private sector has been well regulated and every decision taken by the state was well planned. At any time the Government of Yugoslavia never feared about the existence of

the large private sector. They allowed the private sector to the extent, which they needed. Even after 8 years of Communist rule three out of four workers were in the private sector. Even as late in 1970 half of the workforce was in the private sector, and in 1980 there were still more than one-third of the active force was in the private sector. In Yugoslavia the size of this sector is declining over the years in a well ordered way without creating any contradiction in the economy. This we can see from the following table.

Table 2.2
The Size of the Private Sector in Yugoslavia
Percentage in Private Sector

Year	Active Work Force	Gross Material Product at Market Prices
1953	74.8	36.9
1958	65.1	31.6
1960	60.1	24.3
1965	53.1	21.5
1970	49.7	18.4
1975	41.2	15.3
1980	34.1	12.2

Source:- H. Lydall, op. cit., p. 268.

In this whole private sector agriculture has the largest component. To review the peasant agriculture it is very much necessary to analyse the overall agricultural policies of Yugoslav Government which affected the private agriculture in a big way. Therefore let us see at first glance the total picture of Yugoslav agriculture.

The Strategy of Agricultural Development in Yugoslavia

Farming in Yugoslavia is along with the socialist sector of agriculture carried out by large number of peasant farmers those are becoming increasingly important producers for the market. These producers are essentially profit maximizing family farms operating in a market environment. Their production is promoted by measures of economic activity, self managing organisations and association of farmers on a voluntary basis and with full respect of their economic interest. The development of private farmers can be properly analysed only within the broader context of socio-economic development of socialist Yugoslavia over the last four decades and against the background of economic and social conditions came from the pre World War II period.

The state created in 1918 was agrarian to a high degree and its agriculture was already dominated by small owner-operated peasant farms, thus the scope for land reform was limited. The reform initiated in 1919 did not touch many areas

of the country. The 1919 law was slow to be implemented and reform was not concluded until the 1930's. All told, the reform of the 1920's and 1930's transferred ownership of almost 2.5 million hectares (nearly 1/4 of the farm land according to 1931 census of agriculture) of which half was in Bosnia-Hercegovina, 1/4 in the south and 1/4 in the north. Over 600,000 peasants benefitted (out of 2 million in 1931).¹⁰ Upto 1940 the number of holdings particularly small holdings increased as a result of the slow growth of economic development.

After liberation socialist Yugoslavia inherited a polarized peasantry. Poor peasants, with holding upto two hectares, accounted for a third of all agricultural holdings, but they possessed only 6.5 percent of total agricultural land. The size of the holdings averaged one hectare. On the other hand there were rich farmers and land owners with holding exceeding 20 hectares. Although these accounted for only 3.1% of the holdings, they possessed 23% of agricultural land. The average size of their holdings was 44 hectares.¹¹

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10. Folke Dovering (1970), "Land Reform in Yugoslavia", Agency for International Development, Spring Review, June, p. 1.
 11. Vladimir Stepetic (1985), "Agricultural Production 1945-1984", Yugoslav Survey, November, p. 48.

In accordance with the aspirations of the working peasantry as early as August 1945 the popular government promulgated a law on agrarian reform and resettlement. The guiding principle of the new government was that land shall belong to person working it. In other words land should be taken away from those using it as a means of exploiting labour of others. The maximum ceiling for individual holding in private ownership was 25 to 35 hectares, the maximum varying with regions. Whereas non farming households were allowed at the most 3 to 5 hectares. All land exceeding to this land was placed into fund for allocation to other users. Total 1566000 hectares of land allocated under the agrarian reform and resettlement programme. Most of land came from confiscated estates of German landlords and members of German national minority or 40.7% of the total and 30.5% was for the estates confiscated from private owners, banks, religious institutions stock companies etc.¹² Except some exceptional cases land was taken without any compensation. In the allocation of land priority was given to landless agricultural workers and to those with small holdings, particularly peasants who had fought in the national liberation war, victims of enemy terror etc.

12. Figures from Arifon Usepjanov (1974), "Yugoslav Agriculture From 1945 to 1956", in Evo Kustvak (ed.), The Development of Socialist Agriculture in Yugoslavia, Belgrade, p. 33.

In the resettlement process the favourable treatment towards small holders was not so high as comparative to other East European countries. But as usual this was very much favourable to landless labourers. Small farmers (under 5 hectares) got only 40% of the area distributed to peasants although their percent share in recipient families was 46%. As against this landless (including labourers) got 60% of area with their share in recipient families was only 54%.¹³ The redistribution of land from the land fund was as follows:

Table 2.3

Distribution of Land from Land Fund in Yugoslavia

Individual peasant farm	--	797,400 ha.	or 50.9%	of total
State agricultural estates	--	287,700 ha.	or 18.4%	of total
Farmer's Cooperatives	--	41,000 ha.	or 2.6%	of total
State run enterprises etc.	--	39,700 ha.	or 2.5%	of total
Medical and other institutions	--	20,100 ha.	or 1.3%	of total
Forestry institutions	--	380,300 ha.	or 24.3%	of total

Source : Arifon Usepjanov, op. cit., p. 34.

Immediately after the liberation and after settlement carried out in the period 1947 to 1952, in similar ways as

13. W. Brus (1986), "Post War Reconstruction and Socio-Economic Transformation", in M.C. Kaser and E.A. Radice (eds.), Economic History of Eastern Europe 1919-1975, vol. 2, Oxford, Table 22.9, p. 594.

elsewhere in Eastern Europe, agrarian policy aimed at collectivizing Yugoslav agriculture in order to prove its ideological faithfulness. Peasants were associated in collective production to achieve greater yields and bigger output on tiny plots. It was believed that cooperatives would lead to a considerable increase in agricultural production and would solve the existing difficulties in production. On the basis of the experience of the Soviet Union and favourable initial results achieved by first producer cooperative a drive was launched for mass formation of such cooperatives. Specially after the good harvest of 1949, a campaign for collectivization was initiated and there was a sort of 'socialist competition' among local authorities to record the highest degree of collectivization in districts. At the end of 1948, 4263 and at the high tide of collectivization in 1950, 6626 covering the 250,000 hectares or about 17% of Yugoslav's cultivable land.¹⁴ Cooperatives were formed both in areas where suitable conditions existed as well as those where they did not. The kind of simple aggregation of agricultural land reached a peak in 1951-52. In the year of 1952, 37% (18% of state farms and 19% in collectives) of arable land were under socialized agricul-

14. Duncan Wilson (1979), Tito's Yugoslavia, Cambridge University Press, p. 69.

ture.¹⁵ But the simple integration of labour could not achieved any anticipated results. Immediately however, the result of new collectivization drive were disastrous. Many newly formed organisations could not receive new modern means of production. They were reduced to the primitive form of production and had a negative impact on yields. The peasants lost material incentives which could not be recompense by the land unification or as Edward Kardelji stated, "the mere pooling of peasant holdings without the introduction of new agricultural technology reduced these cooperatives to the primitive form of simple cooperation work which under our conditions necessarily yielded negative results."¹⁶ The collectivization drive not only did not yield the expected results but due to lack of interest of peasants actually resulted in a decline in production.

A resolution of the Federal National Assembly on the promotion of agriculture and the system of cooperatives laconically states that the impact to develop a large scale of social and modern production on previously conceived principles

15. W. Brus (1986), "1950 to 1953: The Peak of Stalinism", in M.C. Kaser and E.A. Radice (eds.) Economic History of Eastern Europe 1919-1975, vol. 3, Oxford, Table 23.2, p. 9.

16. Vladimir Stepetic (1985), op. cit., p. 49.

by organizing peasant producer's had failed to yield positive results under our conditions. The producers cooperatives in practice proved, over a short period of time to have a negative effect in our country. The producer's loss in interest and the degradation of production. Dr. Slavko Komar, secretary for agriculture, therefore observed that "no one today or in future counts on a solution in that form."¹⁷ With the unsuccessful economic conditions of peasant producer's cooperatives, in 1953 government recognised the fact and gradually dissolved. The extent of which the policy of collectivization motivated ideologically and could become burdon was shown by Yugoslavia where it was abandoned for both political and economic considerations. By 1954 the share of arable land held by collective farms fell to a mere 3 percent. The widespread self disbandment of producer's cooperatives was undoubtedly an expression of peasant's freedom of choice when pressure were lifted.¹⁸

After the situation of 1952 government rejected the previous concept of development. But until 1956 there was no single clear cut policy for agriculture. In the period of 1946-55 there was very slow growth in agricultural production

17. Vladimir Stepetic (1982), "The Development of Peasant Economy in Yugoslavia", East European Economics, Spring-Summer, p. 176.

18. W. Brus, op. cit., p. 11.

and the problems in agriculture development caused many difficulties for the food production. In the meantime indepth analysis were carried out of local and foreign experiences of agriculture development. On the basis of domestic experience gained in the period of 1953-56 and the experiences of other third world countries, in 1957 the Federal National Assembly brought in a resolution on the prospective development of agriculture and the system of cooperatives. In the new programme a new concept of socialization of Yugoslav agriculture was worked out. This document was the basis for the policy for the future which was later supplemented by various programme documents.

The new relevant tasks were defined in the programme of League of Communist in Yugoslavia (1959) and ninth plenary session of the socialist working people of Yugoslavia (1959). The same type of objectives for the agriculture we can find in conclusions of the fourth Plenum of the Central Committee of the LCY (1964) and in the conclusions of the Executive Committee of the Central of the LCY on current socio-economic and political questions related to the development of agriculture and the villages (1966). The foundations of the new agricultural policy can be summarized as follows:

- Faster introduction of new agricultural technology.

- Strengthening socially owned holdings to establish large scale and profitable production units as the basis for the faster development of agriculture.
- Developing and strengthening the system of cooperatives and concentrating to ensure faster development of agriculture on private holdings also.¹⁹

Another reason for the introduction of new agricultural policy was the migration. Because in the initial periods forced industrialization of the country and insufficient employment opportunities on small holdings led to rapid migration by rural population into town and industry. In Yugoslavia social distribution of labour ran within the framework of small settlements and workers sought employment in non-agricultural economic activities but remained resident of agricultural holdings and this phenomenon of leaving agriculture as their main occupation but retaining agriculture holdings created many difficulties in the development of agricultural production. An intensive process of migration and other changes were recorded in the period from 1948 to 1971. "According to expert estimates, a total 5.5 mn. people approximately or about 240,000 people annually moved from country to town, from agriculture to non-agricultural sections

19. Vladimir Stepetic (1985), op. cit., p. 49.

of activity during this period. The total number of migration is equal to about 73% of the total agrarian population of the same year.²⁰

In the new policy Yugoslavia is deviated from the compulsory collectivization to gradual socialization due to economic unrationality and resistance of the peasants. This gradual phenomenon is not forcefully but voluntariness and respect of private ownership is the main objective. Instead of direct socialization government introduced many indirect techniques and Yugoslav League of Communists did not abandon socialist socio-political goals in agriculture. Under new policies emphasis laid on state farms with the aim of increase in supply of major key products. The other practice was development of the general agricultural cooperatives which were to organise individual farmers in supply, marketing, equipment, hire processing etc. Above all the reduction of the maximum size of individual holdings to 10 hectares (15 ha. in highland areas). Even after new policies there was no new development in the ownership structure in the Yugoslav agriculture except for the expansion of state farms. The expropriation of excess above the 10 hectares limit for private holdings (amounting 270,000 ha.) added to their territory. With this the role

20. Vlaho Bubica (1974), "Land Tenure Relations, The Agrarian Population and Migration From Rural Area", in Evo Kustvak (ed.), op. cit., p. 22.

of the state farms increased (which owned 798,000 hectares in 1960 compared to 431,000 in 1953).²¹ With the rigid imposition of low limit of 10 ha. on the size of private farmers, any possibility of competitiveness of group of peasants with state farms set aside. Specially the 1956-64 period in Yugoslavia was marked by development policies geared towards industrialization at the expense of agriculture. But after the 1965 reforms, the 1965-72 period saw a marked improvement in private peasants position. The new concept of bimodal agrarian policy was tested in practice, and its results were evaluated at the first conference of the LCY (held in 1970 in Belgrade). The same type of conclusions were also given by 10th Congress of LCY (1974).

After 1973-74 there was a retreat from the some of the policies of 1965 reforms, but there was some improvement in the conditions of private farmers. Till today peasant agriculture remains the dominant sector of agriculture in terms of its share of the total agricultural area and of agricultural production, although it suffered the disadvantages of legal restrictions and favourable treatment of the socialist sector. The overall situation of the private agriculture in Yugoslavia is given below.

21. Figures from M.C. Kaser and E.A. Radice (eds.) (1986), The Economic History of Eastern Europe 1919-1975, vol. 3, Oxford, pp. 11, 52, 80, 82.

Table 2.4

Land Area, Capital, Share of Agricultural Output, Livestock
in Private Agriculture in Yugoslavia 1954-84.

(percentage of total)

Year	Area	Agricultural Labour Force	Share of Agricul- tural output	Capital	Livestocks
1954	94	n.a.	n.a.	92	93
1956-59	91	96	88	91	n.a.
1968-71	85	94	63	81	n.a.
1971-79	84	93	63	78	n.a.
1982	83	90	n.a.	69	85
1984	83	n.a.	n.a.	72	84

Sources: (1) Michael L. Boyd (1987), "The Performance of Private and Cooperative Socialist Organisations: Post war Yugoslav Agriculture." The Review of Economics and Statistics, May, p. 206.

(2) Ivan Loncarevic (1987), "Prices and Private Agriculture in Yugoslavia", Soviet Studies, October, p. 629.

(3) Vladimir Stipetic (1985), op. cit., p. 51.

