

*GYÖRGY LENGYEL*

# POTENTIAL ENTREPRENEURS

*ENTREPRENEURIAL INCLINATION  
IN HUNGARY, 1988-2011*



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Potential Entrepreneurs  
Entrepreneurial inclination in Hungary, 1988-2011

**György Lengyel**  
(Corvinus University of Budapest)

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BUDAPEST, 2012



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## INTRODUCTION

This is a collection of essays about attitudes toward entrepreneurship. My research interest in the topic started in 1988 when Rudolf Andorka invited me to participate in a survey devoted to the issues of social and economic changes. Although I had experiences in fieldwork, in conducting interviews and data analysis this was the first time I could contribute to the exciting and stressful process of creating a questionnaire. Some of the questions addressed macro problems, like opinions about the crisis and economic reform or about the inevitability of unemployment, being a social phenomenon. Others were concerned about the actual and fair income in different occupations, for example, the income of a party secretary (which at that time we thought to be especially interesting – being formerly a taboo topic). Times were ripe for change, what we could observe from several signs.

First of all, the majority of the survey respondents thought that the crisis was deep and lasting. Another sign was that people thought to be fair to raise the income in all occupations except for the income of a party secretary. It seemed also obvious that ongoing social changes would imply tensions and contradictions. For example, quite a few people thought that the role of private property should be strengthened and that unemployment in general – that of the others, not of their own – was unavoidable. On the other hand people instinctively opted for a type of fairness which was close to Rawls' suggestions: they would improve almost everyone's position but felt fair to raise the income of the bottom layers more than that of the rest.

Acceptance of the institutions of market economy on one hand and the indirect need for closing the income gap on the other were the starting positions for the majority right before systemic change. It is of methodological importance but might be interesting to mention that we had to realize relatively early that the task of the researchers won't be easy in these challenging years of accelerated transformation. While toying with the idea of repeating the "fair income" battery of questions we had to face the problem that some of the selected occupations simply disappeared. Not only had the role of a party secretary twisted but we could hardly find typists and janitors on the labor market from the early 1990s on. We started the above mentioned investigation when the lasting crisis of the 1980s became apparent in the society. When I am closing the manuscript of this volume in the first days of 2012, a crisis unprecedented in size is an everyday experience. Crises are framing the phenomena analyzed in the chapters to come.

In the above mentioned survey, besides touching upon macro social and economic issues we had a few questions addressing micro problems: personal fears, hopes, expectations and intentions. One of these was a simple item asking: “would you like to be an entrepreneur”? The analysis of the answers to this simple question – asked in American surveys already in the 1940s – became one of my regular research tasks and indeed hobby in the last two decades. First, I felt obliged to describe the main results because I was the one to suggest to adopt this item. Then I became more and more obsessed by learning the new developments in the field of entrepreneurial inclination and by speculating about its possible reasons. Most of the original versions of the essays below were first-hand interpretations of survey results as parts of social reports and their primary aim was exploration. The reader should be prepared therefore that in most of the chapters the emphasis is on the empirical analysis of survey results dealing with attitudes and opinions concerning entrepreneurship and related economic issues like perception of the crisis or opinion about the market and unemployment.

I was aware of the importance of the Schumpeterian theory of innovation as well as the Kirznerian concept of “alertness” and while these helped to understand the role and motives of actual entrepreneurs, much less of those who were *inclined* toward self-employment (Schumpeter 1934, Langlois 1991, Kirzner 1973). In any case, the spread of small and medium enterprises (SMEs) in Europe underlined the importance of motivation (Whitley 1991). Merton’s extension of the concept of anomie and McClelland’s achievement motive were close to my research interest but I did not rely upon them. At least not directly and intentionally. Sometimes it is hard to trace to what extent are readings responsible for our research interest.

It would be misleading however to say that there was no conceptual frame at hand at all. While thinking about these phenomena I started to outline a model of action potential. Dahrendorf (1979) did interpret the Weberian concept of life chances as the consequence of the interplay between ligatures and options. Action potential similarly could be best understood as an outcome of the interplay between resources and inclinations. Action potential is the set of inclinations conditioned by material, cultural and social resources. One of these inclinations: entrepreneurial inclination is the central focus and the topic of these essays. Inclinations lie between possibilities and plans. At this point this research interest is closest to Ajzen’s theory of planned behavior (Ajzen 2005), with the qualification that in our case the focus is more on the grey zone preceding plans and intentions. Explorative research efforts did help to clarify that it is worth distinguishing between inclination and intention toward self-employment.



It is not true that intentions totally cover the explanatory power of inclination. Although they point to the same direction, according to multivariate results their impact remains significant even after controlling for the impact of each other and the effect of the intermediary variables.

The very concept of potential entrepreneur can be used in a broad and in a narrow sense and this distinction has to do with the difference between inclination and intention. In the broad sense, the concept of potential entrepreneurs covers those who are inclined to be self-employed. I use the concept in this broad sense in all of the essays except for the last one, where for the sake of international comparisons I rely upon slightly different survey questions distinguishing between those who in principle would rather be self-employed than employees and those who intend to be entrepreneurs in the next five years. In the last chapter, the concept of potential entrepreneurs is used in the narrow sense, including those who intend to be entrepreneurs in the next five years.

Entrepreneurial inclination itself was measured in all of the essays with the question: "Would you like to be an entrepreneur?" except for the last one. In the last paper while relying upon Eurobarometer data we adapted the question of "Suppose you could choose between different kinds of jobs, which one would you prefer: being an employee or being self-employed?" They coincide to a large extent, but the second one is broader because it suggests that someone may forget about unfavorable conditions. In the last surveys where we applied both questions the results show that the two data are not only closely correlated but actually the percentages are close to each other. In 2011, the proportion of those who said yes for the "would you like to be entrepreneur" question was 13.5 per cent and the proportion of those who answered positively to the hypothetical question of choosing between employee and self-employed status 20.4 per cent opted for self-employment (in both cases the actual entrepreneurs were excluded from the sample). Choosing between employee and self-employed status measures entrepreneurial inclination without calculating subjective and objective constraints but otherwise it grasps the same phenomenon as the "would you like to be entrepreneur" question.

While I dealt with the topic of entrepreneurial inclination several interesting related research projects were organized at the Department of Sociology. We conducted the Enterprise Panel Survey between 1991 and 2009 and a panel of SMEs between 1993 and 1996 (Czakó et al. 1995, Kuczsi et al. 1991). Within these and other projects I had a chance to work with colleagues like Ágnes Czakó, Béla Janky, Tibor Kuczsi, Beáta Nagy, István János Tóth and the late Ágnes Vajda I could learn from the critical comments of Pál Juhász and the late László

Csontos. We were able to broaden the scope of the surveys in the mid-nineties and organize an East-European comparative project where we could work with Silvano Bolcic, Alexander Stoyanov and Vadim Radaev. The results are available in the edited volumes of Kuczsi-Lengyel (1996) and Róna-Tas-Lengyel (1997/98). Some of our Ph.D. students also devoted their thesis to the economic sociology of entrepreneurship (Tóth 2005, Kelemen 1999, Leveleki 2002, Kopasz 2005).

The chapters below are organized in three thematic blocs. The first takes us back to the last years of state socialism by investigating the problems of entrepreneurial aspirations and crisis perception in those years. The second is devoted to the problems of economic attitudes and opinions during the post socialist transformation. The third one consists of essays covering longer periods or providing a comparative perspective. I changed the structure and the content of the original papers where it was necessary: I deleted overlaps, corrected errors and added facts when it was adequate. Nevertheless, in most of the cases they represent the knowledge I was equipped with at the time of their original writing between 1988 and 2011.

I have to thank István János Tóth for his cooperation being the co-author of a previous version of one of the papers and Eleonora Szanyi for helping me in editing the tables. I would like to thank Gabriella Ilonszki for her encouragement and critical comments. Without her help and support I'm afraid I would not dare to invest energy into putting this volume together.

