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PRIVATE ENTREPRENEURS AND THE COMMUNIST POLITICAL MACHINE: A HUNGARIAN CASE STUDY

Kalman Rupp

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Private Entrepreneurs and the Communist Political Machine: A Hungarian Case Study

by

Kalman Rupp
Columbia University and Center for Policy Research, New York

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1. Introduction

In a now classical sociological study, William Foote Whyte (1955) provided an illuminating analysis of the intricate relationships between illegal business and the political machine. The ingenuity of Whyte's work lies in his discovery that simple bribery is but one aspect of this relationship. Administrative discretion makes possible tacit or quite explicit deals with illegal business which in turn can be and in fact are used to further major, perfectly legitimate administrative goals. Whyte suggests that the abstract concept of legality covers a large number of distinct and conflicting political preferences of different and, not infrequently, of the same constituents. The police in the working class "Eastern City" neighborhood which he studied were primarily responsible for managing order rather than for the strict application of the law. Tolerance of certain illegitimate activities (e.g. gambling) helped the police control the area, partly by gaining the support of the rackets. However, Whyte also shows that this process is not without conflicts and ambiguities. While local constituents are less concerned about the moral hazards of gambling than about the safety of the neighborhood, the preference structure of other constituents of the city administration might be quite different. Once the attention of these other constituents is attracted to the illicit practices in the area--as a consequence of media coverage, for example--the tradeoffs of local administration change, often suddenly and dramatically. In fact, this uncertainty is inherent in the political process. Whyte's analysis does

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not simply suggest that informal mechanisms automatically "correct" formal arrangements, but points up the importance of the study of the administrative process itself.

In this paper I will utilize the analogy of the political machine to discuss the administrative environment of "semi-private"[1] enterprises--an example of organizations in the second economy--in Hungary.[2] Essentially industrial and servicing plants, mainly providing producer goods, these organizations were established by private individuals in the late sixties and early seventies. Due to severe legal, fiscal and other restraints on private enterprise, these plants could not legally function as private enterprises. Therefore the founders of semi-private enterprises were compelled to look for administrative shelters. Grossman (1979, p. 839) notes that "It must be very difficult under Soviet conditions to carry on any sizable manufacturing operation without an official facade". This applies to Hungary as well. In a very real sense this study is based on the success of some potential entrepreneurs in gaining administrative protection. The entrepreneurs in this study contacted agricultural co-operatives, organizations that form an important part of the public sector in centrally planned economies. The semi-private plants were established on the basis of an informal contract between the entrepreneur(s) and the co-op management as "secondary plants" of the co-operatives.[3] The entrepreneurs offered to run a small plant completely autonomously, while still providing a very large part of the net income of the venture for the agriculture co-operative that was willing and able to provide administrative protection for them. As one entrepreneur succintly put it: "The co-op gives us a letter-head and a bank-account, that's it. In exchange we have to deliver the 60% to them."

A considerable body of recent studies on the second economy in Eastern Europe analyzed corruption, bribery and market transactions in the second economy.[4] Less attention has been paid to the analysis of specific organizational forms (Grossman, 1979, pp. 837-840) of production and service activities. This paper discusses problems of the second economy in the context of a specific, relatively complex organizational form--the semi-private establishments.

Subject. The subject of this paper is the supply of administrative protection, one important aspect of administrative behavior toward the second economy.[5] My choice of this focus is based on the following considerations. In a market economy (with the exception of illegal activities) the supply of administrative protection for private enterprise can be conceptualized as infinite. Therefore, like any free good, its price is zero. But in communist countries, administrative protection can become a source of monopoly rent (Rupp, 1973b, pp. 92-97; Montias and Rose-Ackerman, 1979). Consequently it is necessary to analyze the administrative environment in studying the fate of private ventures in this latter case, while in the market economy it is of little interest. In this context I would like to allude to Max Weber's stress on the existence of "legal order" as an important component of his ideal-type of Western capitalism (Weber, 1968). I think that the terms and prospects of administrative protection influence the fate of various ventures in the second economy independently of the demand for the output of this sector of the communist economy. The inherent multiplicity and internal conflicts of administrative goals (Simes, 1975; Kramer, 1977), the complexities and ambiguities of the administrative organization of centrally planned economies, the organized ambivalence of the authorities (Montias and Rose-Ackerman, 1979), vagueness in laws and selectivity of law-enforcement (Schwartz, 1979; Katsenlinboigen, 1978; Staats, 1972; Chalidze, 1977; Simis, 1979) are extremely important in analyzing seemingly incomprehensible twists in administrative behavior toward the second economy.

In the following section I will provide a general description of semi-private enterprises. In the rest of the paper I will present a more detailed analysis of our central dependent variable, the supply of administrative protection. My analytical focus in this paper is limited to the behavior of the specific administrative environment[6] of semi-private organizations; the leadership of agricultural co-operatives and regional government administration.

Data Sources. This paper is based on the findings of a larger study on the semi-private enterprises. The primary data were collected by myself and my associates

between 1972 and 1975 in Hungary. We used a variety of methods to collect information on this segment of the second economy, with a primary stress on field methods. A series of interviews were conducted with plants leaders and workers, leaders of co-operatives and regional government and party administrators in three of the twenty counties of Hungary. A major product of this work consisted of more than 1500 pages of interview material. We also recorded observations in co-operatives and plants that were later subjected to more detailed analysis and analyzed documents (production plans, financial data and other administrative documents). On the basis of this information, a quantitative analysis of the organizational characteristics of 34 plants is now under way. In this paper I will utilize officially published national and regional data on agricultural establishments.

2. The Semi-private Plant (SPP)

The emergence of a new niche for industrial ventures. A series of planned changes in economic organization and government economic regulation in 1967 and 1968 led to the sudden, unanticipated and unplanned emergence of a new niche for potential entrepreneurs within the framework of agricultural co-operatives.

First of all, new legislation[7] introduced in 1967 made it possible for agricultural co-operatives to run industrial and other non-agricultural subdivisions, until 1967 most of these activities had been forbidden. This change was significant since the Hungarian economy, as other centrally planned economies, is generally organized by industrial branches. Economic regulation of different industrial branches differs widely. Differences in taxation, incentives and prices between state-owned industrial enterprises and the "co-operative" sector of agricultural co-operatives have been especially significant. In particular, the relative level of prices between agriculture and industry has been relatively unfavorable for agricultural establishments.

Secondly, the 1968 economic reform lifted several restrictions on interfirm trade, pricing and voluntary labor turnover, while maintaining a strong system of wage-control in industry.

As an inadvertent by-product of these changes, the late sixties witnessed the

sudden emergence of a relatively lucrative and unregulated arena for new industrial activities (c.f. Grossman, 1977, pp. 33-34; Katsenlinboigen, 1978, p. 191) within the framework of organizations--the agricultural co-operatives--whose management and workforce had had no previous experience in industrial production.

Products and work organization. The semi-private plants studied produced a large variety of goods and services. Characteristic technological procedures included machining, metalworking, metal founding, synthetic materials processing. Semi-private plants produced fittings, machine parts, metalware, plastic products, tools, small machines. They repaired tools and provided other services. Typical semi-private plants operated with a workforce of 10-30 persons. The work organization of semi-private plants consists of four groups (Rupp, 1976):

a. Plant leader (entrepreneur);

b. "Specialists";

c. Skilled workers;

d. Unskilled and semi-skilled workers.