According to the structure of farms, Yugoslav private peasants tend to be small holders. The majority of farms fall into category of small holdings, ^{without} / resources, to fully employ existing manpower. Land ownership patterns in the private sector of agriculture were as follows

Table 2.5

Land Ownership Pattern in Private Agriculture in Yugoslavia, 1969

	Total	Holdings of less than 2 hectares	2-5 hectares	5-8 hectares	Over 8 hectares
No. of holdings	100	39.0	35.6	14.8	10.6
Total area	100	9.8	30.9	24.1	35.2

Source:- Vlaho Bubica, op. cit., p. 22.

The proportion of the whole area which consisted of very small farms (upto 1 ha.) rose from 18% in 1960 to 30.4% in 1981 and the share of farms over 1 ha. showed a corresponding drop of 12.4%.²² Surprisingly this is not only the feature of the private sector even social sector farms are quite small. In 1972 out of 1172 social sector farms 870 were less than 100 ha. and 707 of them were less than 50 ha.²³ Owing to the differences in the size of land holdings we can see the monetary earnings of households from the following table:

Table 2.6

Monetary Earnings of Agricultural Households From Sales of Farm Produce in 1977 in Yugoslavia (National Average)

	Households with Land Area				
	Upto 2	2-3	3-5	5-8	Over 8 hectares
In dinars per thousand	9066	18500	24641	36430	48297
<u>Indices (households with upto 2 ha. = 100)</u>	100	204	272	402	533

Source: Jovanka Stanojevic (1979), "Economic Strength of Agricultural Households", Yugoslav Survey, No. 4, November Table I &II, p.73.

22. L. Ivan, op. cit., p. 629.

23. H. Lydall, op. cit., p. 271.

The composition of the income of different holding groups are also entirely different. Households with smaller farms and lower capital intensity, etc. rely more on off farm income i.e. on earning income through the employment of their members permanently or seasonal employed outside. On the bigger farms proportions of the income is generally through farming and performance of services for other households. Figures about the composition of income for whole of Yugoslavia is not available but we can make out the trend from the following figures of the states

Table 2.7

Composition of Total Income of Agricultural Households in 1977
Income from (in percentage)

Households according to size of farm in hectares	Farming	off farm work by household members	Work in household	Services performed to others households	Old age and disability pensions	Other sources
<u>Vojodina</u>						
1-3	42.5	35.3	0.8	0.7	11.9	8.6
3-5	65.3	21.9	1.1	2.3	3.3	6.1
5-8	77.5	12.0	0.2	2.9	1.2	6.2
Over 8	85.5	5.3	0.2	3.9	0.7	4.4
<u>Serbia Proper</u>						
1-3	43.0	41.2	2.7	0.9	0.2	6.0
3-5	56.1	31.8	1.7	1.2	3.8	5.4
5-8	62.1	25.7	1.7	2.4	2.5	5.6
over 8	64.9	20.4	4.4	3.0	2.4	4.9
<u>Underdeveloped Regions in Serbia (South Morava)</u>						
1-3	42.3	37.3	5.5	0.5	8.3	6.1
3-5	47.3	38.2	4.6	0.4	5.8	3.7
5-8	53.5	34.6	3.0	1.8	2.4	4.7
over 8	52.8	30.9	6.9	2.3	4.4	2.7

Source:- Jovanka Stanojevic, op. cit., p. 79.

Along with the different categories, according to size of holdings there are another categories also existed in peasant households. About this Markovik Peter writes, "In Yugoslav agriculture, three groups of holding can be distinguished according to the vocational orientation of economically active persons, namely those owners and household members earn their income exclusively from agricultural production. Those whose members are gainfully employed outside the holdings and thirdly holdings owned by non-agricultural households."²⁴ In 1984-85 Joze Mencinger writes, "the present distribution of land ownership according to estimate is approximately as follows: socialized farms have 1.6 mn ha., purely agricultural households have 2.4 mn. ha., aged households have 2 mn. ha., non-agricultural households have 1 mn. ha. and mixed households have 3 mn. ha. The share of land held by capable agricultural households is falling, while the shares of aged, mixed and non-agricultural households are increasing."²⁵ In the structure of production for market the full time farmers are predominates and part time farmers who have less land but much family labour are more depend on livestock breeding.

24. Markovik Peter (1974), "Development of Socially and Privately Owned Holdings", in Evo Kustvak (ed.), op. cit., p. 51.

25. Joze Mencinger (1984-85), "The limit on Land Holdings" East European Economics, Winter, p. 30.

Due to vast land area and a large number of agricultural labour force engaged in private agriculture, it is quite natural that Yugoslav food production would rely heavily on peasant farms. But because of low capital intensity and subsistence character of production, they cannot produce much for the market. They are mainly engaged in livestock products, production of fruits and vegetables, eggs and cheese and in most cases they sell direct to consumers in peasants markets. Animal husbandry has always been one of the most important branches of livestock industry in Yugoslavia. Only pig husbandry accounts for about 43% of gross livestock industry and for about 14% of the gross product in agriculture employing a large work force. The share of individual holdings in number of pigs and in pork production is decreasing. In 1983, 86% of pigs were in individual holdings as against 94% in 1965. The share of pork production, which was 84% in 1965 decreased to 72% in 1985 in individual holdings.²⁶ The percentage share of sheep farming in private holdings is almost the same i.e. 95% in both the years 1965 and 1985.²⁷ The share of egg lying in private farming has also decreased from 98% in 1961 to 75% in 1982. In the total poultry products

26. Figures from Tomislev Jelic (1986), "Pig Husbandry 1965-84" Yugoslav Survey, No. 3, pp. 77-8

27. Figures from VaKosava Ceranic (1987), "Sheep Farming 1965-85", Yugoslav Survey, no. 1, p. 64.

the share of private sector which was 97% in 1961, only 78% in 1971 and 56% in 1981.²⁸ The ratio of bovine animals in private farms decreased from 92% in 1975 to 90% in 1985.²⁹ In the production of fruits in recent years private producers shown an increased interest and they are producing many new varieties of fruits. In 1979, orchards covered 4786000 ha. in Yugoslavia as a whole or 4.8% of overall arable land. Of this total, orchards in private sector covered 91.3% of area (which was 90.2% in 1969 and 90.6% in 1975),³⁰ but the average of output in modern socialist plots is much higher than the private ones. Along with the fruits, vegetables are also exclusively grown by peasants. The area under vegetables in the socialist sector of agriculture accounts for less than 3% of the area under vegetables.³¹ Although due to policies of the government, the role of the socialist sector is also increasing moderately, yet the predominance of the private sector in these fields is not low and this is primarily due

28. Vera Tadic (1984), "Poultry Farming 1961-82", Yugoslav Survey, no. 2, pp. 80, 82.

29. Tomislov Jelic (1987), "Cattle Raising 1975-85", Yugoslav Survey, no. 2, p. 61.

30. Figures from Peter Mistic (1981), "Production and Consumption of Fruits 1969-79", Yugoslav Survey, no. 4, p. 107.

31. Miroslav Popovic (1983), "Production and Consumption of Vegetables 1961-81". Yugoslav Survey, no. 3, p. 35.

to large amount of human labour involved, which makes the production in private sector profitable.

Private versus Socialized Agriculture in Yugoslavia

To comprehend the performance of the private agriculture in Yugoslavia we have to compare with the performance of socialist sector. In his seminal work Michael L. Boyd compare the performance of the private and cooperative socialist organisation in Yugoslav agriculture. In his analysis he tried to understand that why does the social sector show higher levels of labour and land productivity and higher level of growth of these productivities. The data on capital productivities gives an important clue to understand the problem. The social sector had a lower capital productivity. Socialist sector has more capital, and investment was higher throughout the period. We can see all this from table 2.8.

In his study Boyd concluded the following:

- cooperative socialist enterprise are not inherently inefficient and can even outperform private producers.
- socialist enterprise exhibited technology adoption behaviour similar to non-socialist enterprises elsewhere.
- since 1956 both systems has existed in the same sector and the same location and have produced same type of output.

Table 2.8

Sectoral Growth Rates and Relative Levels of Agricultural Labour, Land and Capital Productivities (1956-1959 = 100)

Four Year Averages	Output per Worker			Output per Hectare			Output per unit of Capital		
	Social Sector	Private Sector	<u>Social</u> <u>Private</u>	Social Sector	Private Sector	<u>Social</u> <u>Private</u>	Social Sector	Private Sector	<u>Social</u> <u>Private</u>
1956-59	100	100	3.02	100	100	1.04	100	100	0.77
1960-63	129	118	3.31	126	110	1.20	98	88	0.69
1964-67	176	142	3.74	158	127	1.29	98	73	0.57
1968-71	273	163	5.07	186	140	1.39	91	61	0.61
1972-75	346	193	5.40	224	157	1.49	86	58	0.51
1976-79	420	235	5.42	263	178	1.54	74	55	0.56

Source :- Michael L. Boyd (1987), "The Performance of Private and Cooperative Socialist Organizations: Post War Yugoslav Agriculture", The Review of Economics and Statistics, May, p. 206.

In his study he also tries to present very interesting calculations. He put his estimated production function coefficients³² in a counter factual exercise. He supposed each sector had had the other's production function as estimated. Given its own level of output how much output would it have produced. The table given below presents ratios of hypothetical output (produced using the other sector's production function) to actual sectoral output, where hypothetical output is formed using actual, observed sectoral input levels. In each sector actual output was at first larger than hypothetical. Over time two sectors showed different trends. In the private sector actual and hypothetical output grew closer, with counter factual production ultimately exceeding actual.

Table 2.9

Hypothetical Sectoral Output Generated Using the Other Sector's Production Function Coefficients As a Percentage of Actual Sectoral Output

Four Year Averages	Private Sector	Social Sector
1956-1959	33	76
1960-1963	37	72
1964-1967	51	58
1968-1971	76	46
1972-1975	114	41
1976-1979	139	36

Source:- Michael L. Boyd, op. cit., p. 212.

32. For details about production function coefficients see M.L. Boyd, op. cit., Table 2, p. 209 and Table 3, p. 210.

Therefore, all these empirical evidences show that private agriculture could also be equal efficient if the inputs used in social sector would have used in peasant agriculture.

Investment Policy and Technological Change in Agriculture

In Yugoslavia for the transformation of subsistence of small farming to large scale socially owned self managing agricultural estates, investment policy has been one of the main tools in the hands of government. The policy towards private farmers created in 1957 and later in 1967, when special measures were taken to encouraging peasant farmers with subsidizing agricultural machinery and inputs, has had some favourable impact on private agriculture. As a result of the measures taken by government, the rate of investment by peasant households went up from 4.9% of GNP (for the period 1967-71) to 7.9% (5 year average 1972-76) and 12.5% of the GNP in 1977-78.³³ Although these figures are relatively low, yet the important thing is that a larger part of these investment was self financed. Credit was available only for those farmers which were engaged in the cooperation which the social sector. In peasant households additional earnings from outside generally used for consumption not for investment. The increasing investment also shows that

Vladimir Stepetic (1982), op. cit., p. 190.

private farmers are also interested in capital intensive techniques of production. One another feature of peasant investment is that the full time farmers are mostly investing in purchase of agricultural machinery but the part time farmers are engaged in construction of buildings.

From 1956 to 1965 neither sector of agriculture exhibited any trend rate of growth of technological change. After 1965, the situation improved for agriculture but more so far the social sector. For this sector the trend of rate of growth of technological change rose to around 3% per annum. For the private sector despite attempts to improve prices and investment opportunities, the trend rate of growth of technological change remained zero.³⁴

After 1965 agricultural technology has been the main driving power in development of Yugoslav agriculture. The use of tractors and fertilizers increased manifold. In the year 1948 only 27% of total tractors were in private agriculture. This share increased to 70% in 1972 and in 1984 out of 535119 tractors, 50,600 (i.e. 93%) were under private ownership.³⁵ The number of tractors increased in the private agriculture

34. M.L. Boyd, op. cit., p. 211.

35. Vladimir Stepetic, (1985), op. cit., p. 52.

not only because of the needs of the farmers but also this is becoming a status symbol in the countryside. But this had a very favourable impact on the agricultural production and the machine building industry of the country. Let us see the consumption of fertilizers which was much higher in social farms than the private ones.

Table 2.10
Consumption of Chemical Fertilizers (Annual Averages)
(per hectare arable land in kg.)

Year	1956-1960	1960-1970	1976-1980	1981-84
Total	24	56	83	97
Socialized Sector	145	210	201	175
Private Sector	12	30	61	81

Source :- Vladimir Stepetic (1985), op. cit., p. 53.

Price Policy Towards Private Agriculture

From 1946 to 1952, to finance accelerated industrialization, under the centrally planned socialist model of the economy, price policy was disadvantageous for the peasants. Compulsory deliveries and low levels of prices set up in the economy. From 1952 to 1965 compulsory deliveries had abolished but there was not any fundamental changes in the policy and it was unfavourable to

private agriculture. From 1965 onwards price policy supposed to behave in an economically rational way on the basis of relative prices and costs. Market and effective demand were to be the only creteria. After that policy makers tried to set prices according to market conditions. Authorities set guarantee prices and minimum prices (support prices) and producer guide prices. In his detailed study Ivan Loncarevic tries to analyse the effect of price changes on the production decisions of peasants. The following table gives trends in growth rates of different prices.

Table 2.11

Annual Average Rates of Growth of Producer Prices, Production on Peasant Farms, Production Indices of Agricultural Means of Production and Indices of Relative Prices of Producer and Means of Production Prices.

Years	Producer prices for peasant farms	Prices for Agricultural means of production	Overall production on peasant farms	Ratio of growth rate of producer prices to growth rates to means of production prices (growth rate of means of production prices = 100)
	<u>Annual average growth rate %</u>			<u>Relative Indices</u>
1966-1970	6.5	9.3	2.5	70
1971-1975	19.9	25.4	2.1	78
1976-1980	19.7	10.7	1.1	184
1981-1984	45.9	45.1	0.8	102
1966-1984	21.0	21.2	1.8	99

Source:- Ivan Loncarevic, op. cit., p. 633.