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**I.**  
**ENTREPRENEURIAL INCLINATION**  
**DURING STATE SOCIALISM**



## ON ENTREPRENEURIAL INCLINATION

The following analysis relies upon some questions of a representative survey from 1988 that may be particularly important from the perspectives of economy policy<sup>1</sup>. It has to be stressed that the findings of a statistically analyzable survey are presented because there seems to be some discrepancy between the social phenomena as explored by political science – or by the intellectuals actively involved in politics – on the one hand and by empirical sociology on the other. Without the intention of artificially confronting the “truth content” of various types of knowledge, we wish to make clear that the two approaches may often result in two different kinds of answer, largely due to differences in research methodology and outlook. This is certainly the case with our subject, namely: who are for and who are against entrepreneurship. While participatory observations, interviews, case studies can afford us a glimpse into the narrow stratum of politically active people a representative survey can give a picture of the entire society. Most public intellectuals clearly and somewhat one-sidedly favor the political approach. However amidst the conditions of crisis an overview of not politically articulated opinions and their social embeddedness might be just as useful.

Half a century ago a survey by Fortune magazine found that half of the Americans (and within this, nearly two-thirds of single men) would gladly be entrepreneurs (The Fortune Survey 1940). We have data on the actual entrepreneurs from that time in Hungary, but obviously the actual number of self-employed businessmen is always lower than that of potential entrepreneurs.

Our question is what percentage of the adult population in Hungary would like to go into private business and what social conditions underlie their entrepreneurial spirit. Therefore we focus on the potential entrepreneurs, a category far wider than that of actual businessmen as it includes a wide spectrum of people ranging from those who make concrete plans, assessing their personal possibilities realistically, to those who wish to break out at any cost. Still, taking entrepreneurial inclination as our starting point appears to be useful, because while we have extensive knowledge of the actual entrepreneurs, we know hardly anything of the potential recruitment basis of businessmen.

The economic reform process in Hungary during state socialism has directed the attention of sociologists to the question of entrepreneurial potential inherent in the second economy. Diverging from international practice but compliance with the practice of the reform, the Hungarian researchers interpreted the phenomena of the second economy not in terms of legality-illegality, but as economic

phenomena beyond state control (Gábor R. – Galasi 1981; Gábor R. 1989). This was apparent in the reconsideration of the question of “small-scale entrepreneurs and socialism”, which used to be formerly an ideological problem (Hegedüs-Márkus 1978). The authors who interpreted the phenomena of the second economy and the market-oriented household plots as part of the embourgeoisement process had also operated with a relatively broad concept of entrepreneurship (Szelényi 1988; Juhász 1982; Kovách – Kuczi 1982). Although the Hungarian entrepreneur of the ‘80s displays some features of autonomy, he has little to do with the classic businessman image (Laky 1984). He can’t combine the factors of production, or if he can, he can do so to a very limited degree, mostly within family circles. His innovative drive – just as that of the other actors in a shortage economy – should rather be seen as compelled substitution, or “forced innovation” (Laki 1984-85). Both for subjective and objective reasons, a very little fraction of these entrepreneurs are willing to invest, most of their activities being farming out or selling “surplus labor” (Laky 1987). As our survey has also revealed public opinion entertains this image of the entrepreneur taken in a broad sense.

Our analysis highlights a broad category when we look at the answers to the question “would you like to be an entrepreneur?”. Our question requires more concrete considerations than a macro-level question like “do you approve of the spreading of private enterprise?”. In the first case people answer the implied questions of “could I?”, “would I want to?”, while in the second case they are confronted with a wider problem: “do I have objections of principle?” Our survey has shown that about a quarter of the Hungarian adult population would be entrepreneurs in 1988 and some 70 per cent reject this possibility (the remaining small percentage would decide as the circumstances would permit).

In the following we first examine these rates against some important social variables, and then, having drawn the relevant conclusions, we try to define the specific features of diverse ways of thinking by comparing them to other questions of attitude. Finally, the arguments against enterprise will be presented.

## **ENTREPRENEURIAL INCLINATION AND SOCIAL BACKGROUND**

The first striking thing is that gender and age considerably influence the readiness for free enterprise. 36 per cent of men (and 41 per cent of single men), but only 16 per cent of women would be entrepreneurs. While on the average one-quarter of the population would go into business, this figure is 9 per cent for pensioners and 38 per cent for the adults below 35 years. (At the same time, there is a close correlation between age and the rate of those making their answer conditional



upon the circumstances: some 4 per cent of the “it depends” answers came from interviewees under 35.)

These factors, which are often ignored as insignificant variables, cannot be neglected this time. These will be especially important if we analyze the motives of the interviewees in the light of external and internal conditions, macro- and micro-level constraints.

Studying the entrepreneurial spirit of men and women by age groups strong correlations can be found. More than half of the men under 35 would like to be entrepreneurs while for women the rate is one-quarter. Or, from another angle: while 47 per cent of this age group are men, nearly two-thirds of young adults with entrepreneurial aspirations belong to them. This two-thirds rate is similar, or even slightly increasing, in the other two age brackets whereas the rate of those wishing to undertake ventures is decreasing proportionately with age. It follows from this that there is a significant difference between the attitudes of men and women towards enterprise and this difference does not change significantly with age. (If we make an index for each age group with the rate of those with entrepreneurial inclination as the numerator and the rates of the group by gender as the denominator – which more precisely shows whether the enterprising spirit of the genders changes by age groups or not –, it is found that in the oldest cohort men drawn to business are overrepresented three times, with an index of 2.2 in the middle group and 2.4 in the youngest bracket. It is, however, important to note that nearly one-third of active men above 35 would be businessmen and 15 per cent of retired men do not discard this possibility either.

It is worth noting that the divergence between the sexes plays a far less marked role in answers to questions about the crisis, in the attitudes towards the reform or in the inner distribution of stereotypes used to reject free enterprise. What accounts for this in our view is the fact, which also modifies the above-said, that the question about enterprise, unlike most of our questions on attitude, is personal in character. Thus it can be rightly assumed that the divergence in attitudes between the sexes are differentiated along the personal-social axis rather than on the concrete-abstract scale; for example, the religious attitude is abstract enough yet it is a personal question, and in this regard divergences between the sexes are indeed significant.

Against the two-thirds rate of the active earners in the sample, 85 per cent of those willing to go into business are among the active population. The group of potential entrepreneurs is overrepresented among those trained in a trade, less markedly among those who finished secondary school and among university graduates. When viewed against occupational categories, they are overrepresented

among skilled workers and leaders. What strikes the eye in this category is that some one-quarter of the self-employed said no to the question “would you like to be an entrepreneur?”. One reason is that this occupational group is differentiated and includes traditional artisans who do not identify with the expansive image of entrepreneurship. Another reason is that the negative answers also include “I wouldn’t try it again” responses based on experiences of failure. 46 per cent of those with an income over 10,000 forints would go into business, but less than one-tenth of the sample belonged to this category. The majority, amounting to over 60 per cent had an income below 6,000 forints, yet one-fifth of them would become entrepreneurs.