The plant leader had of course the crucial role in establishing and running the plant, including management and marketing. Often, however, the entrepreneur contacted the co-operative as a head of a group of "specialists," highly skilled workers and technicians, who were also part of the venture to some extent. They performed important functions in the actual establishment of the plants, and latter participated in management--mainly as supervisors--, training of workers and in crucial technological steps. Depending on the nature of the functions, the bulk of the work in the plant was carried out by less skilled workers and/or semi-skilled and unskilled labor.

The distribution of the workforce among these four categories depended on technology, the conditions of the establishment and further growth. In some cases the workforce contained only the entrepreneur and specialists, as in the pattern-making establishments, for example. Pattern-making is highly skilled work, and there are few possibilities to expand production by adding less skilled workers and the subdivision of work functions. In contrast, the typical semi-private plant started with a small

group of specialists headed by the entrepreneur, but soon after less skilled workers were hired and production expanded. Sometimes the entrepreneur employed only unskilled and semi-skilled workers.

The "percentage system". As a first step in the establishment of semi-private plants, the potential entrepreneur contacted the leaders of the co-operative. The potential entrepreneur presented his plants and the expected profitability of the activity. The co-op leadership assessed the offer, and an informal agreement was negotiated. The basis of these agreements, as well as an important yardstick of evaluation for both parties, was a quasi-institutionalized system of income distribution: 60% of the value-added (net of some taxes) produced by the plant went to the co-op, while 40% remained for wages and entrepreneurial income. This system was common to different semi-private plants affiliated with the same co-op, but also to a regional "market" of co-ops offering administrative protection for semi-private entrepreneurs. The "percentage system" showed some variation through time, and a prehistory of simpler arrangements. While in 1972 the 60%/40% system was in effect in a reduced number of co-ops, in the late sixties--a period that was much more favorable for entrepreneurs--a 50%/50% division was in effect, as several of my interview subjects reported.

I will describe the "percentage system" as it operated in 1972 in more detail here. I would quickly add a caveat here that some elements of this description already reflect ongoing changes in the legal status and regulation of semi-private plants. Particularly, some elements that became illegal by 1972 simply had not been regulated before (c.f. Völgyes, 1977).

As a first step in the calculation, certain expenses had to be deduced from the sales value of the given semi-private plant: a) the value of materials purchased; b) the "production tax" to be paid for the given sales volume.[8]

The remaining "net" plant income had to be divided into two parts: 60% of the remaining sum went to the co-op central management, while 40% remained with the plant. I will describe what happened to these two components separately:

1) 40% at plant: the plant level overhead costs (e.g. energy, rents for buildings,

stationery) were to be covered with this. (It was however also reported that earlier these costs had been deducted before the 40%/60% division was made.) Next the wages to be paid to the workers had to be deducted. The entrepreneur had to pay the wages and other agreed upon income to the "specialists" (part of this income was tied to plant performance.). It is worth adding here that in 1972 the wages and income of the entrepreneurs and specialists were paid in a variety of forms in order to circumvent newly imposed restrictive regulations. Specifically, entrepreneurial income was divided between "wages" and "cost-compensation". This latter item was formally tied to the business expenses of the entrepreneur (e.g. the use of his privately owned car for travel and transportation), but essentially it was part of his entrepreneurial income because in practice it was a function of plant profitability.

2) 60% at co-op central administration: this component consists of three major parts. First, co-op level overhead costs were to be covered. Secondly, 25% social security and progressive income taxes (paid only after the official wages) were deducted from the 60%. The remaining part reflected the co-op level net gain from the venture. Co-op overhead costs usually were excessively financed from the semi-private plants. Gains from semi-private plants had been used to subsidize the operation of agricultural units beyond the reinvestment of semi-private profits into agriculture (subsidizing losses, wages and salaries).

The "percentage system" was the fundamental link between the co-op and the semi-private plant. Having said this, let me quickly add that it left open to negotiation many important issues concerning the actual establishment of the new plant and further operations. The ambiguities and the redefinition of specific components of the percentage scheme of income sharing contributed to the fact that the co-op take-over of semi-private plants was often carried out by a gradual replacement of the percentage system by an internal system of planned directives. Later in the paper the take-over of semi-private plants by the co-ops will be discussed in more depth.

The establishment of the plants. In most cases the initial investment was relatively minor. Buildings were usually provided by the co-operative, although in some cases

the SPP started in buildings rented from a third party. There were three major sources of investments in equipment: a) equipment owned by the plant leader; b) purchase of used equipment by the co-operative; c) production of tools and machines by the plant leader and specialists as the first activity of the new plant. The initial investment in equipment was often a combination of these three elements, and the ingenuity of cost-saving, productivity-enhancing original investments have been at the heart of SPP success in many cases. Plant leaders bought machines, machine parts, and tools as scrap materials, from private artisans (in some cases they themselves had been private artisans before, and bought their machines to the co-op). Even if machines had been financed by the co-operative, the purchase was carried out by the plant leader. In the earlier phases of the emergence of semi-private plants, the initial investments in equipment were mostly financed by the plant leaders, and sometimes even by the "specialists". As the co-ops became more able to raise cash, purchases financed by the co-operative increased. This is related to shifts in claims to ownership. Full capital ownership (and accumulation) rights of SPP entrepreneurs were never completely accepted by the co-operatives, a notable limitation of administrative protection for private venture. Legally, machines and tools owned by the entrepreneur were "rented" by the co-operative and often purchased later.

The establishment of SPP's faced problems in financing circulating assets as well. Since both the entrepreneur and the co-op had strong limitations on financing at the start, it is not surprising that many SPP plants started to operate with materials provided by the buyer. Deferred payments for materials purchases also contributed to the solution of cash-flow problems at the start. In addition, entrepreneurs and specialists usually had not been paid wages and personal incomes, or had been paid very low (less than unskilled wages) until the venture started to yield profits. Therefore, the entrepreneurs were highly motivated to start normal production.

Plant operations and product markets. Without going into detail it is important to note that there were many reasons for successful plant operation. The choice of plant production was obviously crucially important. Provision of shortage goods (e.g.

foundries, pattern-making) is of prime importance here. In these and other cases (e.g. most industrial services, production of nuts, bolts, springs, rivets, fittings, metalware) small-batch and unit production was important in plant operations, especially initially. Utilization of scattered markets, markets that were "too small" for suppliers in the state-owned sector were cited by entrepreneurs, but their significance for plant success was often overstated. The semi-private organizational form provided strong incentives not only for cheap investments but also for innovations of various sorts. The entrepreneur was interested in increasing productivity and cost-saving. Technological innovations, like the design of special equipment to produce a particular product were widespread in semi-private plants. More importantly perhaps, many of these innovations were quite simple, and some of them were probably known in state-owned enterprises in the given industrial branch but had not been utilized due to disincentives. Some plants were organized on a new idea.