When we look at the general trends of producer prices and production on peasant farms and prices of means of production; no statistically reliable correlation can be established between producer prices and overall production or between means of production prices and production. There is on the other hand, a close correlation between producer prices and prices of means of production. On average during the period 1966-84 means of production prices and producer prices displayed roughly similar trend. But in his study Ivan observed that it would be wrong to conclude for the result of the aggregate trends that peasant farms do not react to price changes. His study shows the existence of relationship between the trend of prices and production of individual products on peasant farms in a period after the economic reform (1966-84) or we can say that prices affected the production decisions of peasant farms.³⁶ If the prices were set more rationally then agriculture production in peasant farms would have increased.

Yugoslav Private Agriculture: General Conclusions

If we see the overall situation of the farmers in the economy then we will find that it is not satisfactory. The importance of part time and additional earnings explains this

36. For details about the effect of prices on individual products see Ivan L. op. cit., Table 4, p. 635

fact. But after 1965 reforms the situation of the private peasants improved a lot. This is mainly due to sharp reduction in the number employed, since the terms of trade were virtually unchanged after 1971. But if we compare with the other sectors of the economy, then it is very unsatisfactory. These all facts are clear from the table given below:

Table 2.12

Average Annual Growth Rates of Production, Net Product Real Income and Real Personal Income in Private Agriculture and in the Economy as a whole (%)

	1966- 1970	1971- 1975	1976- 1980	1981- 1984	1966- 1984
<u>Private agriculture</u>					
Final production	2.5	2.1	1.0	1.5	1.8
Net product in 1972 prices	2.7	2.5	1.6	1.5	2.1
Real Income ^a	- 2.2	1.7	0.0	1.3	0.2
Real personal income ^b	- 1.0	2.1	- 0.7	2.8	0.7
<u>Whole Economy</u>					
Net product in 1972 prices	5.7	5.7	5.5	0.4	4.6

a -- Income divided by cost of living index.

b -- Personal income divided by cost of living index.

Source:- Ivan Loncarevic, op. cit., p. 643.

Actually the main problem in the Yugoslav agriculture is the parcellation of land which created an obstacle to a broader and more massive breakthrough of modern technology. There is a popular opinion that unless there is a reform of law restricting ownership of 10 ha. of arable land, farm output will begin to stagnate and eventually to decline. In the labour extensive branches of farming (such as wheat production) the limit on land holdings has determined a combination of production factor furthest from the optimal combination. As one writer says, "constant campaigns for the sowing harvest or crop purchase are the natural consequences of the fact that the low ownership limit determined 30 years ago prevent the choice of optimum size farm. Unfortunately the problems caused by the success of economic activity cannot be solved by campaigns."³⁷ To overcome the problem of association of farmers on a socialist self management, 'Dzervin' formulates a model.³⁸ In this model numerous owners of land pool their parcels situated in a definite area, in organised manner into a single complex of land. The owner of land not only pools his land but also his labour and other means. He however retains his title of land. Under the influence of this model hundreds of joint plantations are coming into reality as an experience.

37. Jozef Mencinger, op. cit., p. 33.

38. For details see Vladimir Cvjeticanin (1984), "Association of Farmers 'Dzervin Model'", Socialist Thought and Practice, July-August, pp. 117-119.

About Yugoslav private agriculture Zupanic says, "in the present situation where a large part of the land is in the hands of those professionals and social strata for whom agriculture serves only a private source of supply and a supplementary source of income, rapid development of restructuring from a subsistence to a market oriented high productivity agriculture can hardly be expected.³⁹ But "despite all the handicaps of an ageing workforce, restricted size of holding, scattered plots, low capitalization, and difficulty in obtaining adequate supplies of fuel, parts for machines, fertilizers and so forth the output from private agriculture has continued to grow."⁴⁰

To conclude we can say that private agriculture in Yugoslavia which is a major source of food supply and employment, due to policies of the government could not produce that much of production which it could have. But keeping in mind the socialistic nature of the economy the prejudices towards private agriculture was much less than the other East European countries. To fulfil its socialistic goals Yugoslav government curtailing private agriculture in very planned and systematic manner. The overall agricultural policy of the government has been very successful because the small socialist sector is also working

39. Coded in I. Loncarevic, op. cit., p. 648.

40. H. Lydall, op. cit., p. 271.

very efficiently and government trying to increase the socialist agriculture slowly instead of collectivization in a big stroke.

Non-Agricultural Private Sector in Yugoslavia

In Yugoslavia the private ownership in industry, construction, trade, transport and services except small artisans had been eliminated in the decree of 1948. Actually this was an act to counter the criticism by Soviet Union and others that Yugoslav Party is becoming a party of landlords, merchants and capitalists. Till the economic reform of 1965 the share of the private ownership remained the same. Since the economic reform of 1965 the private businesses in Yugoslavia have improved and constitutional guarantee of 1971 and 1974 prevent arbitrary harrassment.

Although the private non-agricultural sector is not a major source of employment in the economy, policy makers in Yugoslavia have made a significant effort, particularly since the last decade to stimulate the growth of employment in this sector. For the 1976-80 period employment was planned to increase at the average rate of 4.3% compared with 3.7% during 1971-75.⁴¹ In the non farm sector private ownership is

41. "Yugoslavia: Adjustment Policies and Development Perspective", (1983), A World Bank Country Study, Washington D.C., p. 194.

not large but provides very important services. It includes craft workshops, retail food shops, guest houses, catering establishments, truck and taxi services, builders, bar and restaurant proprietors and shopkeepers who provides personal services. No private enterprise may employ more than 5 people (10 in some republics), and generally the private firms employ less than that. But many a times unregistered workers and family members also work in these enterprises. The share of the non-farm private sector in the total labour force was 5.2% in 1979; which was 2.8% in 1950, 2.1% in 1960 and 4.2% in 1970.⁴² The living standards of Yugoslav people has increased as compared to earlier periods. But the provision of repair workshops to service the consumer durables is far from satisfactory. The rise in car ownership is one of the most striking indicator of the development of a consumer society in Yugoslavia. In 1965 there was less than 200,000 private cars in the country. This was doubled in 1968 and doubled again in 1971. The million mark passed in 1972 and in early 1980's figure crossed over 2 million.⁴³ But public sector could not satisfy the increased demand for repair facilities of this increasing traffic. To overcome this problem private services are playing a significant role. Private hotels and catering establishments are becoming important factors in the tourist market.

42. Lydall, op. cit., p. 160.

43. Fred Singelton and Bernard Carter (1982), The Economy of Yugoslavia, Croom Helm, London, p. 202.

The private sector of crafts accounts over a half of the total capacity of artisan workshop and establishments. It's proportion in gross product generated by crafts as a whole amounted in 1977 to 51.3%. In 1977 private artisan workshop by Branch of their activity in percentage composition were as follows: Metal working 16.5%; wood working 11.3%; textile manufacturing 10.7%; food stuff manufacturing 8.9%, building crafts 22.6%; personal and other services 11.4%; and others 22.6%.⁴⁴ Gross investment in fixed capital assets in the private sector of crafts is also increasing. "In 1987 there were 243,000 private enterprise units engaged in handicrafts and other activities which besides their owner employ 125,000 workers. The public sector owns about 2600 organisations with approximately 200,000 employees. These organisations include 420 collective craftsmen firms and 170 contract based companies."

Private construction in Yugoslavia is also increasing since 1960. In the early 1960's it increased both in absolute terms (60900 in 1962, 77400 in 1965) and in relation to almost unchanged number of dwelling built by social ownership (43600 in 1962 and 44600 in 1965).⁴⁶ After that, the progress is as

44. Milka Vranes (1980), "Crafts 1973-77" Yugoslav Survey, February p. 109.

45. Dragon Bavovic (1987), "Small Free Enterprise in Yugoslavia" Yugoslav Economic Review, no. 4, p. 9.

46. W. Brus (1986), "1957 to 1965: In search of Balanced Development", in M.C. Kaser and E.A. Radice (eds.), Economic History of Eastern Europe 1919-1975, vol. 3, Oxford, p. 133.

follows:

Table 2.13

Number of Dwellings built by Private Enterprise in 1970 and 1980

Year	Total	Separate Room	One Room	Two Room	Three Room	Four Room
1970	84398	938	14851	40853	20561	7195
1980	88114	880	7776	31301	28349	191818

Source:- Yugoslav Survey, February 1982, p. 162.

In Yugoslavia many professions like doctors, lawyers, employees of foreign firms and agents also engaged in private activities. The government is liberal towards these professions because it has been observed that if these professional services would legally forbidden then definitely black market will grow up. With some liberalization brain drain of some professions like doctors could be reserved. Much figures about these services are not available, but in the year 1977, 12216 workers were employed in Belgrade alone in offices and agencies of foreign firms.⁴⁷

The constitution and labour act of Yugoslavia guarantee the freedom of personal labour with private means of production.

47. F. Singelton and B. Carter, op. cit., p. 205.

Various forms of cooperation of these private resources and labour is possible. Working people which independently perform activities with their own labour and resources may pool their labour with the other persons on a self management basis on contract. These contracts are generally for 5 years. In these type of contracts wages must not below the average of industry. After 5 years worker can run the factory on a typical self-management firm. In fact it is preferable for people with large sums of spare money to use their capital productivity rather then spending it on luxuries and expensive holidays. "But this arrangement has not proved to be very popular and upto the end of 1982 only 104 contractual organisations had been established employing 2500 workers."⁴⁸ The overall industrial composition of the non-agricultural private sector as follows.

Table 2.14

Industrial Composition of Non-Agricultural Private Sector in 1980

Industry	Active Work Force		GMP at Factor Cost	
	Total Number (,000)	% in private sector	Total value(in billion)	% from private sector
Transport and Communi- cation	600	33.5	120.1	6.6
Catering and tourism	269	25.3	43.0	12.8
Construction)			166.5	10.6
Artisan Work)	1082	27.1	55.5	41.3

Source:- Lydall, op. cit., p. 268.

48. Lydall, op. cit., p. 273.

The expansion of the last three decades has shown that there are certain spheres in which private sector is working very efficiently in which socialist sector was not capable to produce according to needs. Specially in fields where flexibility of resource to the needs of the consumer and producer ensures a higher level of satisfaction, or in the fields where an individual can use him or her in creative skill like crafts etc. We can find many examples in which Yugoslav politicians recognise the fact that in some fields private enterprises are working more efficient than the social sector. In 1963 Economika Politika reported a speech by President Tito attacking the 'leftist excesses' of those in the League of Communists who sought to liquidate the private artisans workshops. In 1976 the Zagreb daily newspaper Vjesnik admitted that not even the most modern socialist sector services can compete with the privately operated services especially so far as prices are concerned.⁴⁹

For the lower development on non-farm private sector several factors were responsible. Unstable and insufficiently stimulating business conditions, inadequate material conditions of work (lack of business premises and lack of capital for opening workshops) were mainly responsible for the low level of growth in this sector. In some areas insecure status of

49. Coded in F. Singelton and B. Carter, op. cit., p. 202.

private enterprise were an obstacle in the way of progress.

Moonlighting

It is very difficult to quantify the extent in which private enterprises are flourishing illegally. Generally people work as full time employment in the state sector but to play for comforts and luxuries, they engage themselves in many enterprenurial activities. "In 1971 Kaderlji estimated 'additional incomes' accounted for over 40% of the total personal income bill for the whole economy."⁵⁰ Granick quotes an estimate that 'moonlight' income account to as much 30% of the employee's income. Estimates collected and presented by Lydall show the value of pure 'moonlight' income has been given a range running from 15% to 30% of social sector net personal income.⁵¹ In crafts for the period 1973-77 Vrans Milka estimated that 30% of services and repairs were performed illegally.⁵² Among the construction workers moonlighting is widespread. With this the absentism in the public sector is increasing. Many professionals like professors, lawyers, doctors, technologists acting as advisor to local or foreign firms, earn moonlighting in a very respectable kind.

50. Ibid., p. 206.

51. Lydall, op. cit., p. 269.

52. Vrans Milka, op. cit., p. 116.

About the overall private sector we can say that in Yugoslavia it is not a threat to the socialism, rather it is important at the present stage of socialism. Recently a Yugoslav scholar Kiro Gligoror in an interview gives his classification about the so called threat of private businesses to the system. He said "If the socialist economy and its public sector begin to fear the individual initiative and small businesses then it is time to stop and ask what is wrong with the socialist economy as a whole, not with small businesses. Socialism has nothing to fear from individuals. Private initiative in small businesses can only help to remove some of the deficiencies of the public sector."⁵³ About the small economy and restoration of the bourgeois society and bourgeois consciousness Horvat answered in a very different way, he says "there is no danger of restoration of bourgeois society because we are still living in a bourgeois society. Concerning the small economy and danger from it he said that that it is pure nonsense. Stories about how these Craftsmen or cafe owners will endanger socialism in the twentieth century are so funny that it is not worth even discussing them."⁵⁴

53. "Yugoslavia: Successes, Quests, Hopes", (1988), New Times, No. 11, March, p. 23.

54. Branko Horvat (1984), "The Economic System of Stabilization", East European Economics, Fall, p. 103.

Therefore, in Yugoslavia, the socialist regime is allowing the private sector for the development of the economy, without any hesitation. In the fields like agriculture where the private sector is dominating, but at the same time social sector is also well efficient, regime trying to curtail the private sector with the well planned policy of gradual socialization. In policy initiatives towards private sector, only ideological commitments are not present but economic rationalizations are also involved. Today the private sector, with the cooperation of cooperatives and the public sector is a great hope, both in providing conditions for harmonious growth and providing productive employment.