*Table 1. Entrepreneurial inclination as related to some background variables*

Variables	Chi	Degree	Significance	Table value
Gender	165.001	2	0.001	13.815
Age	220.011	4	0.001	18.465
Religion	43.402	2	0.001	13.815
Education of father	98.647	8	0.001	26.125
Occupation of father	63.265	10	0.001	29.588
Ethnic status	6.134	8	0.632	26.125
Education	171.066	8	0.001	26.125
Party affiliation	2.117	2	0.347	13.815
Active/inactive	148.748	2	0.001	13.815
Occupation	240.564	10	0.001	29.588
Ever a leader?	18.112	2	0.001	13.815
Income	84.122	4	0.001	18.465

*Source: own calculation, based on TDATA-B90*

As can be seen, most of the variables show a strong correlation with the entrepreneurial inclination. Gender, age, occupation, education, being active or inactive display an extremely strong connection. (Those on maternity or child-care leave are ranged with the active population on account of their other indicators, while the inactive category making up one-third of the sample contains, besides the predominant group of pensioners, a few housewives, grown-up students and other dependents.) Income, social origin measured by the background variables of

the father, the fact whether the interviewee has been a leader and religious attitude gauged by the interviewee's self-descriptive choice of believer or non-believer also show a significant connection. Taking a closer look at the relation between religious attitude and the readiness to undertake ventures the inclination for entrepreneurship (one-eighth) is the weakest among the most rigorously religious, that is who go to church once or more often a week (making up 9 per cent of the sample). Nevertheless the strongest drive for free enterprise is not found on the other pole, among the atheists amounting to 7 per cent of the sample (in this group the rate of potential entrepreneurs is somewhat above the average at 28 per cent), but among those (31 per cent) who respect the moral traditions of religion. Nearly half of the potential businessmen (47 per cent) come from the latter category.

In two cases – ethnic status and party affiliations – the correlation at the given significance level cannot be verified. Various reasons might explain the two cases. It was not the interviewee's declared affiliation or the judgment of the environment that gave the basis to register ethnic status. Rather, we asked whether any of the grandparents belonged to a national or ethnic minority and which one. One-fifth of the sample gave positive answers, most of them naming German and Slovak grandparents, fewer belonging to the Southern Slav, Romanian, Jewish, Roma and other ethnic groups. Empirically it is well-founded to conclude that it does not affect people's inclination to entrepreneurship whether they belong to a national or ethnic minority in a broad sense, i.e. their predecessors included Swabians, or Zipsers of upper Hungary, Jews or Roma.

Despite the lack of significant relation between ethnic background and entrepreneurial inclination the issue deserves attention for several reasons. On the one hand, it is possible that nationality status measured by the individual's proclaimed affiliations (which would have produced a non-analyzable small number of items in a representative nationwide survey but could probably be monitored investigations aimed at specific strata) would reveal a significant correlation. The fact itself that someone keeps account of the grandparents' ethnic background is a sign of bondage although it does not mean at all that the person identifies with the values and norms inherent in this background. On the other hand, the question also requires caution because it attracts prejudices till this day. Many of the fathers' generation belonging to the above mentioned ethnic groups suffered severe political discrimination, stigmatization and suspicion or even their life was threatened.

Social ethnic stereotypes and prejudices contributed to the petrification of minority behavior by regulating social life and local publicity. As a result of these forms of minority behavior and cultural traditions that in the early

period of modernization the mobile ethnic groups which were hindered in their social advancement, drifted towards areas of low prestige but potentially quick existential rise or material compensation and they were considerably overrepresented in certain fields of free enterprise (Pach 1982, Hanák 1984). In the middle of the 20<sup>th</sup> century, however, both poles of the spectrum of entrepreneurial attitudes began to melt. With the establishment of large corporate hierarchies and increased professionalism the prestige of free enterprise also grew and the importance of family and ethnic relations decreased. On the other side, in the traditionally low-prestige areas, among buyers-up, hawkers of second-hand goods, marketers – though the stereotype of the feather-monger Jew was replaced by the feather-monger Roma – various groups appeared. This process was cut off by the deportations, forced translocations, series of intimidations of various degree of gravity, often affecting whole ethnic groups, entailing the suppression of the ethnic consciousness and a relative loss of its weight.

It is not at all immaterial for the reliability of an empirical investigation to see for example to what extent the Jews assumed behavioral forms coinciding with negative stereotypes and their suppression. Or, as certain research experiences have shown, the Swabians of Hungary can justly be wary of surveys inquiring about their ethnic background, because masses of them were forced to exile from Hungary after World War II if they had declared themselves Germans by nationality or language at the 1941 census.

In the 1980s venturing upon a business cannot be seen as an activity of low prestige; it even appears as an alternative to rise in the occupational-bureaucratic hierarchy for the well-trained, for those with marketable skills or capital to invest. All this may add up to explain that although we are witnessing a renaissance of ethnic consciousness, according to our experiences this has no close correlation with the reviving attraction to free enterprise.

As for the membership of the Hungarian Socialist Workers' Party (HSWP), the situation is again complex. Our empirical findings do not verify the assumption that the elements of the confrontational ideology created an anti-business attitude in the entire society, especially strongly or even decisively among the party members. It is therefore expedient to replace the assumption that party membership necessarily entails anti-business and anti-reform attitudes with the modified view that while party membership had a fraction which had relatively large public influence and opposed the tendencies of free enterprise, this was not a general perspective among party members. The ideological tradition against enrichment and entrepreneurship surely served as a brake, but it did not preclude enhanced responsiveness to economic-social reforms at another level. While

the party membership in general was more open to the reform than the average population, they were neutral or hesitant about the question of business ventures.

On comparison to the whole of the adult population, the members of the HSWP show particular features. Several associational indexes seem to attest the strongest negative correlation between party membership and religious belief, a self-evident inference. Still, only one-quarter of the members declared to be atheist, which is significantly higher than the 5 per cent share of non-party members, but by far not dominant. A significant correlation can be demonstrated between income and party membership as well: while nearly two-thirds of non-members earn below 6,000 forints, one-quarter do so among party members; similarly one-quarter is the share of party members with income over 10,000 forints against 6 per cent among non-members. Thus the income level of party members is well above that of non-party members, which is obviously influenced by the specific composition of party members by occupation and education (Kolosi – Bokor 1985; Szelényi 1987). Our investigations have, however, shown that there are differences in earnings within groups of the same occupation and education. It has also been verified that while in the traditional model in most cases joining the party preceded the rise to executive posts, but the rate (over one-quarter) of leaders becoming party members after their appointment is also significant.

As has been seen, party members do not have radically different views about free enterprise from the rest but their attitude is on the whole somewhat less unsympathetic. All in all, however, party members represent a far greater rate as incumbents of leading posts in large organizational hierarchies than among potential entrepreneurs.

## **SOCIAL ATTITUDES AND ENTREPRENEURIAL INCLINATION**

When one investigates who agrees with statements like “there seem to be so many problems now because we devote more attention to them” (one-third of the interviewees agreed) or “the problems came with the introduction of the reform” (54 per cent), the following can be found. As against the average of one-third, 43-45 per cent of those with an education below eight elementary classes, pensioners, inhabitants of small communities, unskilled and semi-skilled workers agreed with the first statement. Agreement in all the rest of the occupational groups was below average, e.g. 16 per cent among professionals. A somewhat over the average proportion agreed with the statement among those who declared themselves believers (38 per cent), while slightly below the average (29 per cent) among party members and among those were ready to undertake ventures (26 per cent).

Similar though less marked correlations can be found with respect to the second statement. Age and type of settlement influenced it slightly less, while religious attitude, gender and occupation slightly more. As opposed to the average of 54 per cent, more than two-third of the low educated, semi- and unskilled workers agreed. But what was really startling was the slightly above-average agreement among the self-employed. This seems to give further proof of what was said earlier about the predominance of the traditional crafts within this category. One-fifth of the intellectuals and one-third of the party members agreed that the cause of the problems was the introduction of reforms.