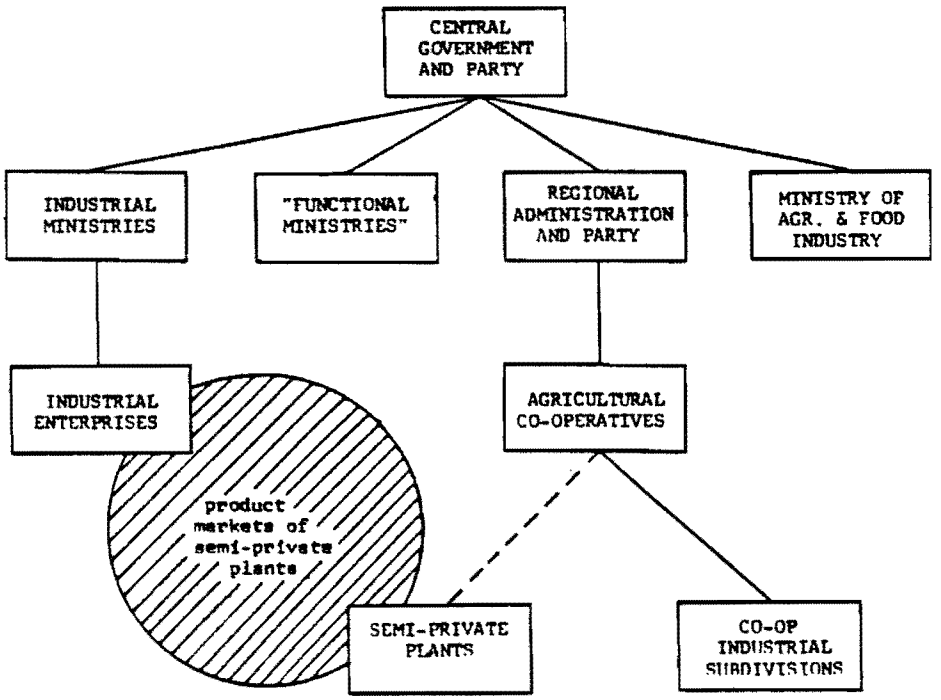
I did not find a consistent relationship between price forms (fixed, limited or free) and the semi-private organizational form. One reason for this might be discrimination against semi-private plants by state-owned companies; several entrepreneurs reported that even if prices were free and demand was great, they had to underprice their products compared to other, state-owned suppliers (c.f. Simes, 1975). On the other hand, in some cases bureaucratically fixed prices yielded significant profits because the product was "overpriced" (e.g. one entrepreneur reported using a technological process several times more productive than the methods that were used as a base for the bureaucratic price). I found limited competition among semi-private plants, or SPP's and other producers. A surprisingly large number of semi-private plants were founded in the aftermath of reorganizations of state-owned companies. A leader of a welding equipment repair shop, a rather successful SPP, reported for instance that he had been a middle-level manager at the single producer of welders in Hungary (state-owned company). This latter enterprise was forced to merge with a more influential state-owned company. The new management reduced the resources for the welder producer branch. Facing this situation my interview subject and several "specialists" (all from

the same place) decided to quit and established the SPP.

Semi-private entrepreneurs in general had a wide knowledge of the market in a given industrial branch. Their primary buyers were state-owned enterprises, but industrial co-operatives, public agencies, and to a lesser degree agricultural co-operatives were also buyers. The number of buyers was usually large and seldom consisted of one or two buyers. In contrast, materials often had to be purchased from one or two state-owned enterprises.

Interorganizational relations. The following chart (Figure 1) provides a simplified

Figure 1 The position of semi-private plants in the control structure of Hungarian economic organization



picture of the position of semi-private plants in the control structure of Hungarian economic organization. The link between agricultural co-operatives and semi-private plants is dotted in order to indicate the difference between the typical mode of co-ordination in the communist economic organization--hierarchy--and the market mode of

co-ordination between the agricultural co-operatives and semi-private plants utilizing Williamson's (1975) dichotomy. This distinct position of the semi-private enterprises is underlined by the fact that they have had options to decide with which co-operative to establish and even to some extent change affiliation, while state-owned industrial firms had been created by superior agencies. The shaded area on Figure 1 indicates very clearly that there is virtually no overlap between the economic demand environment and the administrative control of semi-private enterprises.

The distribution of incomes. I had access to both unofficial and official records in the case of one co-operative that operated 20 industrial plants, almost exclusively semi-private organizations. From the unofficial data I computed the distribution of the value-added in three categories: a) SPP wages and entrepreneurial income; b) taxes; c) co-op profits. The resulting distribution: 36.6% wages and entrepreneurial income, 27.2% taxes, 36.2% co-op profits (Rupp, 1973b, p. 137). Since the SPP's functioned with third parties legally as subunits of the co-op, sales and purchases were recorded in the official statistics. But a significant proportion of wages and entrepreneurial income were officially recorded as costs ("cost-compensation"). Almost one third (31.49%) of the 36.6% for wages and entrepreneurial income was recorded as cost-compensation. This amounts to 11.53% of the value-added.

The following data from official statistics[9] (Table 1) demonstrates the far-reaching impact of semi-private activities on various organizational success indicators. (In this table, "profits" refer to co-op profits.)

I have sketched the circumstances that led to the pairing of potential entrepreneurs and co-ops, but this is only the first step toward causal understanding.

The matching of the two elements can be seen as a problem of supply and demand. In the next section, I will analyze the factors that initially led co-ops to offer administrative protection to semi-private entrepreneurs. Subsequently I will discuss changes in the supply of administrative protection.

Table 1. Economic success indicators of agricultural co-operatives by ratio of nonagricultural output, Hungary, 1970.

Ratio of non-agricultural output (%)	Profits/capital assets (%)			Profits/landsize (Ft/kat. hold.)			Nonagr. % in total co-op profits	Capital assets/landsize (Ft/kat. hold)			Investments (Ft) per landsize (kat. hold.)	Investments (Ft) from co-op resources per # of employees	Investments as % of capital assets	Employment income per employee (Ft)	Taxes per employee (Ft)	% distribution of value - added		
	Agr.	Nonagr.	Total	Agr.	Nonagr.	Total		Agr.	Industry	Total						Employment income	Co-op investment and social fund	Taxes
5.0% & less	14.4	37.7	17.2	861	52	913	5.7	5966	26	6103	822	5162	13.5	20774	5046	64.7	19.5	15.8
5.1-15.0	13.1	50.4	15.5	821	136	957	14.2	6281	73	6548	1008	6316	15.4	21007	4980	63.9	20.9	15.2
15.1-25.0	12.0	74.8	17.3	819	305	1124	27.3	6818	132	7228	1287	7268	17.8	22282	5159	62.6	22.9	14.5
25.1-35.0	11.6	95.2	19.4	795	502	1297	38.7	6837	184	7352	1851	8066	25.2	22464	5294	61.3	24.2	14.5
35.1-45.0	8.8	110.9	19.2	646	773	1419	54.5	7345	282	8043	2069	8380	25.8	23119	5616	60.2	25.2	14.6
45.1-55.0	7.5	98.9	24.8	541	1062	1603	66.3	7246	507	8319	2322	8742	27.8	24013	5652	60.8	25.1	14.3
55.1-65.0	5.6	115.7	23.7	499	1552	2051	75.7	8927	692	10269	3227	10988	31.4	27483	6652			
65.1-75.0	6.2	142.3	39.6	602	3272	3874	84.5	9754	1171	12046	3647	9552	30.1	29667	6718	59.3	26.9	13.8
75.1 & more	1.7	212.0	48.5	238	6426	6669	96.4	14012	1684	17044	7568	12230	44.3	28668	6468			
Total	11.7	91.2	18.4	782	419	1201	34.9	6720	171	7176	1428	7304	19.9	22404	5297	--	--	--

Source: KSH (1971), pp.240, 242, 278-283.

3. Variations in the Supply of Administrative Protection

Why was administrative protection offered to entrepreneurs by agricultural co-operatives and not by other organizations in the public sector? Why did certain co-ops offer administrative protection while others did not? I will be able to give limited answers to these questions, simply because the subject of my study is an historically unique phenomenon. My analysis will focus on the variability of administrative behavior in the co-op sector, regional party and government agencies.