CHAPTER THREE

THE PRIVATE AND THE INFORMAL SECTOR IN HUNGARY AND
SOVIET UNION : A STUDY IN CONTRAST

In this chapter an attempt has been made to review different type of private ownership of the two socialist countries namely Hungary and Soviet Union. In consideration of space limitations we are summarizing the private and the informal sector of both these countries into one chapter. The study of both these countries contains a significant account for any student of socialist economics. Major systemic changes have been occurring in Hungarian economy in the last 30 years. Both scholars and practitioners of other socialist countries are also studying carefully the changes in Hungarian economic mechanism. That is why there is nothing wrong to say that changes in Hungarian economy have some global relevance. Therefore, study of private activities in the Hungarian economy has great relevance in the present study. Evaluation of non-socialist activities of Soviet Union is also important because without studying Soviet second economy we cannot reach on any conclusion about socialist economies. Private activities in both these countries are working in a different manner to each other. Soviet Union is a country where legal private sector has least as compared to other socialist economies. But in Hungarian economy, wide range of private activities are working in a peculiar manner. The Hungarian mechanism of close relationship between cooperatives and

The private sector is unique among socialist countries. Here in the first part we disgress to take a closer look at all type of private (legal and illegal) activities of Hungarian economy.

Background of Hungarian Economy

Along the other Eastern European countries, after the second World War, Hungary adopted with few modifications the system of centralized planning practiced in the Soviet Union.¹ But Stalin's death and subsequent changes in Soviet political thinking led to change of leadership and economic style in Hungary.² After that there was a period of balanced development of the economy. After 1960 a decentralization reform efforts began in Hungarian economy. This period also marks the begining of the government's change in attitude towards private sector. In 1968 Hungary embarked on a far reaching reform of its system of management which substantially increased the role of autonomy of

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1. Bela Balassa (1982), "The Hungarian Economic Reform 1968-81", World Bank Staff Working Paper No. 506, Washington D.C., p. 1.
 2. William F. Robbinson (1973), The Pattern of Reforms in Hungary: A Political Economic and Cultural Analysis, Praeger, New York, pp. 10-14.

enterprises and the role of market forces.³ The new economic mechanism (NEM) in Hungary has attracted the interest of economists since the decision to introduce it. While in early and mid seventies the interest was limited to a few economists, recently it caught the attention of wide circles of economic managers and party and state officials in many CMEA countries.⁴ Actually, in 1972 the process of reform came to a halt and recentralization started. At the end of 1970's under the pressure of worsening external disequilibrium, the Hungarian authorities made important changes in economic policy. This trend continuous in the 1980's.⁵ The expansion of the private sector is the important change in the Hungarian reform process. Let us discuss the various unique institutions working under private ownership in Hungarian economy.

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3. About 1968 reforms in Hungarian economy see Bela Balessa (1970), "The Economic Reform in Hungary", Economica, February, G.R. Denton (1971), A New Economic Mechanism? Economic Reform in Hungary, PEP, London; I. Friss (1969), Reform in Economic Mechanism in Hungary, Budapest; P.G. Hare and H. Radice (eds.), (1981), A Decade of Economic Reform, London; P.G. Hare and P.T. Wanless (1981), "Polish and Hungarian Economic Reform: A Comparison", Soviet Studies, October; R.D. Portes (1970), "Economic Reform in Hungary", American Economic Review, May; L. Antal (1983), "Carrying on with Economic Reform", The New Hungarian Quarterly, Autumn.
 4. Tamas Bauer (1983), "The Hungarian Alternative to Soviet Type Planning", Journal of Comparative Economics, September, p. 304.
 5. For details about economic reforms in 1980's see, Jan Adam (1987), "The Hungarian Reform in 1980's", Soviet Studies, October.

Role of Household Plots and Auxilliary Farms in Hungarian Agriculture

Hungarian agriculture is the most successful area of reforms. Fast changes have been taking place in the Hungarian agriculture since the fifties. Kathleen Hartford rightly remarks, "In a world which discovers new developmental 'miracles' about every five years - just as previous miracles are expiring. It is perhaps too faddish to nominate yet another candidate for honour. But if what has been happening in Hungarian agriculture over the past decade and a half is not a miracle. It is least unprecedented for the socialist world."⁶

The land reforms in Hungary was the important step in the development of Hungarian agriculture. A decree of provisional government issued on 15 March 1945 was clearly directed the landlord gentry, and not against the peasants even the richest one. The 1.9 mn. hectares distributed went to more than 600,000 families making the average allotment around 3 hectare.⁷ The ownership titles of richer peasants

6. Kathleen Hartford (1985), "Hungarian Agriculture: A Model for the Socialist World", World Development, vol. 13, no. 1, p. 123.

7. W. Brus (1986), "Post-War Reconstruction and Socio-Economic Transformation" in M.C. Kaser and E.A. Radice (eds.), Economic History of Eastern Europe 1919-1975, vol. 2, Oxford, p. 593.

went unchallenged until the start of collectivization drive in the second half of 1948. There were two big waves of collectivization; the first in the early fifties and second in 1959-61. In the year 1960, 60% of arable land was transferred from private ownership to the hands of cooperatives.⁸

Along with the socialist transformation of Hungarian agriculture, the traditional way of peasant production was eliminated. The subsistence economy was pushed back and favourable conditions were created for the growth of productive forces on large scale farms. In the earlier period cooperatives were tightly fitted in the framework of command economy and material incentive were very weak. But compulsory delivery system was abandoned as early as 1956-57. After the reforms cooperatives are allowed to do their own marketing if they prefer, but generally they sell to state trade organisations on contractual basis. The cooperatives as a whole is motivated to earn more profit. They have more autonomy to deciding on the use of their own profit. Cooperatives are also engaged on a large scale in the non-agricultural activities. After analysing all these aspects

8. W. Brus (1986), "1957 to 1965: In Search of Balanced Development", in M.C. Kaser and E.A. Radice (eds.), op. cit., vol. 3, Table 25.1, p. 80.

of Hungarian agriculture, Kornai has rightly said that the Hungarian agriculture is different from prototype 'collectivized' organization of agricultural production.⁹ However, even after the socialist conditions large scale farming may be unable to ensure full employment for given agricultural population. For giving work to those no longer fully employable, the household plot or the auxiliary farms offers a remarkable solutions. They are able to utilise those existing productive capacities as cannot be used economically in the framework of large scale farming, e.g. small parcels of land, small orchards and vineyards etc; the operation of which would be absolutely uneconomical on large farms. As Csaba Csaki writes, "It is very natural that small scale farming activity increases the cases where the possibilities of improvement in the standard of living by activities in state or cooperative sector are poor. This is the present situation in Hungary and therefore small farming enterprise are increasingly encouraged and supported by the government."¹⁰ Gvula Varga also writes,

9. Janos Kornai (1986), "The Hungarian Reform Process: Visions Hopes and Reality", Journal of Economic Literature, December, p. 1701

10. Csaba Csaki (1983), "Economic Management and Organization of Hungarian Agriculture", Journal of Comparative Economics, September, p. 321.

"small scale farming is uniformly regarded as economic necessity and not seen to conceal any kind of political opportunism."¹¹ That is why from the beginning, members of cooperatives were allowed to hold a small private plot and few animals.

During 1965-7 decentralization reform effort began in agriculture. This period also makes the beginning of the government's change in attitude toward private plots. All restrictions on the sale of small machinery and tools and on the granting of credit to private plot farmers came to an end. After NEM private plot farmers also benefitted from its decentralizing spirit. The 1968 reform also provided the initial impacts to the expansion of private agricultural production which began in the 1970's and intensified in the eighties. But in the period of 1974-75 press reported statements of party and government officials which led farmers to believe that a crackdown on the small farmer activities was coming. A new tax on small scale agriculture was introduced. Peasants swift response - slaughtering many animals and drastically curtailing food. From mid

11. Gvula Varga (1980), "Small Scale Farming in Hungary". New Hungarian Quarterly, Summer, p. 77.

1974 to October 1975 there was 20% decline in pig stocks and 30% decline in stock of sows kept on small farms.¹² There were shortages of meat, fruit and vegetables. The government quickly realized the mistakes and reversed its policies. On the whole, despite fluctuations which affected Hungarian agriculture briefly in 1974-75, the general trend of more favourable policies toward individual plots continuous throughout the period since reforms. The temporary tolerated small scale production becoming useful for the economy. Now private household farming is declared as a permanent component of agriculture under socialism. These small farms can be divided into different groups. The most important are the 'household plots' of cooperative members. Under the second category 'auxilliary farms' of those groups of the population comes, which are not engaged full time in agriculture; and land kept by the workers who left the agriculture as well as plots allotted to members of state farms, other institutions and pensioners. The next category is of 'specialized cooperatives' which mainly formed for wine and fruit growing. In this category members work the greater part of their plantations individually as house-hold plots but with certain amount of collective activity. The last category is the 'peasant farms'. These are the small peasants

12. Michael Marrese (1983), "Agricultural Policy and Performance in Hungary", Journal of Comparative Economics, September, p. 338.

who did not enter in cooperatives in most cases because they lived in mountains where large scale farming was not possible. But the influence of this category is decreasing day by day. Therefore, the term 'small scale production' cover the activity persued on small scale by households of different social groups with their own labour.

Small scale agricultural producers represent a wide sphere in Hungarian society. In 1981 the agricultural census covered around 1.5 million households considered as small producers. This means 4.5 million individuals, that is 42% of the population. The small farm on the average had 0.54 hectare in the same year. In the composition of small producers 31.2 percent belong to the working class; 11.2 percent from the cooperative peasantry; 8.9 percent from double income earners; 18.1 percent from non mannual occupation; 3.7 percent from small commodity producers, shopkeepers etc. and 26.9 percent from inactive groups of population.¹³ The shares of land area under small producers in Hungary are following:

13. Figures taken from I. Oros (1984), "Small Scale Agricultural Production in Hungary".

Table 3.1

Ratio of Land Area* Held by Small Producers by Land Use Area
in percentage of the country's agricultural land

Year	Arable land	Pesture Meadow forest reeds	Garden Orchard Vineyard	Total
1965	18.8	5.3	59.0	17.3
1970	18.9	5.6	59.7	17.3
1972	18.6	5.4	60.7	17.0
1975	15.8	5.0	61.6	15.2
1981	10.2	3.9	64.4	12.2

* Together with the collective area of the 'specialized collectives'.

Source :- I. Oros, op. cit., p. 74.

The figures shows that agricultural small producers have always had a much smaller share of agricultural land than their share in plant cultivation.

Today, the most dynamic, important and familiar subset of the private sector in Hungary is the agricultural output of small scale production. Shares of the small scale agriculture in the total agricultural production in 1981 was the following:

Table 3.2

Shares of Hungarian Small Scale Production in Total Agricultural Production in 1981 (by value at current prices)

Product	Share of total production produced by small scale unit (percent)
Wheat	1.3
Maize	16.8
Sugerbeet	2.1
Potatoes	57.1
Vegetables	59.3
Fruits	47.8
Wine Grapes	38.8
Other Crops	8.3
<u>Total Crops</u>	<u>22.7</u>
Cattle	25.8
Pigs	51.6
Sheep	17.5
Poultry	40.7
Other live stock	61.0
<u>Total livestock</u>	<u>40.2</u>
<u>Total agricultural Production</u>	<u>31.6</u>

Source: Kathleen Hartford, op. cit., p. 139.

Next important question is, who shares, and to what extent they share, in the income of small scale agricultural

production. A large part of the total income derivated from small farms goes to working class rather than any other social stratum. However the income derivated from small scale production represent a small share in total income of working class. On the other hand, in the case of cooperative peasantry, one third of total income still derived from household plots. We can see all this from the figures given below.

Table 3.3

Income from Small Scale Agricultural Production in 1981

Class/ group	Percentage distribution between the strata	Percentage share in the total income of the strata
Working Class	30%	7%
Cooperative peasantry	23%	33%
Persons with double income	18%	21%
White Coller Workers	8%	4%
Small Commodity producers	7%	22%
Old age pensioners	14%	30%

Source :- Erno Csizmadia and Magda Szekely (1985),
Agricultural Policy in Hungary, Corvina Kiado,
Budapest, p. 118.

If we see the pattern of persons engaged in small agricultural production then we will find that there is high ratio of pensioners, female workers, dependent and incapacitated persons. With the figures of age composition we can draw this conclusion.

Table 3.4

Age Composition of Small Producers in Hungary

<u>Age</u>	<u>Distribution (percentage)</u>	
	1972	1981
Under 30 years	7.2	5.5
30 to 39 years	15.7	15.0
40 to 49 years	22.1	19.9
50 to 59 years	16.4	23.8
60 years and over	38.6	35.8

Source :- I. Oros, op. cit., p. 73.

During the last 15 years, a fast development has taken place in the mechanization of agricultural work done by small producers. An important role has been played by the mechanical aid given by large scale farms. But besides this aid the number of agricultural machines owned by small producers grew manifold since 1972. The following table gives the information

about the machine stock of small scale agriculture.

Table 3.5

Machine Stock of Small Producers in Hungary

Machine	Number of machines (pcs.)		One piece falling to how many small producers
	1972	1981	
Two-axle tractors above 9 kw	3141	9037	166
Two axle tractors under 9 kw	1239	4397	341
One axle garden tractors	1388	7224	208
Hoeing machines	733	20424	73
Universal motor driver garden engines	1004	2702	555
Motor driven portable sprayers	2519	9841	152
Other motor sprayers	1780	12209	123

Source:- I. Oros. op. cit., p. 79.

Above figures show the development in the field of mechanization but when we analyse the ratio of machine per producer then we will find that this ratio is very low. That is why most of the work done by the machines of large farms or by hands.