There is a specific asynchrony in the criticism of leadership. 94 per cent of the people agree that the leaders did commit mistakes in the past. These mistakes were stressed by those with higher education and social occupational status in an above-average proportion. Criticism of the contemporary leadership in 1988 (“today our leaders do not know what they want”) followed a different pattern: behind an average agreement of 60 per cent, 52-53 per cent of the university graduates, leaders and white-collar workers agreed, against 68 per cent of those with the lowest schooling, the semi- and unskilled workers. While in judging the past mistakes of leaders, the opinion of party-members and believers did not deviate from the average, they differed in their criticism of the current leadership: 65 per cent of believers and 51 per cent of party members agreed with the second statement. On two points the views of the party members diverge from the average but eventually they are in contradiction. One is the leading role of the HSWP which less than half of the population wishes to maintain against more than 60 per cent of the party members. (The survey was carried out in October 1988 when the possibility of a multi-party system was not yet approved by the leaders of the party and the state administration.) The other point is the views on reforms and democratization which are supported by party members in a higher proportion than the average. Against slightly more than half of non-party members more than two-third of party members say that it is badly needed to continue the economic reforms and democratization. Their opinions on questions of economic ideology are similar to the average, or more positive on certain social reform issues. They agree that the reforms must be put through with the maintenance of the party monopoly. The more sophisticated the problem of sociopolitical or economic reform, the higher the rate of approvers among them. The more power implications a sociopolitical issue has, the more polarized the opinion of the party members. Though the majority of the party members are more open than the average to abstract reform questions, a narrow group of party members consistently opposes concrete reforms: if we try to delimit the group that answers to various questions

in opposition to the reforms, we find that party membership is a decisive feature within this very thin layer of counter-reformists (Fazakas 1989).

Our data also support the hypothesis that higher occupational-educational status strengthens the critical potentials towards the past, while the lower occupational-educational status strengthens the criticism towards the present in terms of questions about political leadership. Potential entrepreneurs display no specific features in this regard.

As regards image about the future, it can be verified again that those in higher occupational-educational status have a more critical and pessimistic perspective. Against 63 per cent average 68 per cent of leaders and 73 per cent of professionals agreed that in five years' time the country's plight will be worse than now. Although the gap has been decreased, the general prospect of the country seems to be worse than the perspectives of the microenvironment. The opinion of those with the lowest education, the semi- and unskilled laborers and the white-collar workers is near the average (53 per cent think their families will be worse off), while the leaders and professionals are a bit more pessimistic than the average (57 per cent). A similar tendency was highlighted by Angelusz, Nagy and Tardos (1986:26). By contrast, skilled workers are more optimistic than the average in judging their family perspectives with only 48 per cent expecting decline. The attitude of potential entrepreneurs is similarly optimistic in this respect, while their opinion about the future financial position of the country is near the average.

Another set of questions was designed to clarify to what extent people think that everyday ideological values legitimating the system are valid; which groups are aware of the crisis and how acutely. We used a few everyday statements encompassing a wide ideological spectrum followed by another set of questions reformulating the same theses which were to elicit opinions about the extent to which the given values should be asserted. The latter is of interest to us here; we try to see if the inclination for free enterprise is related to the ideological outlook or not.

There was some slight correlation in most cases, which however was not attributable to the fact that the potential entrepreneurs had radically different ideas from the average but to formulating their opinions in a more polarized manner. This applies to the two least popular tenets: the leading role of the party and Hungary as a "loyal ally" to which the potential entrepreneurs are more averse than the average. Of the doctrines of medium popularity, the potential businessmen sympathized with the demands for economic reform and democratization in a slightly above-average proportion, while they identified with the doctrines of national independence and caring for the Hungarians beyond the borders just as the average did.

It is noteworthy at the same time that the most popular are the values connected with security (security of existence, economic growth according to plan, and somewhat surprisingly, the abolition of exploitation), on which points the potential entrepreneurs even exceeded the relatively high average of three-fourths by a few points. By contrast, the tenet of full employment belonging here was approved only by 59 per cent of the average and 56 per cent of the potential businessmen.

## **ENTREPRENEURIAL INCLINATION AND THE EVALUATION OF THE FINANCIAL SITUATION**

The correlation between judging the family's financial status and the strength of the enterprising spirit varied for different time sections. As for the current financial position compared to that of others, the following applies: among those who think they are better off than the average (an 8 per cent minority of the sample) a higher than average 39 per cent would be entrepreneurs, while those who feel they are worse off than the average (one-fifth of the interviewees) had a below average inclination for entrepreneurship. The overwhelming majority regard their financial standings as average, and the entrepreneurial inclination among them is also around the average.

In the evaluation of the changes in their financial position a dual tendency was registered. Among those who feel that their finances did not change over the past 1-2 years (41 per cent) or only slightly deteriorated (42 per cent), the rate of potential entrepreneurs is around average. Among those who feel their standing has improved higher share of potential businessmen can be found.

Entrepreneurial aspirations have another motive as well, that can be detected at this conjunction, namely the considerably deteriorating financial conditions. The proportion of potential entrepreneurs among those who noted a significant worsening of their finances (4 per cent) was also above average. This dual tendency is attested by the responses to the explicit questions about income: among those whose family income decreased (26 per cent) or increased (22 per cent) over the past year the rate of potential entrepreneurs is somewhat above average, while among those who feel their income remained unchanged the respective rate is below average. Though this correlation is not decisive, it indicates that even amidst improving financial conditions the deteriorating circumstances can encourage the enterprising spirit. Presumably, the latter motive is not valid among the pauperized strata but may work among young families at the beginning of this process where one of the active members is in marginal



position on the labor market and the instability this causes can be offset by family relations. In every sixth family there were fears that one or another member of the family would become unemployed in one or two years' time; among them the share of potential entrepreneurs was nearly one-third as opposed to the average of one-quarter. An above-average proportion of those who received financial help from their parents also had above-average entrepreneurial aspirations. Of those to whom the question had relevance (2094 persons) one-third were supported by their parents but 42 per cent of the potential entrepreneurs came from them. Regarding its magnitude, parental help is not a negligible source of extra income. An overwhelming majority (94 per cent) of people say they have no possibility to acquire extra income by joining business work partnerships (gmk), enterprise business work partnerships (vgmk), or working as artisans. What is more, 75-79 per cent opine that they cannot get extra money even by overtime work or in a second job. Even those who have the chance to earn extra money do not necessarily exploit the possibility (in the case of gmk's, vgmk's or the crafts only 1-2 per cent, in the case of overtime work and second job 16-11 per cent). Similar results were found by Robert Tardos (1988:128-147). Potential entrepreneurs are systematically overrepresented among those who use, or could use these sources of extra income.

With a next question we asked how the respondents would solve a bad financial situation: by moderating their demands or making more money. Potential entrepreneurs became heavily overrepresented in the second option. Similarly to earlier investigations, we have found significant differences depending whether the interviewees had to judge an imaginary or a real situation. Those whose financial standing improved or remained unchanged over the past years systematically overvalued their readiness to do overtime work than those who actually faced such situations (42 per cent in the first and 32 per cent in the second case). In the imaginary situation two-thirds of the potential entrepreneurs and in the actual situation half of them chose the alternative of earning extra money. One can pinpoint the stimulation of the deteriorating circumstances for entrepreneurship in the latter group that responded actively to the worsening situation.

As for their current position and future prospects in general, potential entrepreneurs are more satisfied with their perspectives than the average and a part of them are also optimistic about their children's chances (Nagy 1989). What they are less satisfied with than the average includes their housing situation, current job, place of work, to some extent their social status and the macro economic-social conditions. The latter worry more than half of the population in general (56 per cent) and 60 per cent of the potential businessmen.

## WHO WOULD NOT BE AN ENTREPRENEUR?

We know that old people, women, low-educated people, semi- and unskilled workers, white-collar workers and low-income strata are overrepresented among those who are averse to entrepreneurship. Instead of looking more closely at their social characteristics, we would like to sum up briefly what arguments they produced in support of their negative answers.

Weighing the perspectives of the reform, one can be almost certain that the attitudes towards entrepreneurship will change: should we ask these people in five years' time about their entrepreneurial inclination, probably far more would answer in the affirmative. Thus, if we want to assess these tendencies it is important to know the arguments underlying the rejection. Some of these being all too obvious, we often ignore them.