Theory. My central hypothesis is that variations in the supply of administrative protection depend on the potential contribution of semi-private activities to the central administrative concerns of the given agency.

Merton (1968) proposes a social structural theory of non-conforming, deviant and illegitimate activities. According to him, a disjunction between legitimate goals and socially patterned, legitimized means for achieving them is a major structural

source of deviance. "Innovation," defined as the use of illegitimate means to further legitimate goals, is a response to such a social structural situation.

Extending Merton's "disjunction" hypothesis, Cloward (1959) observed that innovation depends not only on the lack of access to legitimate means to achieve legitimate goals, but also on access to illegitimate means. In our case this variable refers to opportunities to derive substantial income by offering administrative protection for semi-private ventures. This is possible only if a supply of prospective semi-private ventures is available and administrative protection is likely to result in the profitable operation of these organizations. This extended version of Merton's theory posits an interaction between disjunction and opportunity.

In applying Merton's theory to the study of administrative protection supplied by agricultural co-operatives, we would expect that in those co-operatives where a disjunction between economic success goals and the available resources to achieve these goals exists, there should be pressure toward innovation. Access to potentially profitable semi-private ventures became a resource that the agricultural co-operatives could use to further important organizational goals. These goals included agricultural investments, enhancing the income-producing capacity of the co-operative, and improvements in employment opportunities for members of the co-operatives. The regional Party and government administration could encourage co-op administrative protection for SPP's to improve the overall performance of agricultural co-operatives in their region[10] (c.f. Grossman, 1977; p. 32). Thus, offering administrative protection for private entrepreneurs might be viewed as administrative innovation, in Merton's use of this term.

Blocked access to legitimate means plays an important role in the demand for corrupt actions (Scott, 1972; Staats, 1972). In the context of the second economy bribes are paid to administrators to attain government services or resources that are unavailable through legitimate channels, a point stressed by virtually all students of the Eastern European second economy. Moreover Grossman (1979) and Simis (1979) point out that the unchecked monopoly power of government officials often leads to the

extortion of bribes for carrying out officially prescribed duties.

What is being proposed here is the application of similar considerations about the use of illegitimate means to the study of the administrative processes that lead to the supply of administrative protection. We have just proposed micro conditions that might be favorable for the supply of administrative protection. The system of administrative rewards and punishments within the administrative hierarchy provides additional reasons why the supply of administrative protection is expected to be related to the use of "illegitimate" means (SPP's) to further "legitimate" administrative ends. Katsenlinboigen's (1978) ingenious classification of second economy markets is based on the observation that the "color" of market transactions depends on the degree to which different dimensions of such transactions are perceived as disruptive or constructive for the major administrative goals of the Communist Party. The official rewards and punishments and corresponding opportunity costs of different types of "illegitimate" transactions depend on this evaluation (Simes, 1975). Several authors (Staats, 1972; Kramer, 1977; Schwartz, 1979; Montias and Rose-Ackerman, 1979) make a distinction between corruption for private gain, and corruption for bureaucratic (administrative) gain. In both cases bribes are paid to a corrupt official in order to benefit the individual bribee. In the second case however, the bribe-giver is a corporate actor, and the payment is instrumental in furthering officially legitimate goals of the given "socialist" enterprise or co-operative. Therefore the transaction is treated by higher authorities as "more" legitimate in this latter case. Hence the ambiguity of laws and regulations becomes an additional tool in the hands of the authorities that can be used to further administrative interests, adding to the already sizable monopoly power of the central authorities through the use of selective punishment (Grossman, 1977; 1979).

I expect that these administrative forces influence the supply side of administrative protection for "illegitimate" semi-private activities as well. When the overriding goal for example is the consolidation of an agricultural co-operative, a certified socialist organization, the reliance on ideologically "undesirable" semi-private organizations can be seen as having a net administrative benefit (c.f. Coleman, 1975; Becker, 1960). If however administrative protection is supplied without such benefits, the protection of semi-private establishments would be seen

in darker colors. Likewise, once the same profits can be obtained in alternative ways, there is no more room for the justification of the semi-private organizational form from an administrative point of view.

The implications of the theoretical statements presented will be tested against the empirical evidence from three perspectives:

First, a qualitative analysis about the forces that led certain co-ops to offer administrative protection for the establishment of semi-private plants will be presented;

Secondly, an indirect test using cross-sectional statistical data on agricultural co-operatives will be performed;

Finally, I will analyze longitudinal changes in the supply of administrative protection.

Field observations: the micropolitics of administrative protection. The co-op and regional level interviews and observations indicated that the distribution of semi-private plants was highly skewed regionally, with a strong concentration in some highly industrialized and densely populated areas of the country.

Not only was the ratio of industrial activities lower in less industrialized areas, but few of the industrial plants were functioning as semi-private plants. The predominant organizational form in these areas throughout the period studied was industrial subdivision--organizational units closely integrated into the co-op hierarchical organization. These plants usually produced technologically simple products. Large batch production for simple markets was much more wide-spread than in the case of semi-private plants. Often, the plants were established on the basis of a subcontract between large industrial corporations and the co-operatives. However, the income-generating capacities of these industrial plants were far inferior to those of semi-private plants. The few exceptions include industrial subdivisions of some more powerful and agriculturally more successful co-ops, especially those close to urban centers.

Agriculture was a rapidly declining economic sector throughout the sixties in

Hungary. This decline threatened the very existence of co-ops, their financial balance and other basic facets of organizational survival (Rupp, 1973a). The number of agricultural co-operatives declined from 3413 in 1964 to 3033 in 1967, amounting to more than 11 percentage points (KSH, 1969a).

Perhaps paradoxically, the pressures toward administrative innovation might have been stronger for the co-ops in the highly industrialized regions than for those in the rest of the country. Most importantly, competitive pressures due to the presence of industry and services contributed to shrinking employment and high labor costs. Such financial problems were multiplied by the legal responsibility of co-ops to provide support for aging members, while the younger generation could easily find more rewarding industrial employment (Rupp, 1973a).

These pressures clearly suggested diversification. The prospects of creating a financially more viable agriculture in these regions was also dependent on costly capital-intensive investments. These pressures on the co-operatives were also important for the regional administration. In Hungary, industrial enterprises were formally, as well as informally, subordinated to branch ministries in the central government throughout the whole period. In contrast, agricultural co-operatives, formally independent units, were informally subordinated to the regional Party and government administration. Regional Party and government agencies were in turn responsible for the operation of agricultural co-ops in their area vis-á-vis the central agencies. Therefore, the influence of these regional agencies was directly tied to the size and financial balance of agricultural co-operatives in their area.

The highly industrialized regions provided superior industrial opportunities to establish semi-private plants as well as favorable administrative environment--partly at least as a "structural effect" (Blau, 1974). That is the regional administrative environment was more favorable to the establishment of semi-private plants independently from co-op level variables in the case of any single co-op. This interaction between industrial opportunities and regional administrative behavior seems to have been instrumental in a relatively high degree of institutionalization of

administrative protection transactions (c.f. Scott's, 1972, contrast between "parochial" and "market" corruption).