Interdependence Between the Large and Small Scale Farms

With the integration of small scale farming with the large scale farming, the development of the household based commodity production has become possible. As Toth concluded in his article that, "the economic weight of small scale production depends on the closeness of their integration with large scale farms and the enterprise. Numerous examples prove that their integration with large scale firms, processing and perserving (canning) enterprises is advantageous for the national economy and useful for the small scale production themselves."¹⁴ Several types of assistance are given to small farms by big farms. "For example 1000 (or about 75% of the total) cooperatives buy inputs on behalf of their small scale producers; 500 cooperatives pick up and deliver green fodder for household livestock. 1200 cooperatives or nearly all of them organise pig production through basic lease contracts."¹⁵

The relation of the collectivized firm and the household plot is characterized by:

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14. A.E. Toth (1978), "Small Scale Agricultural Production in Hungary and Efficiency of the Agro Industrial Complex", Acta Oeconomica, vol. 21 (1-2), pp. 107-119.
 15. K. Hartford, op. cit., p. 140.

- (a) their separation as regards the ownership of their products;
- (b) a special kind of cooperation in production; and
- (c) the double employment of the cooperative members and their families partly on the collective farms and partly on their household plot.¹⁶

Therefore, with the help of large scale farms, beside supplying their own households and decreasing demands for marketed products; small scale agriculture also sell goods to the population and contributing to marketed supply. Specially after 1970's the character of the small scale farming transformed from self sufficiency to commodity production. Calculating on figures per capita food consumption, at the beginning of eighties, production on small farms provided potatoes for 2 million persons, vegetables for 2.9 million, fruit for 3 million, eggs for 5 million and wine for 1.9 million persons annually.¹⁷ But in order to properly understand the situation, it has to be added furthermore, that cooperatives supply their members with grain and fodder at reduced prices. For example, 93% of the rough fodder produced by large scale farms

16. A.E. Toth (1977), "The Place and Role of Household plots and Auxiliary Farms in Socialist Agriculture", in Ivan Benet and Janos Gyenis (eds.), Economic Studies on Hungary's Agriculture, Akademiai Kiado, Budapest, p.144.

17. Erno Csizmadia and M. Szekely, op. cit., p. 117.

in 1978.¹⁸ Therefore, a part of the value of large scale production is realized in the animal husbandry of small farms.

On the basis of what has been expounded in this part of the Chapter, it may be seen that due to their production pattern and with the assistance received from large farms, productive capacity of household plots is considerably higher than their share in cultivable land. It is therefore, an important requirement that the development of large scale farming should be harmonious with the small scale production on the basis of mutual economic benefits. "Undoubtedly due to the importance of satisfying the population demand for food and contributing to foreign exchange earnings, the reform reaffirmed the regime's official stand and maintenance and support of private plot is not temporary but a long range principle of agrarian policy."¹⁹

Non-Agricultural Formal Private Sector in Hungary

The formation and development of non-agricultural private sector in socialist Hungary did not take place on the basis of central plan, nor it is a temporary factor

18. R. Nyers (1980), "Small Enterprise in Socialist Hungary", Acta Oeconomica, vol. 25, (1-2), p. 157.

19. Z. Edward O, Relly (1986), "The Changing Status of Collectivized and Private Agriculture Under Central Planning", American Journal of Economics and Sociology, January, p. 13.

surviving from the capitalist past. In the comprehensive plan of the socialist transformation of society these activities found hardly any place in the previous periods. But at present it is an objectively necessary category. Because in the modern Hungarian economy beside the big enterprises a considerable number of small enterprises are also required especially in the fields of personal and family services; in the background industry; in the fields where changes in fashions followed flexibly and in certain branches of trade and artistic services.

In the non-agricultural sector socialist transformation started in 1947 with the nationalization of banks and energy production. Then continued with nationalization of big and medium industry, wholesale and foreign trade in 1948 and 1949. "Industrial enterprises employing more than 10 people nationalized in December 1949."²⁰ Private small industry and retail trade employing more than 10 people had not being eliminated, however, their economic weight and role considerably decreased in the wake of socialist transformation. But after the second half of the sixties under the reform process these activities has been allowed to play a complementary role in the economy.

20. W. Brus (1986), "1950 to 1953 : The Peak of Stalinism", in M.C. Kaser and E.A. Radice (eds.), vol. 3, op. cit., p. 8.

But the attitude of the government toward non agricultural private activities has not always been the same during the last 35 years. It fluctuated; ranging from elimination to tolerate and support. But the share of employed persons in non-agricultural formal private sector since last 3 decades is more or less the same. In 1966 their share was 4.3% of the total national employment and in 1984 it was 4.2%. But their contribution to national income has increased from 1.9% in 1975 to 5.5% in 1984 along with 5.9% contribution by auxilliary production by employees.²¹ The occupation wise employment in formal private sector in different periods has given below:

Table 3.6

The Size of the Non Agricultural Formal Private Sector in Hungary
(in thousands of persons)

	1953	1955	1966	1975	1980	1984
1. Private craftsmen	51.5	97.6	71.3	57.4	63.7	76.1
2. Employees of apprentices of private craftsmen	4.0	16.0	26.7	19.7	20.1	26.9
3. Private merchants	3.0	9.0	8.5	10.8	12.0	22.4
4. Employees of private merchants	-	1.0	1.5	3.4	8.2	28.5
5. People working full time in business work partnerships	-	-	-	-	-	11.0
6. Total number of people working full time in formal private sector	58.5	123.6	108.0	91.3	104.0	164.9

Source:- Janos Kornai, op. cit., p. 1705.

21. figures from J. Kornai, op. cit., p. 1692.

Table 3.6 shows that majority of the personnel are craftsmen, shopkeeper or merchants. They work alone or are assisted by family members or a few hired employees. Now we will discuss these different aspects in detail.

Private small scale industry

It has maintained its weight in the economy in the last 15 years; while consideration and interesting changes taking place in the inner composition. The importance of this sector is growing in certain fields and decreasing in others. Expressing the activity by the value of gross output and the value of services respectively the following picture can be obtained:

Table 3.7

Share of the Private Small Scale Industry in the National Economy
(in percentage)

	1970	1975	1978
In the gross output of industry	1.0	0.7	0.6
In industrial employment	3.4	2.6	2.5
In the gross output of construction	11.8	11.3	11.5
In employment in construction	21.2	23.4	23.4
In services for the population	42.5	43.8	45.9

Source:- R. Nyers, op. cit., p. 154.

Now more than 100 thousand private artisans are active mainly in the sphere of services and also produce small volumes of goods expanding the range of choices (shoes, clothes, leather goods, chemicals, plastic products etc.). The restratification of private artisans is also remarkable. The number of entrepreneurs in private small scale industry exercising their activity as full time occupation is decreasing while the number of proportions of artisans working as pensioners or part time is increasing.²²

Private trade and services

Prior to socialist transformation of trade, in 1950 the shop network of Hungarian trade had been made up of 45,000 privately owned and 15,000 socialist (mainly cooperative) shops and catering units. In 1978 proportion became reversed; as against 54890 units of socialist trade, 10,800 units of private retail trade were functioning. While private trade had a 16.4% share in the shop network and a 4.2% one in the total staff of retail trade, its share in retail turnover amounted only to 0.7 percent.²³ These

22. For details with figures see R. Nyers, op. cit., p. 155.

23. Ibid., p. 159.

figures show that only smaller shops are run by private traders; because wholesale and foreign trade is not allowed in the private sector. But it is established practice in the home trade to let small shops and small restaurant by contract of lease for private running. But this is not purely private but working under the combined forms in which fixed capital remains in state ownership but the business is run by private individual. The lessee is relected by auction; the person offering the highest rent gets the contract. In 1984 about 11% shops and 37% of the restaurants were leased this way.²⁴ It is characteristic of this movement toward smaller units that the nationwide service enterprises -- AFIT (car repair), GELKA (servicing of electric household implements, radio, television sets), Patyolat (laundry) wish to make their local sections or workshops independent and run on the basis of contractual or leasing agreement.²⁵ In services, individuals regularly performing servicing activity with the purpose of obtaining complementary income. Generally pensioners and employees of large scale (who also have artisan's licence) belong to

24. J. Kornai, op. cit., p. 1709.

25. Marton Tardos (1983), "The Increasing Role and Ambivalent Reception of Small Enterprises in Hungary", Journal of Comparative Economics, September, p. 285.

this category. There are many private persons who let a part of their flats either temporarily or permanently through travel agencies. In 1978 more than 50% of the country's 189,000 lodging places available for commercial purpose were provided by private activity.²⁶ Private enterprises has a great part in consumption services; illustrated by the fact that in 1978 they represented 40.3% of all consumption services (rendered for state agencies, enterprises and the population) and 45.9% of services for the population.²⁷

The next important area is the housing. Previously all apartment houses were nationalized. This trend has been reversed. In 1980, 71.4% of the total housing stock was in private ownership. The trend continuous: 85.7% of the dwellings built in 1984 were private. In the area of transport Hungary is over crowded with private cars. The number of privately owned cars increased 13.7 times from 1966 to 1984.²⁸

Business work partnerships

The necessity of small enterprises is admitted in Hungary, then the question may immediately be raised in

26. R. Nyres, op. cit., p. 151.

27. For details see ibid., Table 11 and 12, p. 161.

28. J. Kornai, op. cit., p. 1708.

which form of ownership they should function. The traditional form of small enterprise is small private property but small may not be in private ownership. The Hungarian regime solved the problem in a peculiar way under the name of 'business work partnerships'. This new form came into force in Hungary on January 1st 1982. These are small scale enterprises based on private ownership by the participants. It is a blend of small cooperative and small owner operated capitalist firm. Business partnership may organise themselves in several forms. The account of main business partnerships are the following:

Table 3.8

Number of Small Enterprises and their Members in August 31, 1983.

Form	Units		Membership	
	Number	per- cent	Number	percent
PJT (Civil law partnership)	188	1	1035	1
PJT, managing given sections of enterprises under contract	10		31	
PJT, managing commercial or catering shop of state company or lease	172	1	301	
PJT, Keeping retail shops	229	2	481	
GMK (business partnership)	4184	31	24186	20
VGMK (enterprise business partnerships)	7533	56	75271	61
Specialized team of industrial/ service cooperative	972	7	21611	18
AFESZ specialized team	229	2	481	
Total	13517	100	124397	100

Source: T. Laky (1984), "Small Enterprise in Hungary: Myth and Reality", Acta Oeconomica, vol. 32 (1-2), p.43.

Now let us discuss these different types of partnerships one by one.²⁹

(1) Civil Law Partnership (Hungarian abbreviation PJT) --

Although this form had existed for a long time but 1982 regulation restarted a life into it. Its member must not be less than 2, the maximum is not specified. The partnership also may employ non members. A 40% tax is levied on profit originating from the functioning of the partnership. Loss or bankruptcy of the partnership is the personal risk of the members. The PJT's are typically communities in which intellectuals of the capital city are doing intellectual work -- many kind of designing, organisations and computer services. This form is becoming popular because membership is not limited and PJT did not require approval of the employer.

(2) Business Partnerships (Hungarian abbreviation GMK) --

As table 3.8 shows it is a popular form of partnership with its 4200 organisational units and more than 24000 strong membership in 1983. The membership of GMK is limited to not more than 30 members and involvement in commercial activities

29. For details about these partnerships see T. Laky, op. cit., pp. 39-63.

is prohibited. Personal involvement in the work is compulsory. The tax payable by the partnership is only 3%. Majority of the GMK members usually keep their original jobs as PJT members do. A small portion of membership works as full time workers. A part of the GMK's is providing intellectual services because their members are highly qualified experts belonging to top of the profession. Other GMK's, those engaged in industrial activities are working as a background industry of the economy. But GMK has still not very much popular among artisans because they themselves been granted better opportunities.

(3) Enterprise Business Partnerships (Hungarian abbreviation VGМК)--

VGМК is the most popular partnership. In the first half of 1984, slightly more than 100000 people participated in the work of about 10,000 VGМКs.³⁰ It's membership is limited to 30 and also limited to the workers or the retired workers of a given business organisations (enterprise, co-operatives, budgetary organisations). The approval of enterprise manager is required for its setting up. It may not engage employees. The VGМК pays a charge to the enterprise for the

30. G. Revesz (1984), "Enterprise Business Partnership VGМК in Hungary: A Case Study", Acta Oeconomica, vol. 33 (3-4), p. 337.

use of means and equipment lent by the enterprise. The majority of the VGNK's were not created in state industrial enterprise but in other organisations (like research laboratories, state farms, design institutes, service companies and even cooperative farms). In the light of data of activities, the majority of the VGNK (55%) are engaged in industrial activities another 20% do intellectual work and 19% work in construction.³¹ In industrial field activities running from the processing plants of state farms through bus garages and hospitals to hairdressers.

(4) Specialized teams of industrial/service cooperative:

This organisation is working within the framework of cooperatives. Membership should not less than 5 persons but no ceiling on maximum. The parent cooperative is responsible for all activities even for losses if any. That is why the scope of autonomy is very less.

(5) AFESZ specialized firm:

It is the same as the specialized team of the industrial service cooperatives, but this is attached to agricultural consumer and sales cooperatives.

31. T. Laky, op. cit., p. 51.

Now the next question arises here is that, how to finance these firms. K. Falus-Szikra propose three possible ways of financing small ventures or enterprises by drawing the means of the population.³²

- (1) financing through the mediation of bank;
- (2) financing through invest enterprises;
- (3) direct investment.

But to work properly and to fulfil its functions a long term security is needed for any small enterprise. The people who are against the increase of growth possibilities of small plants in private ownership are worrying and asking wheather it is not the begining of some reprivatization resulting in the establishment of capitalist relations. Naturally if small enterprises are given free scope and allowed to develop, then there will always be some especially successful ones, among them, getting stronger economically after some time. And what should happen if the most successful small enterprises reach the upper limit of small property. After that the growth should be allowed or not. These are some questions which the Hungarian economy is going to face in very near future.