If the counterarguments refer to the social-institutional system as the cause for refusing to venture upon an enterprise, with the transformation of public opinion and the institutional framework the attitudes to private enterprise can be expected to change quickly and considerably. If, on the other hand, rejection predominantly derives from the interpretation of personal circumstances and abilities, or from the respondents' value system, then the attitude toward entrepreneurship will modify much slower, only in the long run. Well, our survey has shown that only a small fragment of arguments was based on the evaluation of the economic-institutional environment: taxes are too high (8 per cent), the economic situation is uncertain (5 per cent).

One-tenth of the rejecters pointed out the lack of capital or money. Let us note here that almost all of those answering "it depends" to the question "would you be an entrepreneur" (4 per cent) named almost exclusively the material and socio-economic conditions as reasons. In principle this might mean that with the stabilization of the economic-political institutional guarantees and a positive change in the conditions of taxation and borrowing, some 40-45 per cent of the adult population would be willing to venture upon some business. Our investigations have proved clearly that the decisive majority of those who reject the perspective of free enterprise today are guided by non-ideological doctrines. Only 8 per cent of the negative answers rested on ideological condemnation of a relatively wide spectrum ("I couldn't cheat people", "it is contrary to my socialist conviction").

Avoiding risk-taking ("the risk is too high", "the suspense, the responsibility is too great", "better to have a safe tomorrow" etc.) as the reason for their negative response amounted to some one-fifth. Probably this rate would also decrease by

the stabilization of the economic-political guarantees, i.e. by the emergence of a situation in which the entrepreneurial behavior is not at the mercy of “the state granted it, the state might withdraw it” principle, as one of the interviewees put it (Varga 1989). The majority of those siding with this opinion are fearing not only expropriation and over-taxation but also business failure and existential uncertainty.

Personal and micro-environmental conditions also appeared among the factors. One-fifth of the justifications given for the negative answers included the lack of qualifications or talent. These answers overlapped at some points with the latent forms of risk-avoidance and aversion; they mostly refer to the lack of talent rather than of qualifications – characteristically enough, the higher-educated and not the lower-educated, are overrepresented among them.

Finally, let us give some thought to the self-evident, thus often overlooked, factors of personal conditions like age and state of health, which account for 23 per cent and 4 per cent, respectively of the justifications for rejection. It is thought-provoking that one-quarter of those referring to their age and two-thirds of those quoting their state of health as the reason were not yet pensioners.

*Table 2. Why they wouldn't be entrepreneurs?  
(Order and proportion of the first five reasons by age groups)*

Reason	Age			
	60-	35-59	-34	Together
Age	1.(59%)	3.(14%)	-	1.(23%)
Risk avoidance	2.(12%)	2.(19%)	1.(29%)	2-3.(20%)
Lack of talent, education	3.(11%)	1.(23%)	2.(23%)	2-3.(20%)
Lack of capital	- ( 3%)	4.(12%)	3.(18%)	4. (11%)
Taxation	- ( 3%)	- ( 8%)	4.(13%)	5-6.( 8%)
Ideological reason	4-5.( 4%)	5.( 9%)	5.( 7%)	5-6.( 8%)
Health	4-5.( 4%)	- ( 5%)	-	- ( 4%)

*Source: own calculation, based on TDATA-B90*

The analysis of the typical reasons between age groups, the diversity of attitudes of the young cohort deserves attention. In this age-group a polarization of arguments can be observed: while the motive of avoiding risks is considerably higher than average among them, so is the reference to the objective conditions:

taxation and lack of capital. As the subjective determinants of age and health are out of question here, all this adds up to suggest that the entrepreneurial inclinations of the young age-group are influenced relatively directly by the changing political-economic institutions. All this notwithstanding, we cannot expect the general expansion of entrepreneurial drives to develop simply from a change of generations. It is to be remembered that those refusing to go into business far outnumber the potential entrepreneurs even in the younger cohorts, and the rejectors, in turn, are predominated by those who quote personal or micro-environmental reasons for their decisions.

## CONCLUDING REMARKS

It has been mentioned in the introduction that political statements and the findings of empirical sociology often move on different tracks. We hope to have somewhat narrowed the gap between the two approaches with the above discussion. One tangential point has certainly become visible: the creation of favorable conditions for entrepreneurship will necessarily give rise to new social conflicts. It would be a mistake to say that the dominant ideological trend of the past forty years created an openly anti-enterprise atmosphere on a mass scale; what we rather face is the effect of the crisis and the petrified norms of social justice. When one part of the society prospers or believes in its chances to prosper and the other part does not, when monopolistic positions emerge and are inherited violating the norms of social righteousness of wide social strata while the conditions of others keep deteriorating, conflicts will escalate and prejudices will multiply. One thing might, however, moderate this polarization: it is related to the sociological difference between *risk* and *insecurity*. Though those who are willing to go into business are inclined to run far more risk than the average, this does not mean at the same time that they are prepared to accept the norms of insecurity of social existence. Similarly to the overwhelming majority, those who would be entrepreneurs see as the most crucial goal the elimination of those conditions under which social existence constantly verges on the precarious.

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## NOTES

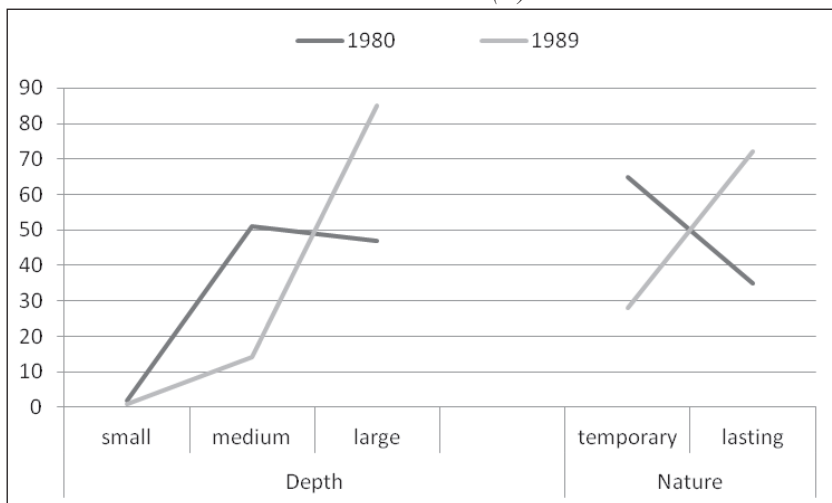
- 1 This is a modified version of the paper originally published as “Entrepreneurial inclinations”, in: Tóth András – Gábor László (eds.), *Hungary under the Reform, Research Review*, 1989/3., and re-published in Alberto Gasparini-Vladimir Yadov (eds.), *Social Actors and Designing the Civil Society of Eastern Europe* (JAI Pr. London, 1995., pp. 45-63.) The survey was conducted in October 1988, organized jointly by the Department of Sociology of the Karl Marx University of Economics, the Institute of Planned Economy and TARKI. The title of the research was “A magyarországi felnőtt népesség társadalmi-gazdasági helyzete 1988”, catalog number is TDATA-B90. The representative sample as to age, gender and residence numbered 3,000.

# CRISIS, EXPECTATION, ENTREPRENEURIAL INCLINATION<sup>1</sup>

## ABOUT THE CRISIS IN THE 1980s

The great majority of people were able to see the signs of the crisis in the early '80s but half of the interviewees thought the difficulties to be at the medium level and two-thirds thought they were of a temporary character. By the end of the decade these opinions changed radically: at the end of 1989, 85 per cent of the respondents talked of large, 72 per cent of lasting economic difficulties.

