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PROSPECTS OF INDIVIDUAL ENTERPRISES IN THE  
UNION OF SOVIET SOCIALIST REPUBLICS\*

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\*The views expressed in this document are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been edited.

Calls for creating a "mixed" economy with a prominent sector of classical individual enterprise still evoke in the USSR a political and ideological allergy and, consequently, a reaction of unqualified rejection on the part of official social sciences. In the meantime, quite a few people come to realize that this position, justified by commitment to the idea of "pure socialism", is increasingly in contrast with the proclaimed slogan of a radical renewal of science of the socialist society and its task of adequate reflection of day to day economic practices.

In the age of unchained glasnost even the average reader cannot but wonder about the fact that the USSR remains among the few socialist countries, where the use of hired labor - even restricted - in individual enterprise is rejected both politically and legally. Here, the Soviet Union is only in the company of Cuba, Rumania and Czechoslovakia. It is noteworthy that in Czechoslovakia, as current discussions there show, many are inclined to take up the use of appropriate experience in China, Hungary, Poland and the German Democratic Republic.

It is also indicative that, despite the taboo, objective economic requirements in combining individual property and personal economic risks with routine use of helpers in economic activity (for them the risks are minimal) are making headway. Primarily, in the form of enlisting workers on contracts in cooperatives, which can have 5 to 7 "contractors" per each full-fledged member.

According to expert estimates, by the middle of 1989 the ratio between members of cooperatives and "contractors" was 1:2. Whereas formerly the ratio, regulated by local bodies of government, was based on administrative methods of

maintenance, now, in case of exceeding the "quota", a cooperative pays higher taxes. Evidently, economic legal norms begin to display realism in line with the call of the day and economic laws.

Secondly, in the form of enlisting hands on contracts in the individual-family-leasing forms of economic activity, sanctioned back in 1988 by the USSR State Agroindustrial Complex (now defunct). It should be stressed that in accordance with this practice - not abolished with the dissolution of the national agency - an individual leaser can enlist an unlimited number of contractors without paying higher taxes.

Thirdly, in the sphere of individual employment in the non-agrarian branches of the economy where, by the authors' estimate, in 10-20 percent of the cases one license for individual employment stands for several employees of no relation to each other, one of whom, as a rule, carries out the function of an entrepreneur (" prime contractor "). Such economic relations, in this instance not directly sanctioned by law, are particularly frequent in the repair and construction spheres.

Fourthly, in the sphere of commodity personal plot in the agrarian sector. Official estimates put the marketability of the personal plot at 12-15 percent. In reality, though, it seems to be greater, to an appreciable degree because of the use of seasonal workers.

Fifth, in the sphere of the shadow economy. According to sociologists, in the Soviet Union there are 1.2 million bums, declassed elements, virtually without a chance for resocialization. The contingent is one of the world's cheapest sources of manpower, in this instance for both the criminal and non-criminal zones of the shadow economy in the USSR. Suffice it to say that very modest food is often the only

payment for the work done. This economic form is fairly deeply integrated in the official economy, especially in such branches as rural construction by the farms themselves, forestry and collective contracts in plant growing.

Of course, the easiest way would be to declare all of the above mentioned "negative tendencies" and launch (step up) "uncompromising struggle" against them. However, on the one hand, struggle against them has been waged for years without success (which from the economic standpoint is proof enough of the vitality of corresponding economic relations), and on the other, such struggle could only be waged in administrative forms, which is hardly compatible with the logic of the economic reform in the USSR. It would seem to be reasonable to display realism and recognize the potential of individual enterprise.

The recognition, it seems, can and should be effected not only "under pressure of circumstances". That means that in the course of implementing the economic reform in the USSR a new and diversified model of the economy is to be set up in the country, where the various sectors would be fundamentally equal. Proceeding from this, the attitude to individual enterprise should be formed as not to an unavoidable evil, undermining the fundamentals of socialism but one that for now has to be tolerated due to a temporary concurrence of circumstances. It should be viewed as a normal and long-term factor of economic development and its activity should be regulated by national legislation.

Legalization and integration of individual enterprise in the existing economic mechanism should facilitate the solution of a number of long-term tasks of modernizing the

traditional sectors of our economy. Firstly, it should contribute to stabilizing the consumer market through a greater supply of goods and services. Significantly, the demand on the market will in this case be met more fully and more promptly. A better situation on the consumer market will, in turn, contribute to stabilizing the finances (in combination with other anti-inflationary measures).

Secondly, it should contribute to raising the efficiency of the government sector (it is to retain its leading role in the foreseeable future) through tougher competition in the economy and undermining its almost "natural" monopoly which is only capable of causing progressive decrepitude. Besides, enterprises in the government sector will thus be able to concentrate their efforts on tasks that are adequate to their place in the economy.

Thirdly, it should provide for finding a "common tongue" with the economies of Hungary, Poland and China, actively evolving toward classical market instruments. It should promote integrational processes in the entire Council for Mutual Economic Assistance, which are currently impaired by the command-and-administer methods of managing the Comecon.

In the fourth place, consistent action on the economic reform can create favorable prerequisites for altering (with due account for other conditions) the attitude of the world community to a fuller integration of the USSR's economy in the world economic order. In particular, it can create conditions for our country joining international economic bodies, such as the IMF, GATT and IBRD.

One of the more important arguments in favor of lifting political and legal restrictions of the given sector of the economy can be the gradual but increasingly apparent political institutionalization of those involved in the individual-labor (without hired labor) enterprise. Thus, economic associations of individual farmers openly proclaim political aims of activity to be among the most essential.

It is important to note that streamlining the use of contracted workers will in itself not solve the problem of creating a viable sector of "petty economy" unless steps are taken to set up a material and technological basis for it. At present, it is mainly formed by the people's personal savings and property (which can find an industrial use - machinery, premises, etc.), and also by the sales to self-employers, farmers and cooperators of production property that is scrapped by the "big" economy.

A transition from these modest forms of individual-family enterprise to more mature could be effected through:

- the creation of a full-fledged internal market of securities with a functioning stock exchange,
- the encouragement of transferring small businesses (say, employing up to 10 persons) to the property of individual leasers upon the expiration of the term of lease,
- the sale of land to individual property to family production collectives (which is now contained by the absence of a Unified Land Cadaster, that would provide the basis for real economic pricing of land),
- the sales or transfer of ownership rights to various public organizations, carrying out economic functions.

The significance of all these measures is seen in

the emancipation of property relations and in unblocking the production funds, currently concentrated in the government and collective farm zone of the economy.

Touching on the issue of denationalization of enterprises in the government sector through direct purchases by individuals, one should make note of insufficient theory in this problem. Such a step looks far from undubitable even in the case of large-scale economic overhauls. One should probably draw a line between two aspects: revitalization of the government sector, including the closing down of losing enterprises, and a course toward denationalization, based on the belief that a simple change of the forms of property is a guarantee of superior economic results. Taking stock of the warnings by many specialists about a high degree of concentration of the resources and finances of the shadow economy, one should at the same time bear in mind the danger of even greater integration of illegal enterprise in the official economy with unlimited use of the above-mentioned method of real privatization of the national economy.

However, the latter does not mean that a total ban would be the best way out. The search for a "golden mean" should attract the attention of experts in the nearest future.

As a transitional measure ("when one overuses the left paddle the boat is sure to turn right") it would make sense to start out with a judicial recognition of the practice, widespread in those countries where the use of enlisted labor is legally permitted at a very low level of limitation (primarily in the GDR). Upon mastering it, a transition is possible to practices, employed in Hungary, Poland and China.