32. For details about these methods see K. Falus - Szikra (1985), "Small Enterprise in Private Ownership in Hungary". Acta Oeconomica, vol. 34 (1-2), pp. 18-22.

The Informal Private Sector in Hungarian Economy

The informal sector of the Hungarian economy belong to³³ (a) all private activities pursued outside the formal private sector. (b) all incomes that does not originate as payment for labour services rendered in government agencies, officially registered non-profit institutions, state owned firms, cooperatives and private business.

Gabor and Galasi classify the following under the heading of unlicenced activities -- unregistered employees and home workers; illegal non tax paying tradesmen; those producing within socialist structures, but without permission; component part or utensils for their own use and sale - services done within the socialist sector which relate to their basic activity and which are paid for kind in various ways - services legal and illegal falling outside those organised by the state.³⁴

According to well known Hungarian Socialist Zsuzsa Ferge 'the economic reason for the existence of second economy is obvious. The socially organised production is unable to

33. Kornai, op. cit., p. 1706.

34. Marton Tardos (1983), "Small Firms in Hungary", New Hungarian Quarterly, Autumn, p. 83.

meet the emerging solvent demands in adequate quantity and/or quality.³⁵

The small scale employer or owner who covers up a large part of this production and his profits, the craftsmen who work without a trade licence, the sales assistant who sells 'under the counter', the manager of an enterprise who signs more workers at low wage than he requires for work, the supplies manager who uses bribery as a means of procuring material - all live to a certain extent outside the law.³⁶ A few people work in the informal sector as full time occupation. The majority of work in this sector perform as an supplementary to the original job into other sectors of the economy. People 'moonlight' in the evenings and weekends.

Istvan Kemeny in his work distinguished between different groups of activity of the unregistered economy in Hungary. He produces different type of grey, brown and black market transactions; but mainly he gives the following unregistered transactions.³⁷

35. Coded in I.R. Gabor (1979), "The Second (secondary) Economy", Acta Oeconomica, vol. 22 (3-4), p. 294.

36. Istvan Kemeny (1982), "The Unregistered Economy in Hungary", Soviet Studies, July, p. 363.

37. For details about these transactions see *ibid.*, pp. 350-56.

- (1) Transaction within the legally unrecognised private sector.
- (2) Market transactions undertaken by salery earners and linked to their regular work.
- (3) Supplementry earnings received for illicit dealings in regular work - in built earnings but socially uncondoned.
- (4) Gratuities for work performed within the scope of regular employment but outside the bounds of perfessional duty.
- (5) Transactions by directors for the purpose of obtaining and retaining power.
- (6) Market transactions by managerial staff for the purposes of material conditions of production.
- (7) Informal transactions between workers to ensure the material conditions of production.
- (8) Payment made to persons who misuse their power in order to render services: bribery.

Everyone knows that it is very difficult to demarcate the formal and informal activities. So let us see in the following table the size of the second economy (formal & informal) private activities.

Table 3.9

The Relative Size of the Second Economy in Hungary

	<u>First Economy</u>	<u>Second Economy</u>
	State owned firms and cooperatives %	Formal and informal private sector (%)
1. Distribution of total active time (excluding time spent on household work and transport) in 1984	67	33
2. Construction of Social sector to residential construction (measured by the number of new dwellings) in 1984	44.5	55.5
3. Contribution of social sectors to repair and maintenance services in 1983	13	87

Notes - In row 2 the first economy include activities of business work partnerships. The second economy figures in row 3 are the sum of three parts: formal private sector 14%, informal private sector 19% and 'do it yourself' activities within the household 54%.

Source :- J. Kornai, op. cit., p. 1707.

This aggregate data shows the high ratio of total working time spent in the second economies. It means Hungarian people wants more income and higher consumption over leisure, and they are willing to work more if the authorities allowed.

The main reason for the attraction toward second economy activities is higher wages as compared to first economy. According to one estimate, in 1979 hourly earnings in such activities were about five times higher than in the large scale sector.³⁸ G. Revesz in another estimate says, "in Hungary the average wage per hour is 30 forints in the primary economy, a wage of 80 to 100 ft./hour belong to the lower range in the 'secondary economy' even in wage worker position."³⁹

After discussing the Hungarian experience of private activities one can reach to a conclusion that a certain scope for the functioning of small enterprise is required, even in a socialist economy. The justification of the private sector and the necessity of its development in the supply of population are acknowledged by the majority of the people in Hungary. In a course of survey made in 1982 by the Research Centre for Mass Communication; 77% of those interviewed considered the private sector indispensable in the supply of the population and in the opinion of 70% supply would be improve if the private

38. M. Marrase (1981), "The Evolution of Wage Regulation in Hungary" in P. Hare, H.K. Radice and N. Swain (eds.), Hungary: A Decade of Economic Reform, Allen & Unwin, London, p.58.

39. G. Revesz, op. cit., p. 357.

sector were further extended. Merely 15% were of the opinion that no new fields should be opened to the private sector.⁴⁰

Although private sector is the minor segment of the economy, yet its growth is remarkable. As a result of this, large number of population have a hidden desire to enter the private businesses. Whenever they will get opportunity they will joint it. Most probably all the craftsmen and shopkeepers working in the private sector are satisfied with their incomes; and many of them are even in highest income groups. But one aspect of Hungarian private sector which needs attention is that, in spite of the repeated recognition of their permanent role under Hungarian socialism; private entrepreneurs are not interested in long term fixed assets but many of them are only **myopic** profit maximizers. But the success of the formula, in which Hungary has established an economic system which combines the large scale socialist sector cooperatives and small scale private activities in flexible manner-may explain the availability of a wide range of consumer goods and services that is unique among socialist countries.

40. K. Falus - Szikra, op. cit., p. 15.

PART II

SOVIET SECOND ECONOMY

Since the last fifteen years many studies about the Soviet economy recognise the existence of several non-planned activities. Various authors studied the size, composition and impact of these activities under the name of parallel, unofficial, counter, shadow or widely popular second economy. Numerous partial aspects such as private plots, role of shabashniki and different markets have also been examined. This large and apparently growing set of phenomena recently attracted attention of scholars studying Soviet Union. The precise definition and scope of the second economy is not an easy task. However, Gregory Grossman, tries to define this complicated problem - according to him the second economy comprises all production and exchange activity that fulfils at least one of two following tasks:⁴¹

- (a) being directly for private gain;
- (b) being in some significant respect in knowing contravention of existing law.

41. Gregory Grossman (1977), "The Second Economy of the USSR", Problems of Communism, September-October, p. 25.



About this definition Dennis O'Hearn comments that in accepting such a definition Grossman misses a point of vital importance; since the 'first' Soviet economy is planned one, the second economy should be defined in terms of its contra position to the plan. That a parallel market activity is illegal or private is not so important as the fact that it is outside the planning structure. This does not merely mean that the activity is not planned by directors or economic regulations. What is meant is that the activity in question:

- (a) not explicitly taken into account in planning process.
- (b) not officially sanctioned as a part of the activity/ies of national economy.

To clarify all this he gives the example of private plots; whose privately sold produce is the officially sanctioned part of the economy. It becomes 'outside the plan' when it is sold speculatively -- only then it becomes a second economy activity.⁴²

But with the only exception of agriculture in all other sectors of the Soviet economy, one finds much difficulty

42. Dennis O'Heran (1980), "The Consumer Second Economy, Size and Effects", Soviet Studies, April, p. 218.

to draw a distinction between legal and illegal private activities. Even private farming and Kolkhoz markets are quite frequently associated with illegalities. To draw a clear line between formal and informal private activity is therefore in many cases very difficult, some times impossible. It would be wrong to assume that illegal sector in the economy functions separately, in isolation from the legal sector. In fact, all these sectors are interdependent in a number of ways. The degree of independence may change from time and place. As Feldbrugge rightly says, "In the USSR, the second economy activities normally do not occur in isolation but in combination (with legal sector). In such cases legal part of the activity appears as a visible tail wagging an invisible dog."⁴³

Therefore, generally authors include all the private economic activities wheather legal or not, a vast range of informal, semilegal and illegal actions of official institutions and organizations under the heading of the second economy. Richard E. Ericson include the activities like agricultural production on private plots and sales in farmers markets; private construction, trade, consumer and professional services; theft of socialist property; evasion of tax, black markets of

43. F.J.M. Feldbrugge (1984), "Government and Shadow Economy in Soviet Union", Soviet Studies, October, p. 529.

producers and consumer products; speculation; bribery and corruption; use of official position for personal gain and illegal trade between socialist organizations, in his work on Soviet second economy.⁴⁴

Various scholars look at the problem in entirely different ways. In a fascinating and suggestive analysis A. Katsenelinboigen⁴⁵ defined a range of coloured markets ranging from legal red, pink and white through the semi-legal grey to illegal brown and black markets: within several of these classes there are various categories. The 'red' market is the distribution system established by the regime which controls both prices and wages. The 'pink' market embraces the legitimate exchange of second hand goods in commission shops; and 'white' market includes the sale of second hand goods in the small markets, and sale of farm produce through collective farmers' market in cities. While these activities are legal and to some extent encouraged or at least tolerated. The 'grey' market embraces goods and services for which state supply is inadequate e.g. housing accomodation, private

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44. For more details see Richard E. Ericson (1983), "On the Allocative Role of the Soviet Second Economy", in Padma Desai (ed.), Marxism, Central Planning and Soviet Economy, The MIT Press, Cambridge, p. 110.
45. A. Kastenelinboigen (1977), "Coloured Markets in the Soviet Union", Soviet Studies, January, pp. 62-85.

educational instruction, health care etc. Illegal markets are those in which participants when caught are normally prosecuted or otherwise disciplined by the state. The 'brown' markets covers the items in short supply that are traded 'on the left' or under the counter. Finally, the 'black' market embraces strictly illegal transactions in which participants are deemed guilty of criminal activity and prosecuted by the state. In addition to street purchase of highly desired foreign fashion and other modish items, this includes trade in foreign currency, gold, drugs and a range of other fashion domestic goods. Now let us see one by one the different sectors of the Soviet second economy.

Private Agriculture

By far the most important private economic activity in the Soviet Union is in agriculture. Private agriculture on household plots still accounts a considerable account in total agricultural output. The increasing importance of private agricultural activity in the Soviet Union is the result of the failure of Soviet model of agriculture in growth of agricultural productivity. As Ellman⁴⁶ pointed out in his

46. Michael Ellman (1981), "Agricultural Productivity Under Socialism", World Development, vol. 9, no. 9/10, pp. 979-90.

article that the growth of agricultural output under socialism has been substantial. Nevertheless the growth of agricultural productivity has been unsatisfactory from the Marxist-Leninist point of view. Partly it results from adverse factors, geographic and demographic, in the economic environment. Partly it however results from the inadequacy of Marxist theory, with its excessive stress on economies of scale, exaggerated expectations concerning the gains from abolishing private ownership and failure to foresee the costs of the one nation, one factory model.

The position and activities of private agriculture changed throughout the Soviet history depending upon political line at that time.⁴⁷ The private plot or garden plot in Soviet Union can be cultivated by a peasant household that belong to a collective farm, by a household with primary employment outside the agriculture altogether. Kolkhoz members are allowed to exchange plot usages rights among themselves within the limits laid down by status for each household. In 1979, private agriculture was undertaken by

47. For a brief survey of the private agriculture see Alec Nove (1968), The Soviet Economy, Allen and Unwin, London, pp. 61-65.

13 mn. Kolkhoz households, over 10 mn. workers and employees in other branches of the economy. Close to over half of total private output now comes from 'workers and employees'. The average size of the Kolkhoz household plot in 1979 was 0.31 ha.⁴⁸

Politically and ideologically, it is alien to the Soviet system and contradicting the Marxist-Leninist position on socialization of means of production. "The principal reason given by Soviet authors for the continued existence of private sector is economic necessity resulting from the still inadequate level of collective agricultural production. The second reason is the political consideration of the 'centuries old attachment of the peasants to his piece of land' which has not yet completely died out and which it would be erroneous to ignore."⁴⁹ Soviet policy makers historically have made concessions to private agriculture in the spirit of practicality over ideology, viewing private agricultural activity as a temporary means for short falls in agriculture.

48. Alec Nove (1982), "Soviet Agriculture: New Data", Soviet Studies, January, p. 119.

49. K.E. Wadekin (1973), The Private Sector in Soviet Agriculture, University of California, p. 7.

In the period of New Economic Policy, the attitude of the regime was relatively free towards private agriculture. After that in Stalin era the period was tough for the activities in private agriculture. But the new attitude of the Soviet leadership toward the private agriculture after the Stalin's death was very important change in domestic and economic policy. With many relaxations the output of the private sector rose and contributed significantly to the improved food situation. After 1956 with the help of good rainfall "private sector blossomed beyond limits envisaged by the party and government, causing alarm and turning Khrushchev - held by many to be liberal into a champion of ever more restricted policy."⁵⁰ The overall Khrushchev's administration came to an end without a change in the official attitude toward the private sector. Because until the removal of Khrushchev the opinion was held in the Soviet Union that this is contradicting and negatively influencing the building of socialism. After Khrushchev's fall one of the first act of the new government was the lifting of restrictions on private agricultural sector. This was initiated by a decree of the CPSU Central Committee of 27 October 1964. On 4 November 1964, the tax on livestock

50. Ibid., p. 247.

owned by urban residents introduced in 1956 was repealed. Other legal restrictions imposed on livestock holdings of the non Kolkhoz population from 1959 to 1963 were lifted.⁵¹

Actually the confound food situation in the last years of both Stalin and Khrushchev eras led to changes in official policies in 1953-54 and 1964-65. After 1965 certain restrictions had lifted and previously confiscated plots were restricted, but the actual development has proceeded neither smoothly nor uniformly. The worsening food situation after two harvest failures (1972, 1975) compelled the Soviet leadership in 1977 to guarantee the private plot in constitution. Article 13 of the 1977 Constitution asserts:

"Citizens may be granted the use of plots of land, in the manner prescribed by law, for a subsidiary small-holding (including the keeping of livestock and poultry), for fruit and vegetables growing or for building an individual dwelling. Citizens are required to make rational use of the land allotted to them. The state and collective farms provide assistance to citizens in working their small holdings."⁵²

This is far from satisfactory and misleading if we see the significance of the private agriculture measured by the amount of land involved. Actually crops are less important than livestock and animal production. "In 1976

51. Ibid., p. 316.

52. Boris Topornin (1980), The New Constitution of the USSR, Progress, Moscow, p. 241.

personal household plots in USSR produced 62% of potatoes, 27% of vegetables, 42% of fruit and berries, 31% of meat, 30% of milk, 37% of the eggs, 56% of honey, 20% of wool, 33% of small hides and 94% of rabbit skins.⁵³ The percentage share of private production in overall agricultural production is as below:

Table 3.10

Percentage Share of Private Agricultural Production in Total Output in Soviet Union

Year	In total Agricultural production	In meat	In milk
1960	35.6	n.a.	n.a.
1965	32.6	40	30
1970	29.7	35	36
1975	28.3	31	31
1979	26.5	n.a.	n.a.
1980	n.a.	31	30

Sources: For column 1 - Alec Nove (1982), op. cit., p. 118.
For column 2,3 - Ann Lane (1983), "Private Agriculture on Centre Stage", in Soviet Economy in 1980's, Problems and Prospects (Part 2). Paper submitted to Joint Economic Committee of US Congress, Washington D.C., p. 26.