*Figure 1. Opinions about the depth and nature of economic crisis in 1980 and 1989 (%)*



*Source: own calculation based on Igényszintek '80, Gazdaság '89/1-4*

At the beginning of the decade 38 per cent of the people believed that economic development would soon accelerate, but by the end of the 1980s only 20 per cent believed this. A survey carried out among economists revealed that experts thought the financial situation to be more critical than the general public, while they regarded the perspectives of recovery more promising. Practically all the economists considered the economic situation of the late 80s bad, and three quarters or them considered it very bad or critical. However, 40 per cent of them predicted some improvement within the following three years (Herczeg

1990). The overwhelming majority of people mentioned subjective factors, the past mistakes of the country's leadership as the main reason of the crisis, and 85 per cent blamed the delay of economic and political reforms (Fazakas 1989; Tóth 1990).

Still, the opinions about the reforms are controversial since more than half of those questioned also agreed that it was the introduction of the reforms that had caused the troubles. These attitudes towards the reforms are not independent of age and family background (Angelusz 1989). The majority of those blaming both the delay and the introduction of the reforms are unqualified, unskilled or semi-skilled workers, or people in the older age groups. They are the ones whose conceptual idea of the economy is vague and who are not interested in the issue (Vásárhelyi 1988/89). Among those who blame the method of the introduction as well as the character of the reforms themselves there is more enthusiasm for worker's control and for the following of the western model than for the continuation of reforms.

## **OPINION ABOUT THE STANDARD OF LIVING**

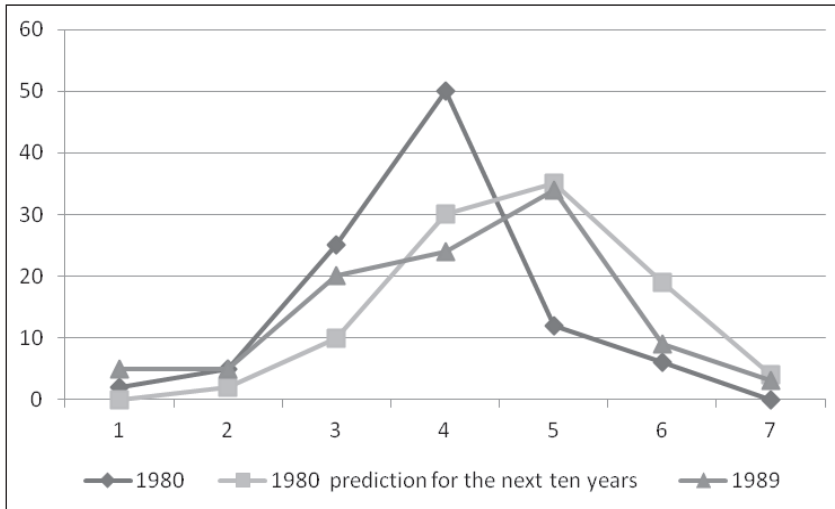
In the early 80s the majority of people considered the relative financial position of their family to be around the average level. A detailed diagram has a peak in the middle shaped like the branch of a star. Nobody considered herself to belong to the top category and only 7 per cent claimed to belong to the lowest. This was similar to the position that people expected to be in by the end of the decade. The diagram becomes flatter and broadens partly because it begins to swell on the side of poverty and partly because the peak shifts closer to the higher categories. Also, a small percentage of the ambitious and optimistic claimed to aim for the highest category of the living standard.

By the end of the decade these predictions were fulfilled: the shape of the curves of predicted and perceived reality got close to each other, with some qualifying distinctions. The diagram became flatter, more people felt that they belong to the lowest and to the higher levels than before. A small fraction admitted being on the top level. The slope from average to rich was still steep but from average to poor it was not. In judging their relative financial status roughly one out of three people thought that they belong to the lowest three categories at the beginning of the '80s and one out of eight predicted the same in a ten years perspective. At the end of the decade the distribution of answers in this respect reminded more to the original than to the predicted one, but the proportion of feeling extreme poverty increased. As for belonging to the upper three categories at the end of the



decade the perceived reality was similar to the predicted one: more than half of the respondents hoped and more than two out of five felt that they belong to these upper categories, while at the beginning of the decade only one out of six thought so. All these with the flatter distribution implies that the polarization of subjective financial positions started already in the '80.

Figure 2. Perception of one's own financial situation in 1980 and 1989 (7-point scale, (%))



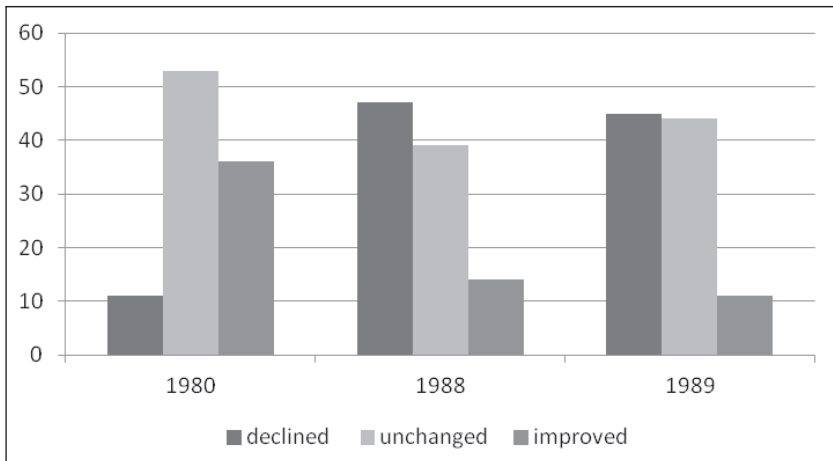
Source: own calculation based on *Igényszintek '80*, *Gazdaság '89/1-4*

According to our 1988 survey more than 70 per cent of the adult population thought that their financial situation was on the average level. Skilled workers, white-collar workers, workers with secondary education, the inhabitants of small villages, and those with an income between 6 and 10 thousand forints were overrepresented among them. One out of five respondents thought that their position was worse than the average and 8 per cent thought it was better. (This latter figure is the same among the active population as well, while the proportion of those claiming to belong to the medium cluster is as much as three quarters.) The proportion of those experiencing hardship is much higher than average among people with less than 6 years of primary education (35 per cent), among the old (31 per cent), and among unskilled and semi-skilled workers (27 per cent). Those claiming to be in a good position are overrepresented among graduates and managers (27 per cent and 24 per cent) and also among those whose fathers

had been professionals (26 per cent). Obviously, the proportion of those claiming that their position was good is high among respondents with a monthly income of more than 10,000 forints, although the majority (57 per cent) among them still find their position only good or average and 6 per cent even think that it is below the average level.

In 1980 only every ninth person felt that her financial situation had worsened during the previous 1-2 years, while more than every third person claimed an improvement. The majority of the active population felt that their own financial situation was steady.

*Figure 3. How did the financial position of the family change in the last 1-2 years (%)?*



*Source: own calculation based on Igényszintek '80, TÁRKI '88 - omnibusz, Gazdaság '89/1-4*

By the end of the decade these proportions had changed drastically. In 1988, 47 per cent of the active earners said that their position had deteriorated and only 14 per cent said that it had improved. By 1989 the proportion of the latter further deteriorated. Judging the financial position of their acquaintances in the previous 2 years about half (48 per cent) of the people reported an unchanged position, 39 observed decline and 12 observed improvement. They gave a more polarized picture of the financial position of their own family. Large number reported worsening of the financial position. Among those who had originally thought their financial position to be below average the opinion of further worsening exceeded two thirds. There is a strong connection between observing change in

one's financial position compared to that of others and the changes taking place in recent years. This shows that it is not only ideas of a worsening personal situation and a worsening general situation that go together: the idea of an average personal situation and stagnation and a better personal situation and a general improvement also go together. This is true despite the fact that 42 per cent of those with an average living standard and 29 per cent of those with above the average living standard said that their situation had become worse. The experience of declining living standard of acquaintances and neighbors is directly connected with the level of education, income and level of urbanization.