There are clear indications, however, that in those co-ops where agricultural resources were limited, the conditions for administrative innovation were more favorable than elsewhere in the highly industrialized areas. In those co-operatives where both the level of agricultural resources and the quality of co-op management were low, alternative courses of action--either in agricultural or industrial fields--were much more limited than elsewhere. In the case of co-operatives in financial crisis, both inside and outside pressure toward leadership change mounted and the danger of forcing the co-operative into merger with a more successful organization added to an already critical condition. Financial resources were crucial to the survival of the organization and/or leadership. The smaller the co-op and the lower the level and efficiency of existing resources, the larger the marginal impact of any potential semi-private plant is. If we imagine offers by potential entrepreneurs in a homogenous highly-industrialized environment as "random shocks" on the co-operatives--a model consistent with my observations--such a situation becomes apparent.

Compared to other alternatives, the semi-private pattern generates incomes for the co-op quickly and with little financial risk. The administration of the relationship between the co-op and the semi-private plant is relatively simple, since the plant leader performs management, marketing and other leadership functions. For these reasons co-op leaders in such organizations were more willing for a <u>radical</u> policy shift toward promoting the establishment of semi-private plants than were the leaders of more consolidated co-operatives. In addition, the same factors could easily lead to leadership change. My results are in agreement with Meyer's recent empirical finding (1978) showing that leadership change itself increases the impact of environmental factors on the organization. New co-op leaders, often with overt support from the regional Party and government administrators, introduce a policy to promote semi-private enterprises (Rupp, 1973; 1976). Both regional administrators and these new co-op leaders--some of whom might be called "political entrepreneurs"--define the

stabilization of the co-op organization as the overriding goal: the heavy reliance on semi-private ventures is justified by this goal. As these "new leaders" emerge, traditional agricultural leaders further lose influence--a prospect less likely in agriculturally more stable co-operatives. The new leaders mediate the relationship between the semi-private plant and their political environment both within the co-op and with outside agencies (c.f. the role of tolkachi--"pushers"--in the Soviet case). The new leaders often include people with some industrial expertise. They evaluate offers from potential entrepreneurs, monitor their activity, create and modify the co-op "rules of the game".

The micropolitics of the emergence of semi-private plants is an important factor in the highly skewed distribution of semi-private plants in roughly equivalent industrial and administrative environment. Thus the data demonstrate that, given favorable access to potential semi-private entrepreneurs, some of the distinct difficulties of agriculturally poor co-ops increase the relative supply of administrative protection for the establishment of semi-private ventures compared to other co-ops in highly industrialized environment.

March and Olsen (1976) stress that ambiguity and fluidity in organizations leads to highly context-dependent choice situations and decisions. In their "garbage can" model a decision is an outcome or an interpretation of several relatively independent "streams": problems, solutions, participants and choice opportunities. In our case we have potential entrepreneurs who offer solutions; they are looking for problems. We studied co-operatives that were struggling with serious problems of survival; they were looking for solutions. The entrepreneurs' solution was profitable small-scale production. They also offered a problem: they lacked legitimate ways to establish an enterprise. In this particular historical situation the co-ops had a solution that could be applied to the problem of the potential entrepreneurs: they gained the opportunity to run industrial establishments. "Problems" and "solutions" in such choice situations emerge and exist independently: the solutions were not designed for the problems they came to solve. Nevertheless, such pairing of problems and

solutions might dramatically increase the scope of alternatives, and become major contributions to organizational change.

Cross-sectional analysis: co-op resources and opportunities. I performed an indirect quantitative test of my hypotheses by a multiple regression analysis of organizational characteristics of agricultural co-operatives. The source of these data is official statistics covering a full cross-section of agricultural co-operatives in Hungary. The relationship between this statistical analysis and the results of my field observations is two-fold: (a) the quantitative analysis serves as a check on some of the conclusions rooted in qualitative observations; (b) the qualitative information facilitated appropriate specification and operational measurement of the theoretical variables.

The operationalization and the results of the statistical analysis will be discussed next. A brief analysis of the technical details is presented in a separate Appendix. (The quantitative results of the regression analysis are presented in the Appendix, Table 4.)

The dependent variable is the co-op non-agricultural production (NONAGR) as a percentage of total co-op output (the absolute size of non-agricultural co-op production was also used in some regressions). Since this variable is related both to industrial output and to the past and/or current presence of semi-private plants in a given co-op, it will serve as an indicator of these latter, unmeasured variables. Consequently, this variable is an indicator of the central dependent variable of the paper, the supply of administrative protection to establish semi-private plants.

By far the easiest was the operationalization of opportunity, access to potentially rewarding illegitimate industrial activities. Such opportunities are dependent on the presence or proximity of potential semi-private entrepreneurs. Since this is positively related to industrialization (INDUSTRY) the level of industrial employment in the given region was used as an indicator of access to potentially rewarding illegitimate activities.

The operational measurement of our other independent variable--the disjunction

between legitimate goals and means--was more difficult. Naturally one would be inclined to use agricultural effectiveness as a criteria for this since those co-operatives that did poorly in agriculture would be high on Merton's disjunction variable. Unfortunately for our present purpose however, the current agricultural performance of co-ops in 1972 was significantly influenced by the positive impact of already established semi-private activities, and therefore did not provide measures that correspond to minimal criteria of causality. I looked for measures that were not influenced by this simultaneity. The landquality (LANDQUAL) measure satisfied this criterion and has a well-known relationship to agricultural performance potential in Hungary. Low landquality scores indicate high disjunction between means and ends, while high landquality means an abundance of access to legitimate means.

In some of the regressions I included the natural logarithm of the size of the land used by the co-operative as an independent variable. This variable can also be easily related to the "disjunction" variable. The leaders of smaller co-ops are usually less influential than leaders of larger ones. Land size is closely related to agricultural output size. Land size puts limits on agricultural expansion, and smaller co-ops are exposed to the danger of forced merger with larger and more influential co-ops. Therefore Merton's theory implies more pressure on the leaders of smaller co-operatives to use illegitimate means.

The test results (Appendix, Table 4) are consistent with the hypotheses derived from our theoretical propositions. The sign of the opportunity parameter (industrialization) is consistently and significantly positive, while the disjunction variables (landquality and landsize) are consistently negative, albeit weak. The statistical test suggests the far-reaching and dominant influence of opportunities on the use of industrial establishments. The data also show that the utilization of these opportunities is the most important and consequential for those co-operatives whose access to resources for agricultural expansion has been relatively inferior. Therefore the data support our field observations about the micropolitics of administrative protection.

4. Administrative Protection: Changes Through Time

Whyte's analysis of the relationship between illegal business and the political machine (1955) illustrates two dimensions of the administrative difficulties facing illegal business: how to obtain administrative protection and how to keep it. His analysis shows that the uncertainties of enjoying stable and lasting administrative protection are no less important sources of differences between legal and illegal business than the problems of gaining administrative protection from a static point of view.

Co-op leaders and entrepreneurs shared this assessment. From the start they viewed the possibility of establishing and running semi-private organizations as a short-run opportunity.

In this section I will analyze longitudinal changes in the supply of administrative protection. Since my subject is the administrative behavior of co-operatives and regional agencies, I will try to separate the role of these agencies as determinants of changes in the supply of administrative protection. My strategy is as follows. I will present a major change in government regulation and the resulting compromise between central agencies, co-ops and regional administration. The shift in the government regulation is not explained in detail here. My aim will be to explain the compromise by changes in the supply behavior of co-ops and regional agencies. Having presented the regulatory compromise itself, I will analyze the underlying changes in the supply of administrative protection.