53. G. Shmelen (1979), "The Private Household Plot in CMEA Countries", Problems of Economics, May, p. 81.

These figures show that private output as a whole of both livestock products and crop products has been falling steadily, which is a matter of great concern both for Soviet and Western scholars.

Alec Nove in his article (which is based on the paper by Shemelev in 'Vopoosy Ekonomiki' no. 5, 1981) gives many interesting figures about disparities in private agriculture in different regions. He wrote 'republican disparities are evidently due to specialization, or lack of it, in Kolkhozy and Sovkhozy. Thus in Estonia, the wool is 94% from private animals. In Belorussia the share is only 4%. In Moldavia, Azerbaidzhan and Armenia 70-75% of fruit and berries are produced in Kolkhozy and Sovkhozy, while in Belorussia and Baltic republic 85-90% of these are private. In Belorussia, 80% of pork is from private sources, double the all union average.⁵⁴ He further shows attractive figures about the specialization of private agriculture. In 1980 quarter of all Kolkhozy had no pigs, half had no sheep or goats. In Belorussia Lithunia and Estonia 90% of all Kolkhozy had no pigs. In non-black earth RSFSR, Belorussia, Georgia and Lithunia, 90-97% of Kolkhozy did not keep poultry.⁵⁵ On 1 January 1978, as a

54. Alec Nove (1982), op. cit., p. 119.

55. Ibid., p. 119.

whole 31% of total number of cows were in private use of the population.⁵⁶ Goats (once popularity known as Stalin's cow in Russia) are also kept almost exclusively in the private sector. These figures explain the importance of private agriculture as a source of food.

Private plots are producing not only for themselves but also for the market. Thus the performance of the private agriculture in Soviet Union also influences state food supplies and living standards of urban population. The persisting importance of private agriculture among non-agricultural population is influenced by the fact that production like, eggs, meat, vegetables and fruit still are in short supply in state retail trade system. "Belianov estimated that three fifth's total private agricultural output are for human consumption by the producers themselves. One fifth for their productive use (as feed, seed and so on) and one fifth is marketed."⁵⁷

Private agriculture is using the labour which otherwise could not be utilized. Only a small proportion of the labour presently utilized in the private sector may be drawn on for

56. Boris Rumer (1981), "The Second Agriculture in the USSR", Soviet Studies, October p. 560.

57. K.E. Wadekin, op. cit., p. 56.

public sector. It is using labour of mothers with small children, invalids and old age pensioners as well as labour of able bodied workers and employees during the free evenings, week ends and vacations.

The personal farming is not isolated from the socialist agriculture, on the contrary they are linked with each other. But especially in the sphere of production and much less in the field of distribution. Quantitatively we cannot say anything but if there were no private sector, the Kolkhozy and Sovkhozy would have to produce much higher than its present level. Despite the advantages it cannot be said that the existence of private agriculture creates no problem for the Soviet economy. Along with ideological it may create several economic and social conflicts. The socialist regime had many reasons to adopt a restrictive policy toward private farming. As Boris Rumer writes, "the number of garden plants, which is increasing in geometric progression, and the associated construction of drainage and sewerage systems, water supply, electricity distribution, housing, construction of road building, all require building materials, metal timber and mass of other strict regulated industrial products. In most cases this is stolen from building sites and enterprise either for personal use or for sale to other holders."⁵⁸

58. Boris Rumer, op. cit., p. 563.

Despite all these shortcomings, poor performance of socialist agriculture impelled the leadership to encourage private agricultural activity. Since the beginning of the Brezhnev years the leadership has launched campaign to boost the private sector in agriculture in many ways - in 1964-65, 1969, 1972 and 1976-77. The new decree of January 1981 criticized the local officials and state collective farm managers for not encouraging private agricultural activity especially raising the livestock.⁵⁹ 'Family term' which is the invention of Khrushchev years becoming fashionable in Gorbachev years. "The developments in the private agricultural sector after 1981 show that 'family term' holding 100 or more head of livestock, or producing grain on 50-100 hectares of land are not uncommon nowadays.⁶⁰ But the decree of 1981 and other incentives to private agriculture are not likely to overcome the numerous problems hindering private sector farming. A broad range of other factors will work against a resurgence in private agricultural activity. These include demographic trends, rural housing policies, the narrowing gap between retail food supplies in rural and urban areas, the inadequate supply of machine and inputs, the poor marketing and transport structures

59. For details about 1981 decree see, Ann Lane, op. cit., pp. 29-32.

60. Libor Roucek (1988), "Private Enterprise in Soviet Political Debates", Soviet Studies, January, p. 54.

and apprehension about the longevity of leadership support for private agriculture.⁶¹ Keeping in mind all these problems we can say that within the rigid systemic boundaries it is very difficult to expand production in household plots. Some radical measures are necessary for the full development of the private plots.

Residual Sectors of the Second Economy

The intermingling of the legal and illegal private activities are very much complicated in the sectors other than agriculture. Despite all these complications we will try to study both the sectors independently for the clear understanding of the problem. However, in every aspect distinction is not possible.

In the 1960's and 1970's Soviet economy faces wide ranging socio-economic transformations. In the sphere of production and distribution new types and forms of private economic activities spread over the country. Since the 1970's several private activities have been made fully legal. Article 17 of the USSR Constitution says:

"the law permits individual labour in handicrafts, farming, the provision of services for the public and other forms of activity based

61. Ann Lane, op. cit., p. 34.

on exclusively on personal work of individual citizens and member of their families."⁶²

But the Resolution of USSR Council of Ministers dated 3 May 1976, declares that an individual is forbidden to engage in following activities.⁶³

- (1) processing of agriculture and products;
- (2) Production and repair of weapons and pyrotechnic devices;
- (3) production of duplicating and copying machines and process;
- (4) reproduction of gramophone records;
- (5) manufacturing of chemicals, perfumes and cosmetics;
- (6) manufacturing of goods made from pelts of valuable fur animals that donot bear state seal;
- (7) transporting passengers or freight;
- (8) maintaining boarding houses, bath houses, gaming establishments and amusements;
- (9) manufacture of alteration of articles made of precious stones or amber; and
- (10) manufacturing of candles, icons and eccesiastical items.

Individual labour in other type of handicrafts, agriculture and services have formally sanctioned. However alongwith these legal private activities, illegal economic activities are

62. Boris Toporin, op. cit., p. 242.

63. Libor Roucek, op. cit., p. 47.

extremely widespread phenomenon - that for a very large part of the population is in one form or another, a regular almost a daily experience. The influence of these activities have reached to the extent that Soviet people and regime cannot even think to live without these parallel market activities. As Simes writes, "while the authorities are basically opposed to the parallel market, they are forced to live with it and some times donot hesitate to use it themselves."⁶⁴ The reason for the existence of these markets mainly shortages result from the non availability of consumer goods; and production allocation problems and bottlenecks. Along with other factors emphasis on producer goods and stable prices also responsible.

Illegal production of commodities or services goes on in many ways but most commonly assumes one of the following forms.⁶⁵

- (i) production by a single artisan;
- (ii) private production on the job;
- (iii) parallel production in the plant;

64. K.D. Simes (1975), "The Soviet Parallel Market", Survey, no. 3, p. 51.

65. Gregory Grossman (1979), "Notes on Illegal Private Economy and Corruption", in Soviet Economy in a Time and Change Paper submitted to JEC of US Congress, Washington D.C., p. 837.

- (iv) private production behind the facade of a state enterprise or collective farm;
- (v) private underground manufacturing without official facade;
- (vi) private construction teams; or
- (vii) brokers and information sellers.

The considerable rise in the ownership of cars, refrigerators and televisions which has taken place during the last 15 years appears to have give a strong push to the second economy activities. "85 of every 100 families to have a refrigerator, 80 to have a radio, 85 to have a television set, 8.4 of every 100 families have a car was estimated in 1980 plan."⁶⁶ Informal activities connected with nearly every aspect of acquisition, operation, maintenance and repair of all these consumer items.

Though ownership of cars has risen, official petrol sales have actually fallen in some areas. In Kazakhstan only about one fifth of the 8.5 million rubles of fuel and lubricants used by private drivers in a year are actually purchased at filling stations. Only 13.5% of the petrol consumed in Omsk in 1971 was bought from the state. According to a reporter

66. Dennis O'Hearn, op. cit., p. 220.

in 'Izvestia' (12 January 1975) even by the most conservative estimates, more than a third of private motorcar drove on state petrol on two or three year ago.⁶⁷ In the market of books, there is large difference is exist in official and private rates. With the increasing Soviet hunger of popular music cultural trade in market of recordings is flourishing. Due to poor performance in service provision before the Gorbachev era, consumer services had been a major area of informal sector.

There are now many private tradesmen Shabashniki⁶⁸ who compete successfully with the state organizations for services and repairs. Their working groups are variously termed 'hired brigades', 'brigades on the left', 'wild brigades' or 'free builders'. The areas where the shabashniki are in greater demand include the central Non-Black Earth Zone, the Urals and Siberia. Most shabashniki work as terms of three to nine people, although the brigades occasionally number as many as 20 to 25. Examples of compansation for work performed on project basis by shabashniki as follows:⁶⁹

67. Ibid., p. 221.

68. For details about Shabashniki see Patrick Murphy (1985), "Soviet Shabashniki: Material Incentive At Work". Problems of Communism, November-December, pp. 48-57.

69. Ibid., p. 51.

- 30,000 rubles for construction of a barn in 1976.
- 15,000 rubles for construction of a garage in 1976.
- 37,547 rubles for building a calf shed and two buildings in 1982.
- 72,000 rubles for a factory built of brick in Vologda Oblast (Work done by 11 persons - 8 youth or students, three specialist builders).
- 52,000 rubles for construction of an animal husbandry employ (work done by 12 persons all youth/students)

The activities of these shabashniki have been the subject of articles in Soviet press since 1970. Initially articles generally condemned but after 1985 there are some changes in the public opinion, but high earnings of shabashniki have always been intolerable to Soviet authorities.

Illegal activities have always active in the market of alcohol drinks. Using Soviet figures Vladimir Treml estimated that in 5 years period from 1967 to 1972 the population consumed 1500 million liters of alcohol annually in form of state beverages, whilst drinking 500 million liters of distilled pure alcohol. This means about a quarter of the alcohol consumed in the Soviet Union is privately produced.⁷⁰ Nowadays this ratio should be much high than this, because of the anti-alcohol policies of the regime.

70. Dennis O'Hearn, op. cit., p. 222.

A large number of household repair and building services provided by people 'moonlighting' outside or even during working hours. The most shocking documented case of a large scale second economy for a service in housing repair in Georgia. An official report estimated that in 1972, of the sum spent by Georgian on housing repair and additions to houses, 98% was paid to private tradesmen in the cities and 99% in rural areas; 99% of the money spent by urban Georgians on repair to furniture and household items, and 97% of that spent by rural residents went to second economy.⁷¹

The various estimates of the size of parallel markets in the consumer goods and services are brought together in table 3.11.

People observed that informal sector include entities which engage in lending cash accumulation, investment, currency exchange etc. But about the private banking system there is no hard evidence. Currency exchange is the major area of activity in this sector. Black market and official exchange rates are given in table 3.12.

71. Ibid., p. 225.

Table 3.11

Selected Estimates of Second Economy Shares of Activity in Designated Areas

Product or service	Location	Estimated market share of the second economy in product or services (in %)	Unit of Comparison
Patrol and lubricants	Kazakhstan	80	Physical units
Furs (musk rat)	USSR	80	Physical units
Fish	USSR (internal Waters)	25	Physical units
Alcohol distillation	USSR	25	Physical units
House repair and decoration	Moscow	70	Money value
House repair	Georgia	98-99	money value
Repair of household items	Georgia	97-99	money value

Source:- Dennis O' Hearn, op. cit., p. 226.

Table 3.12

Black Market and Official Exchange Rates (Rouble to the dollar)

Year (end. December)	Black Market Exchange Rate	Official Exchange (basic) Rate
1968	5.15	0.900
1969	5.40	0.900
1970	6.15	0.900
1971	4.60	0.829
1972	4.58	0.746
1973	3.83	0.746
1974	3.06	0.746
1975	3.67	0.746
1976	3.80	0.746
1977 (end of March)	3.69	0.746

Source :- Dennis O'Hearn, op. cit., p. 228.