*Table 1. The proportion of those experiencing worsening financial position of their immediate social environment within various categories in 1988 (%)*

**Education**

0-6 primary	8 primary	Technical school	Secondary	Tertiary
34	34	37	46	50

**Type of residence**

Budapest	Cities with more than 50,000 inhabitants	Other towns	Villages with more than 3,000 inhabitants	Other villages
51	44	41	34	29

**Income, HUF**

-4,000	4,001-6,000	6,001-10,000	10,001-
34	38	43	49

*Source: own calculation based on TÁRKI '88 - omnibus*

A feeling of declining living standards among acquaintances was particularly high among professionals (50 per cent) and among those with professional social origin (63 per cent). At the end of 1988, 17 per cent of the adult population felt that one of their family members was threatened by unemployment. Half of them also indicated a worsening financial situation. Worsening situation with respect to own family was reported particularly by Budapest dwellers and those with secondary or tertiary education or with a professional family background and of course those for whom unemployment was a real danger.

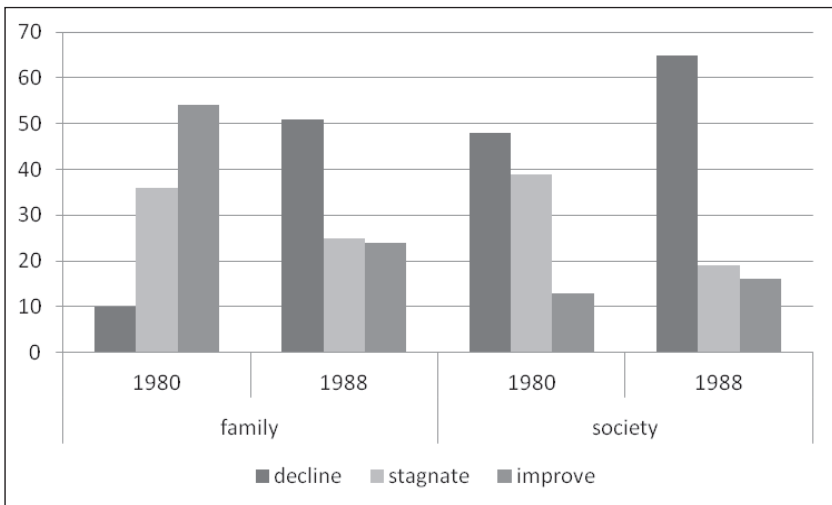
It can be pointed out that the respondents' views about their personal financial situation are more polarized than the judgments about acquaintances' situation. In addition to that, judgments about the situation of the social environment showed a closer connection with objective social conditions (education, occupation, urbanization, etc.) than the opinion people gave about their own family's situation.

## EXPECTATIONS

In terms of future perspectives in 1980 more than half (54 per cent) of the respondents believed that their position would improve in a year or two and only a tenth expected worsening conditions. In 1988, when judging the perspectives for a longer period, that is the following 5 years, half of the active population thought that of their position would deteriorate, a quarter believed there would be some improvement and another quarter believed that their condition would remain unchanged.

An even more pessimistic picture emerged when the task was to judge the perspectives for the majority of the society not for the family. In 1980, nearly half of the respondents expected a fall in general living standards and 39 per cent expected stagnation. In 1988, the equivalent data among the comparable *active population* were two-thirds and one-fifth respectively. Similarly to that two-third of the *adult population* expected worsening and one out of six expected improvement, while almost one out of five believed that there would be no significant changes in this respect in the coming 5 years.

*Figure 4. What will be the financial position of your family and of the society like in the following years?*



*Source: own calculation based on Igényszintek '80, TÁRKI '88 - omnibusz*

Interestingly however, the overall pessimism of these opinions hides a relative optimism: people evaluate their own future prospects somewhat more

optimistically than those of the majority of society. Reverse connection could have been observed concerning the past. In that case people were more critical in judging their own situation than in the evaluation of their social network.

Budapest inhabitants, middle aged, professionals, managers were more pessimistic than the average when judging the future prospects of their families. There is a very close connection between the fear from unemployment and financial expectations concerning the future. 70 per cent of those who had a family member threatened by unemployment expected worsening financial conditions. This subjective feeling of the threat of unemployment is not closely connected to the objective indicators of social position. This fear seems to be in a closer (negative) connection with the inclination to save and in a positive connection with making use of loans, rather than with education and occupation.

Opinions about whether unemployment is something that must be avoided at any cost are very closely connected to the level of education, gender and also with religious attitudes. People with low qualifications, semi-skilled and unskilled workers, women and believers thought more than the average that unemployment should be avoided at any price (Tóth 1990; Angelusz – Nagy – Tardos 1988). It is surprising that there is practically no connection between a person's opinion about unemployment as a social issue and her subjective fear of it. This can be partly explained by the fact that the question referred not only to the respondent but also to her family members. A further explanation could be that by the end of 1988 not only those on the margins of the labor market but white-collar workers, professionals and certain categories of managers also felt their position uncertain, although only one sixth gave voice to such concerns. While 53 per cent of people with only primary education expected decline in 1988 this figure was 73 per cent among graduates. Although income was not a decisive factor in terms of personal financial perspectives, predictions concerning acquaintances' perspectives reveal that people with higher income tend to be more pessimistic. It is worth noting that among non-believers there is a higher proportion of those trusting that their financial position will improve more than people's economic conditions and it is in closer connection with the background variables.

## TENDENCIES OF ADAPTATION

In answering the question how they would overcome possible financial difficulties at the beginning of the decade one third of the people chose the option to do extra work, a higher number thought they would try to manage 'on less for a while' and more than a quarter thought that some combination of the two would be the

right solution. A further analysis revealed that the option of income increase fits in well with certain phases in the family cycle. Unmarried people, couples without children or with young children chose this mode of adaptation more often than others (Tardos, 1984, 1988). It has been found that the method of family adaptation is closely connected to actual access to extra work which is unevenly distributed. Surveys repeated in the middle of the decade showed a decrease in the 'live on less' restriction method. In 1984 only 30 per cent of the respondents chose the alternative of cutting back on expenses as the opportunities to do extra work expanded and lost their strata-specific character. By the end of the decade, when the signs of crisis became widely observed, this tendency changed again. The proportion of those opting for the restrictive adaptation method seemed to increase and the number choosing the combined solution became less popular.

Figure 5. How would you try to solve your financial difficulties if any occurred (%)?



Source: own calculation based on *Igényszintek '80, TÁRKI '88 - omnibusz*

It is still true that the access to extra work, the phases of the family cycle, and age all have significant influence on adaptation methods. If we do not restrict our investigations to the active population – and this is justified as pensioners frequently face the task of bridging financial hardship –, we find that the self-restrictive method had a proportion of 55 per cent 1988.