4.1 Crackdown--on whom?

The 1971 Government regulation. New Year's Eve in 1972 brought a gloomy prospect for semi-private plants and their parent co-operatives. A new government decree ("1048/1971")[11] issued on the last day of the previous year aimed at unprecedented restrictions on the industrial activities of agricultural co-operatives. This regulation was not the first of restrictive government actions,[12] but it was clearly the most far-reaching. Important for my work, it was issued just before I started my empirical study. This created obvious difficulties, but it also offered a unique opportunity for an

in-depth study of the implementation of the law.

The 1971 regulation, ("1048/1971") was aimed at a drastic regulation of the industrial activities of agricultural co-operatives, including, but well beyond a crackdown on semi-private enterprises. A leading bureaucrat in the agricultural department of the Central Committee of the Hungarian communist party wrote: "It is not the task of agricultural co-operatives to get engaged in industrial commodity production, not even if it 'proves' to be 'good business'." (Csizmadia, 1971).

The new regulation offered different rules and incentives depending on the industrial branch of co-op activities. Few restrictions were imposed on food industry, an industrial branch with little representation among semi-private ventures. Manufacturing activities like machine industry, chemicals and other branches in "heavy industry" as well as "light industry" became the central targets of regulation.

According to the decree manufacturing activities was to be permitted only on the basis of a preexisting contract between the co-operative and state-owned companies. This piece of regulation drastically reduced the range of possible buyers, excluding industrial and agricultural co-operatives for example. More importantly, flexible marketing and the prompt utilization of lucrative new markets was in effect prohibited.

The new regulation ordered a revision of the certificates of each individual manufacturing establishment to be carried out by the cabinet ministers responsible for the corresponding industrial branch. While administrative permits to establish industrial plants had been introduced earlier, the previous regulation gave regional government agencies the prime responsibilities for issuing such certificates. The 1971 regulation explicitly prohibited the establishment of new plants in the Budapest metropolitan region (Budapest and part of county Pest) in manufacturing branches other than food industry). The heads of the given industrial ministries were granted the right to order a ban on the future operation of already existing plants.

The 1971 regulation ordered that the wages to be paid to employees of the co-op industrial plants be incorporated as a part of the contract between the plant and the prospective buyer, state-owned company. Hourly wages should not deviate on the average

more than 10% from the wages paid to workers in similar occupational categories at state-owned companies. An expert of legal regulation (Mandy, 1972) regards this provision of the decree unprecedented in the history of Hungarian industrial legislation.

New regulations increased the taxes imposed on industrial activities of agricultural co-operatives (Table 2). Unlike the earlier situation these taxes were strongly differentiated by branch of industry and also by the location and financial situation of the given co-operative.

Table 2 Changes in government taxes by ratio of non-agricultural output, agricultural co-operatives, Hungary, 1970-1972.

Ratio of non-agricultural output (%)	1972 taxes as % of 1970 taxes		Δ Taxes - Δ Subsidies (1972-1970)		
	per empl.	per landsize (hektar)	per empl.	per landsize (hektar)	as % of value-added
5.0 and less	122.14	115.45	2100	305	6.24
5.1-15.0	132.61	130.05	1513	225	4.30
15.1-25.0	140.45	137.21	2676	426	7.18
25.1-35.0	148.60	144.57	5215	860	13.59
35.1-45.0	162.29	164.29	8263	1225	20.59
45.1-55.0	202.64	211.82	9916	1945	23.39
55.1 or more	238.08	259.50	13212	3751	25.31
Total	151.90	149.13	4127	672	10.58

Source: KSH (1971), pp.279-280; KSH (1973), pp.237-239.

Compromise. The 1971 regulation was greeted by strong resistance on the part of agricultural co-operatives. In effect the decree was not implemented until the issuance of a new government order at the end of 1972 ("1048/1972")[13]. It is worth mentioning here that regional government agencies fully co-operated with the agricultural co-operatives in postponing the implementation of regulations that seriously threatened

the very existence of industrial plants, in hopes of buying time until less restrictive regulations would be introduced. For example, regional agencies extended the deadline to discontinue sales to buyers other than state-owned companies--a clear example of an unauthorized action. The regional agencies had little influence at the original "input" state of the new regulation, but they had considerable--if mainly informal--political influence at the "output" stage of the regulatory process (c.f. Scott, 1972; pp. 23-28) ultimately providing major "input" to subsequent regulation.

The new regulation ("1048/1972") replacing the 1971 Government decree significantly relaxed the restrictions. The ban on sales to industrial co-operatives was withdrawn. The new Government decree also explicitly stated that permission from industrial branch ministries to continue already existing activities was not needed, with the exception of Budapest metropolitan region. The range of activities unaffected by the restrictions was also increased both through lower level reinterpretations of the basic laws[14] through the new regulation ("1048/1972") and through the process of administrative implementation. The new regulation declared that for those "heavy industry" and "light industry" activities where the use of the product is agricultural most of the restrictions do not apply. The co-ops and regional agencies in turn were quick to utilize the ambiguities of industrial class definitions in their negotiations with branch ministries. As a net result of these changes only a drastically reduced number of industrial establishments applied for permission to the branch ministers. According to my estimates--using information from co-op, regional, and government sources--75-80% of this restricted group of plants that still had to apply obtained permission for further operation (Rupp, 1975; p. 215).

In sum, in the aftermath of the 1971 decree we can observe a significant relaxation of the newly imposed government restrictions on co-op industrial activities. It eased the restrictions on already existing activities but did not remove the new burdens on wages. It could arrive only at a slight reduction of the increased tax burdens on industrial activities (Rupp, 1975). Finally, the establishment of new plants faced many more difficulties, if not outright bans.

Why this compromise? The process of increasing regulation is in part a reflection of a typical administrative process. Rigidities and inconsistencies of administrative regulation contribute to the creation of an administratively relatively unregulated arena. As time goes on, the attention of regulators is attracted to this area. The booming success of "illegitimate"--extralegal, but still literally not illegal--activities contributes to this shift in the attention of the central administration. In our case, such changes were multiplied by macro shifts in policy--in reaction to the criticism of the market-oriented 1968 reform. In parts, therefore, the changes can be seen in the context of regulatory and policy cycles characteristic of centrally planned economies (c.f. Skinner and Winckler, 1969).

These macro changes however do not account for the pattern of compromise described above. I will show here that the crackdown was in the interests of the co-ops in important ways, although there were some obvious disadvantages for them even in the ultimate compromise.

The compromise between the co-operatives and central agencies in effect made it possible to continue almost all already existing industrial plants as subdivisions of the co-operatives. However, the operation of plants in semi-private organizational form became almost impossible, and the new regulation set up barriers prohibitive to the entry of new plants: the entrepreneurs had been sacrificed. The selective, and ultimately highly politized use of penalties in a similar context is discussed by several authors (see especially Simis, 1979 and Grossman, 1977).

4.2 Loss of protection: organizational life-cycle and the aggregation of political interests

Karl Marx's anlaysis of the capitalist economic system led him to conclude that "capitalism sows the seeds of its own destruction." Based on considerations similar to those of Marx, Schumpeter gave a firm "no" to his own dramatic question, "Can Capitalism Survive?". On a lesser scale, Schumpeter (1962) argues that "since capitalist enterprise, by its very achievements, tends to automatize progress, we conclude that it tends to make itself superfluous--to break to pieces under the

pressures of its own success."