Along with all these informal activities there is widespread corruption is also prevailing in the Soviet Union which we cannot discuss here due to consideration of space.⁷²

It is virtually impossible to make an estimate of the size of the second economy. The underground nature of the activities is a big obstacle. "Estimates for 1968 by CIA which show that 10% of the Soviet GNP (in the sense of value added) originated in legal private sector and that of this, 36% originated in agriculture, 22% in housing construction and 2% in services.⁷³ According to Soviet sources it is estimated that the legal and illegal private sectors in agriculture and consumer services together supply an annual average of 38 million roubles worth of output (33 billion roubles in mainly legal forms of agriculture; 5-6 billion roubles in mainly illegal forms of consumer services) that amount for 26% of the total gross output of the service sector. Translated into labour force figures, there are more than 32 million families with private plots, and some 17-20 million individuals who are involved in both legal and illegal activities in the private

72. For corruption in Soviet Union see Steven J. Staas (1972), "Corruption in the Soviet System", Problems of Communism, January-February, Konstantion Simis (1977-78), "The Machinery of Corruption in Soviet Union", Survey, Autumn, and G. Grossman (1979), op. cit.,

73. G. Grossman (1977), op. cit., p. 35.

sector.⁷⁴

After looking the vastness of the second economy it is quite natural that Soviet authorities would be worried about all these informal activities which are the mainly results of the shortages. With the result of shortages public deposits in saving banks are also increasing. There are many possible ways to eliminate these problems from the economy. The Soviet military industrial bureaucracy might be reluctant to divert the investment from defence and heavy industry to consumer sector otherwise problem could have solved in this way. With the broader economic reform balance between supply and demand can be reestablish by changing current price and wage policy. But the supply of the consumer goods could be increased in another way as Gorbachev is doing under his well known programme, perestroika. He prefer to increase and clarify the role of the private sector in combination with measures to curb the illegal incomes. In the coming pages let us see the attitude of Soviet regime towards the private sector under Gorbachev.

Private Sector in Soviet Union Under Gorbachev

The economic policy and economic reforms of Gorbachev towards private enterprise are liberal and anti-Stalinist.

Also in Libov
Roucek, op.cit,
p. 51.
74. All figures in agriculture are taken from Soviet Statistical sources as published in K.E. Wadekin, "The private Sector in the 1980's", Radio Liberty Research R.L.251/85, 2 August 1985, p. 7. The figures on the consumer sector are taken from 'Izvestia', 19 August 1985.

Regarding private agriculture he has some radical measures in his mind. Because everywhere there is large scale criticism of Soviet agricultural performance. In a recent article Ellman⁷⁵ pointed out many weaknesses of Soviet agriculture. According to him the USSR is a net food importer, despite an exceptionally favourable land-population and much of the best soil in the world. Productivity in agriculture is very low (only 20-25% of that in the US). The very low returns on investment and very high cost of production. There are wide food shortages; the huge budgetary expenditure on food subsidies; the depopulation of some rural areas and the poor financial position of many farms which require continual loans or grants to balance their books. With the atmosphere in Soviet media today Ellman tries to point out that what kind of changes for Soviet agriculture are now on political agenda in Moscow? Many people with the influence of Hungarian experience supported the Hungarian type of model with all kind of small scale private activities. Other leaders appear to support the decollectivization of agriculture (obviously it would not be called decollectivization. Just as Chinese decollectivization was called 'the development of the responsibility system'). It is the most dramatic result up till now of

75. Michael Ellman (1988), "Soviet Agricultural Policy", Economic and Political Weekly, June 11, pp. 1208-10.

the entire perestroika programme. The chief advocate of decollectivization appears to be Gorbachev himself. He proposed a substantial expansion of 'family contract' system like Chinese 'responsibility system'. In agriculture under this programme state and collective farm have delegated to the private sector an increasing amount of production responsibility on the basis of delivery contracts. Ellman further says that agriculture occupies a key place in whole perestroika struggle in the Soviet Union. This is because Gorbachev needs some visible results from perestroika if he undermine popular scepticism about it and agriculture is one of the very few sectors where quick results can be achieved.

In the non agricultural fields the party and state authorities were delaying the decision to introduce wide range of private activities to the consumer and services sphere till 1986. Because for the orthodox forces the question of wheather to have more individual working barbers or carpanters is a question of Marxist-Leninist theory. But with the full understanding of the problem Gorbachev says, "Just try to have a repair done in your department you have to find a moonlighter who will steal his materials on some construction site so that in any case they come out of state supplies. Donot we have enough sense to size up the situation realistically."⁷⁶ In the 27th Congress of CPSU he declared:

76. M.S. Gorbachev, Pravda, 18 May 1985, Coded in Libor Roucek, Op. cit . p. 55.

"...the state will promote various forms for satisfying popular demand and providing services. We must attentively examine proposals for regulating individual labour."⁷⁷

The new 'Law of Individual Enterprise' which came into effect in May 1987 permitted private activities substantially. In the sphere of handicrafts following are permitted:⁷⁸

Clothing, footwear, headgear, fur articles, sewn articles; yarn, fabrics, knitwear and embroidery; furniture and other woodwork products; rugs and carpeting; pottery and ceramic articles; toys and souvenirs; household utensils and orchard and garden tools; fishing tackle and articles made of wood, paper, bone, cane, straw reeds and other materials. In the sphere of consumer services following are sanctioned:

'the construction, repair, equipment and improvement of housing, garden sheds, garages and other buildings; the provision of services related to the improvement of plots of land made available to citizens; the pasturing of livestock; the maintenance and repair of private cars etc; the repair of metal articles, household machines and appliances, and radio and television equipment; the repair of clothing, footwear, headgear, fur articles, sewn article; the repair of furniture, other woodwork products and orchard and garden tools; transport

77. Ibid., p. 55.

78. For further details see Ibid., pp. 56-59.

services for citizens by owner of private cars; the repair of rugs and carpeting; photography; barber and hairdressing services; shorthand, typing and bookbinding; service for single elderly people, disabled persons and other non-abled citizens and guesthouse service for tourists and other citizens, under contracts with enterprises, institutions and organisations. Finally in the social and cultural sphere, the following activities are permitted:

- instruction in cutting and sewing cloth and knitting; instruction in playing musical instruments and in choreography; instruction in shorthand and typing; tutoring; medical activity and the translation of texts from foreign languages, as well as languages of peoples of the USSR.

Instead of allowing directly private enterprise Gorbachev administration encouraging 'contract based production' in cooperatives or in partnership basis. In consumer goods and production, contract based personal individual labour has been working with public means of production. In this way Gorbachev is encouraging private sector without losing state's control on production.

On May 26th 1988, a new law passed on cooperatives which looks like the most radical reform to have happened under perestroika. Gorbachev has been pushing for cooperatives

which really means small private businesses for more than a year. So far around 14,000 cooperatives (on contract base) have been registered involving perhaps 150,000 people. There are cooperative restaurants and cafes, hairdressers and boutiques. The average income of the cooperative members in 1987 was 250 rouble per month. (the average wage in the USSR is 200 roubles per month).⁷⁹ From the beginning of July 1988, cooperative activities will-in the eye of law-at least, have equal status with state enterprise.

But Gorbachev warned against the private property mentality and illegal incomes. He said, "combating unearned incomes is an important functions of the socialist state. We must admit today that owing to the slackening of control and for a number of other reasons, groups have appeared with a distinct proprietary mentality and a scornful attitude to the interest of the society."⁸⁰ He is also against the 'money grabbing' cooperatives but he sensibly believes that the answer is not punitive taxation but more competition.

79. "Capitalism in Russia", The Economist, June 4, 1988. p. 69-70.

80. Coded in Libor Roucek, op. cit., p. 56.

With all these indications one can easily conclude that after Gorbachev's arrival, there is a favourable shift in the official attitude towards the private sector. The reasons for this change in attitude are obvious. The conservative economic model could not succeed in satisfying agricultural and consumer demands of the population. And above all, the danger of booming underground economic activities which are creating many social and economic problems. As there is a favourable change in the policies towards the private sector, there is a large scope in the future that illegal activities will diminish.

After examining the non-socialist activities in Hungary and Soviet Union, we find that there is a large scale difference in the posture of the authorities in solving the systemic problems with more private initiatives. Although after Gorbachev's arrival this difference is declining, yet still the Hungarian economy is more open in accepting the weaknesses of the planned system. Today there is a widespread opinion in the Soviet Union that they should also adopt the measures which the Hungarian economy had practiced in the recent past. Especially in the field of agriculture, no one can deny the achievements of the Hungarian model which incorporated the large scale private activities within

the cooperative framework. Regarding illegal economic activities both the economies are facing the same problem. The only way for both to curb these activities is the more open position on private initiatives.

CHAPTER FOUR

CONCLUSIONS: ROLE OF THE PRIVATE AND THE INFORMAL
SECTOR UNDER SOCIALISM : AN APPRAISAL

Poland and Yugoslavia presents a case of predominantly private rural economy. After the failure of forced collectivization in Yugoslavia in early 1950's and end of the partial collectivization in Poland in 1956, private peasants are working in both the countries as profit maximizing family farms operated in market environment. However, even after the first failure of collectivization both the countries are trying to increase the share of socialized agriculture slowly. But the method which both are applying to curtail private agriculture is not the direct collectivization, but gradual socialization through indirect control on peasants. In this policy Yugoslavia has been very much successful. Here without harming the private agriculture, the share of socialized agriculture is on increase and it is also working very efficiently. The share of state farms has also increased in Polish agriculture but the attitude of the regime was hostile towards the peasants. Polish peasants were under supplied with input and prices paid to them were low. Till 1981, regime was unsympathetic to the needs and aspirations of the peasants. After the Solidarity movement there is a shift in the government's position. As a result, private farmers start taking significant interest in the production processes. In the non-agricultural sphere of both the countries, the private sector is carving its

role especially in handicrafts, construction, trade and services. The opportunities for illegal economic activities are very high in Poland than that of in Yugoslavia. Polish citizens are openly engaged in these informal activities. Estimates for these activities are very high in both the economies. Figures about every aspect of the private and the informal activities of Poland and Yugoslavia are presented in the first two chapters of the study.

In Hungary and Soviet Union, private agricultural activities restricted only upto the household plots. These household plots are marvellous example of success. The figures mentioned in the third chapter presents the account of the achievements of these plots. In Hungarian economic model it seems somehow, cumbersome to differentiate between the private and cooperative enterprise by virtue the fact that the functioning of cooperative enterprises resembles very much the private sector. Many unique institutions like business work partnerships, lease or contract system are working in the Hungarian economy. Taking clue from the Hungary and other East European countries, Gorbachev in the Soviet Union started introducing a number of positive steps towards the private activities, although his main emphasis is on 'contract system' instead of open private activities. Estimates

regarding the informal activities are again very high in both the economies. However, the possibilities of these activities was much higher in Soviet Union due to restrictive nature of the economy.

The primary objective of the study was to examine the role of the private sector and the informal private activities in socialist economics. On the basis of the analysis present in the different chapters certain conclusions can be drawn. In all the East European socialist countries many causes are common which are responsible for the existence and development of the private activities. There are systemic causes inherent in the socialist system and causes due to historical, cultural and environmental characteristics of particular countries. All these factors are interlinked to each other and cannot be analysed individually. The private sector exposes the defects and the chronic and temporary failure of the socialized sector, and by contrast makes the scale and causes of these shortcomings more visible to population.

Generally, in all the socialist countries the impact of the private activities on output is complementary. Moreover, the quality of products offered by the private sector, in

general is better, because private producers are paid according to the performance. Especially private activities on household plots by the member of cooperative farmers and other groups of the working population have been found very productive. If these private activities on household plots were to disappear, the bulk of labour applied to it would simply be loss to the economy, because only a small proportion of that labour can be utilized in the socialized sector. These private plots enable people to spend their time in a constructive way and keep them away from many anti-social activities like alcoholism or hooliganism etc. All these facts leads to conclude that the private sector activities makes a positive overall contribution to output.

In all the socialist economies the private sector is virtually contributes to the reduction of the imbalances and offsets of planning failures. The private activities serves as a lubricant for the economic planning system as a social mollifier which in the short run stabilizes the economic, social and political order. Today this is more or less accepted in all the East European socialist countries that small private activities have a permanent role under socialism. However, on the basis of this it is totally wrong to conclude, as many western scholars are saying that capitalist

relations are developing in these countries. Because these activities are not based on any exploitation and most important category of input used by the private sector is the personal labour. So long as the commanding heights of these economies are under social ownership, there is no danger of large scale changes in the relations of production of the economies. The small businesses and small private activities in consumer services cannot be a threat to the system prevailing in all the socialist countries. However, the increasing liberal attitude towards the private activities in all the countries can create many complex difficulties in the near future. These economies can face the problem of income inequalities because many successful entrepreneurs are accelerating their wealth rapidly. The next major problem which the private entrepreneurs may face is the investment problem. Because after the maximum limit of private ownership, state will not allow them to invest more in the enterprises. People cannot spend this money on luxurious goods because already almost in all these countries, luxurious items are in short supply, and they have to wait for many years to get these items. Even to set the maximum limit is itself a problem. This question may hardly be answered on a theoretical basis. The limit may only be drawn

the endless reasons for the low productivity in social sector is outside the scope of the present study. For the long run, higher productivity in the social sector should be the main priority of the socialist economies. However, in the short run -- which of course, may even one or two decades, the only way to come out from the chronic systemic problems is the creation of an environment more favourable for the development of efficient private, semi-private and small cooperative enterprises. But this task is very difficult since what they have to face is not simple coexistence of economic sectors, but that these are functioning on different principles and at the same time inter-related to each other. Therefore, a number of questions about the future development of private activities in socialist economies remain open.

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