Schumpeter's statements about the decline of innovative entrepreneurship might be biased due to the emergence of new opportunities for entrepreneurial innovation at a rate high enough to upset the effect of the increasing bureaucratization and mechanization of already innovated and established products and procedures. But Schumpeter's vision seems to fit the conditions of small-scale illegitimate activities. Although neither Marx nor Schumpeter foresaw the emergence of private entrepreneurs in the socialized economies of communist countries, their argumentation about the self-defeating effects of entrepreneurial success might find a paradigmatic example in this case.

Changes in the relationship between the co-ops and entrepreneurs. The establishment of a semi-private plant is a major non-routine activity. In many ways the first half year or year is the most critical period in the life of such organizations. The semi-private organizational form often led to organizations that could gain from the utilization of non-standard opportunities. In the case of many semi-private plants, this inlcuded the utilization of scattered markets, innovations increasing productivity, cheap investments and skillful work organization. After the initial investment, work organization and marketing were completed, however, powerful organizational forces promoted routinization. Such routinization undermines the organizational position of entrepreneurs, since it diminishes the significance of contingencies they control.

The establishment and future of a given semi-private plant with a co-op increases the organizational interdependence between the two entities. At the start, the link between the co-op and the plant was mostly financial, however the number of links increased through time. In addition, the new relationship between the co-op and the plant was mediated through a market mechanism at the beginning, whereas later it became more and more of an idiosyncratic exchange (Williamson et al., 1975). The co-operative was interested in increasing the idiosyncratic nature of the relationship in order to change the income distribution scheme in favor of the co-op.

Here I would like to mention the interest of the co-operatives in regulations barring the creation of semi-private plants. The routinization of plant activities

led to attempts by co-operatives to take over semi-private plants. Co-op takeovers have been reported as early as 1968-1969. However, if the plant leader had some control of his markets, and had opportunities to leave the co-op to re-establish the plant under the shelters of an other co-operative, takeover by the original parent co-op could have proved to be difficult to achieve. A ban on the entry of new semi-private plants implies that the entrepreneur has nowhere to go--therefore his negotiating position vis-à-vis the co-operative dramatically weakens.

Co-ops were also interested in taking over semi-private plants because the "percentage system" of income distribution between the co-op and the entrepreneur led to "politically undesirable", high entrepreneurial incomes (c.f. Leff, 1979). In order to forestall political attacks on the co-operatives, co-op leaders put informal maximums on the amount of money entrepreneurs were allowed to earn. Consequently many entrepreneurs reached this maximum soon, with no incentives to further increase output. This odd situation therefore invited the substitution of co-op internal planned directives for the "percentage system", thereby transforming the semi-private plant into a co-op subdivision.

Since the co-op leaders anticipated a government crackdown on semi-private plants, most of the semi-private profits were reinvested into agriculture. These reinvestments--serving in part at least legitimating functions--also contributed to the creation of a more able agricultural division in the co-operative even if this was fairly costly. Thus, improvements in the agricultural performance of co-ops decreased their dependence on the entrepreneur.

The addition of new semi-private plants also decreased the dependence of co-op leadership on any single semi-private plant. As I mentioned before, the establishment of a large number of semi-private plants within the framework of a single agricultural co-operative was usually accompanied by leadership and policy changes in the co-operative. This new leadership, however, became more and more skillful at managing industrial establishments. Therefore organizational aging and growth contributed to the possibility of centralized management of the industrial divisions of the co-op as

an alternative to a decentralized system of semi-private enterprises loosely affiliated with the co-op.

Aggregation of political interests. These processes in individual co-operatives followed a similar evolutionary pattern at the regional level. As opportunities to establish industrial plants emerged, the benefits of development for the co-operatives of the region were almost directly tied to the rate of creation of new, and highly profitable organizations. This meant more semi-private plants. However, the weight of new establishments declined through time. Therefore the increasing weight of industrial activities in the co-ops of highly industrialized regions produced paradoxical results: the reliance on industrial opportunities became more and more significant, but the use of semi-private ventures became less important for the co-ops. This change is clearly reflected in Table 3. Large proportions and size of industrial production

Table 3 Changes in the industrial output of agricultural co-operatives in county Pest, Hungary

Year	Industrial output as % of previous year	Industrial output as % of total co-op output
1972	127.63	31.86
1971	120.26	27.45
1970	154.07	28.93
1969	158.67	23.87
1968	144.42	15.79

Source: KSH (1969a, 1969b, 1970, 1971, 1972, 1973)

in 1972 in many cases reflect plants that had been established as semi-private ventures but were transformed into subdivisions by 1972. I would also add that an important and growing proportion of output growth displayed in Table 3 is derived from already existing plants. However, it was not possible to separate the contributions of new

and old organizational units.

Based on this evidence, I conclude that processes of organizational growth contributed to the pattern of increasing government regulation of co-op industrial activities through the aggregation of co-op political interests at the regional level. The co-operatives were not passive subjects of increasing government regulation, rather they shaped new policies.

This analysis also supports the original interpretation of co-op support for semi-private activities in light of Merton's theory of anomie. As access to more legitimate opportunities increased, the co-ops and the regional administration gave up the administrative protection of semi-private ventures.[15]

5. Summary

The supply of administrative protection for semi-private ventures in Hungary has been investigated from three complementary perspectives: (a) the supply of administrative protection to establish semi-private plants; (b) cross-sectional variations in the supply of administrative protection; (c) longitudinal changes. Variations among co-ops in the supply of administrative protection to establish semi-private plants is overwhelmingly determined by available opportunities. Access to potential semi-private plants have no relationship to various resources that influence the success of co-ops as agricultural organizations. Consequently, the incentives to offer administrative protection for potential entrepreneurs are far the strongest in those co-operatives where both a disjunction between agricultural means and ends and an abundance of environmental opportunities are present. Micro-political processes and the justification of the use of semi-private plants by the administrative problems of co-operatives further increases the supply of administrative protection offered by these organizations. Processes of organizational growth and aging both at the co-op and the regional level contribute to the dramatic decline in the administrative protection offered by agricultural co-operatives. This decline in the supply of administrative protection has two forms: the withdrawal of administrative protection from already existing plants through takeovers by the co-op central management and a parallel

decline in the supply of administrative protection to establish new semi-private ventures.[16] Processes of aggregation of administrative interests provide the link between the fate of individual semi-private ventures through time, and changes in the entry conditions of the new plants at the level of the population of semi-private plants (Hannan and Freeman, 1977).

The empirical evidence of this study shows that Merton's paradigm of social structure and anomie can be usefully applied to the study of administrative behavior toward the second economy. However my study also indicates the pervasive effect of opportunities and shows that the reliance on illegitimate means might lead to a utilization of opportunities far surpassing the correction of initial disadvantages. The analysis of longitudinal changes at different levels and regulatory compromises showed that emerging access to legitimate means--paradoxically, as a consequence of SPP's--rapidly undermines the supply of administrative protection, a finding consistent with Merton's theory. I would also add however, that many of my findings can be explained--and perhaps better explained--by a more parsimonious behavioral explanation of the administrative behavior of co-operatives and to some extent regional agencies based on opportunity costs of alternative courses of action. The idea of opportunity costs is an implicit part of Merton's theory itself. However the micro-political processes described and the government and Party evaluation of the use of SPP's reflect emergent social structural processes predicted by anomie theory.

Little has been said in this paper on what the entrepreneurs produced and the demand for these outputs of SPP's. This was done on purpose, not only to save space but to underline the independent importance of the supply of administrative protection. Entrepreneurs might be more or less smart. They might or might not fulfill economic needs for flexible, small-scale and innovative production. Important as these problems are--and they deserve separate attention--this is far from the whole story. Demand for small-scale production had been around for a long time before the boom of semi-private plants. There is also enough reason to believe that potential entrepreneurs existed before and after the boom just like during this period. There is

barely any positive evidence that in deciding to grant or withdraw administrative protection for semi-private ventures co-op and regional leaders would have been driven by ideological commitments or by care for the potential benefits of semi-private ventures for consumers. Both of these factors affect the calculations of co-op and regional leaders in ways that deserve separate discussion. But their primary concern all along had been the administration of agricultural co-operatives--a focus of attention that was not necessarily against their self-interest as individuals. The use of semi-private plants was justified and evaluated as tools to solve administrative problems of organizational survival and growth in this sector.

The results of this study provide a clear example of non-institutionalized change, but, perhaps paradoxically, they also show the overriding importance of institutional constraints. Institutional barriers are not insurmountable obstacles to the emergence of sizable private enterprise in communist countries. But it is the impact of institutional differences that the same Schumpeterian entrepreneur might often enjoy the profits of a single innovation--or luck--for the rest of his life in market economies, while in our case the entrepreneurs were clearly the losers in the long run. The administrative protection offered for entrepreneurs in Hungary did not result in stable and lasting protection: uncertainty was an inherent part of the game.

Appendix: notes on the regression analysis

Table 4 summarizes the results of the multiple regression analysis. Two technical problems of data analysis deserve attention: the use of aggregate data and heterogeneity in the dependent variable. Having no choice but to use aggregate data I decided to analyze data cross-classified by two variables: region and LANDQUAL. Since the first variable is closely related to an independent variable (INDUSTRY) and the second is itself an independent variable, the danger of biased parameter estimation is minimal (Cramer, 1964). Nevertheless standardized measures are still likely to be biased (Blalock, 1964) since the relative variance of the grouping independent variables is inflated (Langbein and Lichtman, 1978).

The values of all of the variables are given for the 141 non-empty cells of the

Table 4 Regressions of NONAGR% and Ln NONAGR on various agricultural co-op organizational and environmental variables. Hungary, 1972.

Regression #	Dependent Variable	Population		INDUSTRY	LANDQUAL	LnLANDSIZE	LnINDUSTRY	LnLANDQUAL	LnAGR	Constant	R^2
1	NONAGR%	whole country	B	1.3834***	-0.1111					-0.720	22.2
			(S.E.)	(0.225)	(0.102)						
2	NONAGR%	industrialized regions	B	2.5899***	-0.1043					-22.921	30.6
			(S.E.)	(0.472)	(0.157)						
3	NONAGR%	whole country	B	1.3046***	-0.1408	-4.2635*				33.429	24.1
			(S.E.)	(0.227)	(0.102)	(2.354)					
4	NONAGR%	industrialized regions	B	2.5348***	-0.1413	-3.7652				7.043	32.2
			(S.E.)	(0.475)	(0.161)	(3.716)					
5	LnNONAGR	whole country	B			-0.6466*	0.9353***	-0.5267*	1.3870***	0.966	28.8
			(S.E.)			(0.333)	(0.225)	(0.237)	(0.309)		
6	LnNONAGR	industrialized regions	B			-0.0319	2.7704***	-0.1935	0.8337	-8.099	38.6
			(S.E.)			(0.558)	(0.621)	(0.361)	(0.500)		

* significant at the .05 level (one-tailed test)

*** significant at the .005 level (one-tailed test)

Source: KSH (1973), pp.297-315.

where: NONAGR% = proportion of non-agricultural output (%)
LnNONAGR = natural logarithm of non-agricultural output volume
INDUSTRY = level of industrial employment in region (industrial employees as % of resident population)
LANDQUAL = average landquality of co-op lands ("aranykorona/ha")
LnLANDSIZE = natural logarithm of size of land cultivated by co-op
LnINDUSTRY = natural logarithm of INDUSTRY
LnLANDQUAL = natural logarithm of LANDQUAL
LnAGR = natural logarithm of co-op agricultural output volume

cross-classification. While the data cover all agricultural co-ops (2314 organizations), tests of significance were still used as rough indicators--utilizing a conservative approach the number of cases was treated as 141.

The heterogeneity of the NONAGR variable is likely to suppress the variation in the strictly industrial activities. In addition, some of the NONAGR activities are related to agriculture (e.g. transportation, construction, commercial activities) and are sometimes significant in agriculturally strong co-operatives. To mitigate these problems (a) regression results will be presented for the whole country and the more industrialized half of the regions (where the industry component is less suppressed) separately; (b) the confounding relationship between agricultural and non-agricultural activities will be controlled through appropriate specifications.

Regressions #5 and #6 utilize a log-linear specification. The introduction of the LnAGR variable as a control variable here reduces the problems stemming from the heterogeneity of the dependent variable. In addition the use of ratio variables is avoided (Schuessler, 1973; Freeman, 1973).

Footnotes

1 The meaning of "semi-private" roughly corresponds to the term "crypto-private" introduced by Grossman (1977, p. 31). Nevertheless, I prefer to use "semi-private" here, because it points to the incompleteness of the private character of these establishments rather than the secrecy of their operations. In addition, "semi-private" is a value-neutral term.

2 Völgyes (1977) and Gábor and Galasi (1978) provide a general overview of the second economy in Hungary.

3 Similar establishments exist in other communist countries. For vivid Soviet accounts see RFE-RL (1977) and Alexeiev (1949).

4 Grossman (1977, 1979), Katsenlinboigen (1978), Kramer (1977), Schwartz (1979), Simes (1975), Simis (1979), Montias and Rose-Ackerman (1979).

5 In this context, the other aspects of administrative behavior toward the second economy are: 1) the supply of threats to the entrepreneurial sector (Kline, 1965;

Simis, 1979); 2) the demand for the output and services of the entrepreneurial sector.

6 I follow Hall's distinction between the specific and general environment of organizations (Hall, 1977).

7 5/1967./VIII.3./MÉM számu rendelet, 18/1967./VI.29/Korm.számu rendelet, 1967. évi III. törvény, 35/1967./X.11./Korm. számu rendelet, 6/1967./X.24./MÉM számu rendelet, 38/1967./XII.29./PM számu rendelet.

8 Linear (proportional) tax originally aimed to be the single tool for deriving revenues from co-op industrial activities at a level identical with the net sum of taxes collected from state-owned companies in various forms.

9 The national and regional statistical data used in the paper have been published by the Central Statistical Bureau (Központi Statisztikai Hivatal--"KSH") in the series entitled "Statisztikai Időszaki Közlemények".

10 A content analysis of reflections by 209 Hungarian "professionals" on long-term manpower and standard of living plans revealed a much higher degree of concern about issues of economic growth and efficiency on the part of government administrators and economists (almost exclusively policy-makers), than in the case of any other professional group (Ferge and Rupp, 1969).

11 1048/1971./XII.31./Korm. számu határozat

12 On the earlier restrictions see: Rupp (1975, pp. 172-181).

13 A Minisztertanács 1048/1972./XII.31./ számu határozata

14 A Mezögazdasági Szövetkezetek Ipari Tevékenységét Koordináló Bizottság I. számu közleménye

15 In addition, both the financial and political costs of establishing new semi-private ventures increased considerably.

16 It is worth recalling here that the 1972 cross-sectional data were used to test hypotheses about the supply of administrative protection to establish semi-private plants; many of the plants that had been established as semi-private were taken over by the co-ops by 1972. But they still entered into the operational measurement of

the dependent variable.

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