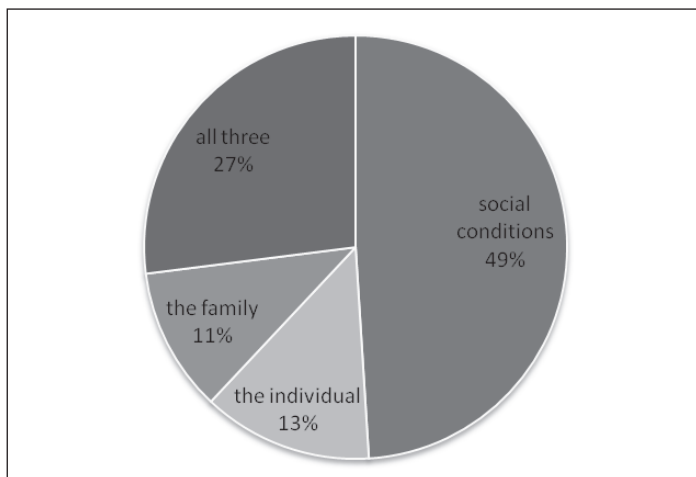
It is interesting though that there is significant difference between reactions depending on whether the hardship is hypothetical or real. One third of those

whose financial situation had not declined in the previous year and thus responded to a fictitious situation opted to do extra work, while half of them would rather restrict their spending. As a contrast, among those who had experienced worsening conditions in the previous years only a quarter chose the option to do extra work and 55 per cent opted for self restriction. The latter group included many who are middle aged, have secondary education or who were white-collar workers. This demonstrates that many from the middle zone of wage earners, who at the same time considered themselves to be worse off than average, judged both their own perspectives and those of their social peers to be unfavorable. This tendency seems to imply that the middle class layers who were struck by the crisis at the end of the decade mostly lacked the labor market capabilities necessary for competition.

### PROSPERITY AND ENTREPRENEURIAL INCLINATION

In 1988 a significant portion, almost half of the people, believed that the prosperity of an individual depends mainly on social conditions. Smaller proportion named the individual or the family and slightly more than a quarter a combination of these factors as the main influence.

*Figure 6. What determines an individual's prosperity (%)? (1988)*



*Source: own calculation based on TÁRKI '88 - omnibusz*

Old people, the poorly qualified, semi-skilled and unskilled workers emphasized the role of the individual. Self employed, whose income increased, and had considerable savings were also highly represented in this group. In the group that stressed the importance of social conditions people with secondary education, white-collar workers, and those whose income had declined in the previous years and who felt that unemployment was a realistic threat to them or to their family members were overrepresented.

Young people, men, people with high income, skilled workers, professionals and managers showed entrepreneurial inclination. Only a small fraction of those who did not want to become entrepreneurs referred to ideological reasons and a small number of them referred to the uncertainty of socio-economic conditions. The majority of those who accepted the idea of enterprise meant small enterprise by this, naming agriculture, small scale trading or industry in line with their present occupation as the main possible area (Nagy, 1989).

In 1988, 44 per cent of young people between 18 and 28 gave a positive answer to the question about entrepreneurial aspiration. A year later the proportion in this age group rose to more than two thirds and among economist students it was even higher. A survey done among young people shows that 62 per cent of those willing to become entrepreneurs would spend the profits on investment rather than on consumption. At the same time more than half of those who were not inclined towards enterprise thought that the profit of an enterprise should be aimed at the improvement of one's living conditions. The potential entrepreneurs were more critical than the average concerning the social and economic environment, but – similarly to the majority – of the values connected to the economy they also stressed the importance of growth and security as fundamental economic values.

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## NOTES

- 1 Modified version of the paper originally published as „Válság, várakozások, vállalkozói hajlandóság” in Andorka R. – Kolosi T. – Vukovich Gy. (eds), *Társadalmi riport, TÁRKI, Bp., 1990* (English edition: *Social Report, Budapest 1992*, pp. 200-209). The data of the essay comes from the following surveys unless otherwise indicated: *Igényszintek '80* (Standard of Material Expectations in 1980), a survey carried out by the Mass Communication Research Institute on a sample of 1,477, representative of the active population; *TÁRKI '88 - omnibusz*, a sample of 3,000, representative of the adult population, surveyed by TÁRKI; *Gazdaság '89/1* (Economy

'89/1) a sample of 1,000, representative of the adult population, surveyed by the Hungarian Public Opinion Institute); Gazdaság '89/3 (Economy '89/3) a sample of 1,000, representative of the adult population, surveyed by the Hungarian Public Opinion Institute); Gazdaság '89/4 (Economy '89/4) a sample of 1,000, representative of the adult population, surveyed by the Hungarian Public Opinion Institute). In cases of chronological comparison, the data refer to the active population.

# WHERE DO ENTREPRENEURS COME FROM? On the “third way”, the second economy and entrepreneurial inclination<sup>1</sup>

## THE “THIRD WAY” TRADITION IN HUNGARIAN POLITICAL THINKING

The “third way”, “quality socialism”, “settlement”, “garden Hungary” – these were the key concepts in reform discourse in Hungary during the 1930s. The very fact that intellectuals like László Németh and a wide circle of public intellectuals – who were then working on documentary case studies and political blueprints – were vividly discussing social reform alternatives might not be surprising. The right-wing authoritarian regime was not open to radical reforms but was under the combined pressures of international politics and growing internal social tensions. More than half of the active population worked in agriculture and more than two-thirds lived in villages at that time; the concentration of landed property in a few hands was the highest in Eastern Europe. Social critics called Hungary a country of “three million beggars” due to the large number of landless peasants.

What did “third way” mean under these circumstances? It meant an alternative to both liberal individualism and communist collectivism. From the individual’s perspective it provided an alternative to being a dependent state employee or a self-concerned bourgeois. For the country in an international context it implied equal distance from the great powers and independence both from German and Soviet influence.

In positive terms it was supposed to provide a solution for the problems caused by landless peasants. This implied land reform, expropriation and compensation and settlement of the young landless peasants. It meant quality production and garden products instead of the dominance of the grain culture of great estates. The new proprietors were imagined to be entrepreneurs and, at the same time, voluntary members of co-operatives. In this way, the “third way” tried to combine the advantages of large and small organizations.

The “third way” conceived this way was designed to avoid the bourgeois/civil servant, employer/employee dichotomy by combining them. The “third way” was a *down-to-earth utopia* combining liberal and socialist values, providing a ladder for the lowest layers of society to climb, thereby creating a genuinely national middle class. The need for a strong national middle class was an important element of the reform ideology of the ‘30s. As claimed by Dezső

Szabó and László Németh, the Hungarian middle class was weak because the gentry nobility had lost its political and economic influence while the peasantry had none to begin with. Social criticism was mixed up with primordialism and ethnicization in the concept of nation. Top civil servant positions, so they argued, were occupied by ethnic Germans and the private economy was dominated by the Jewish upper class (Gombos 1992). The need for a strong national middle class had its origins both in the unsolved problems of the landless peasantry and in prejudice towards “aliens”. At this point, social critics and the bureaucratic elite shared the populist views of aversion towards “aliens” and interventionism. As far as culture is concerned, the “third way” meant helping the emergence of a new intellectual middle class of peasant origin. The reform blueprints urged the opening of secondary schools and universities for talented students of peasant origin and provided assistance for them in the form of scholarships and “people’s colleges”. The reformers wanted to close the gap between official and non-official education by establishing extension courses in the villages. Certain initiatives actually promoted all these during the ‘30s.

The “third way” was also meant to help in creating a new entrepreneurial class by teaching to peasant youth the skills needed in intensive agriculture. According to László Németh, the most important institution for this kind of education and socialization may have been the army itself. Army generals, however, were not ready to fulfill this idealist mission. They had already negotiated secret armament policy measures in 1939 which led to huge industrial investment (known at that time as the “first five year plan”) which eventually led to participation in the war.

From an abstract sociological perspective the ‘40s and the ‘50s had strikingly similar features. Besides mobilization, ideological indoctrination and rough oppression, the structural and institutional components of the war and planned economies proved to be continuous in many respects. Through them, social developments took a different direction from the down-to-earth utopia of the “third way”. The war economy resulted in a restructuring of production. Agriculture, food and light industry lost ground, while heavy industry (especially metallurgy and the machine industry) gained in importance. The forced collectivisation and “anti kulak” campaigns of the ‘50s pushed the agricultural labor reserve into industry. In the ‘60s a significant part of the agricultural population started commuting to work while others moved to cities. By the end of the decade, more than half of the population lived in villages but only a quarter of the active population was engaged in agriculture (Statisztikai Évkönyv 1986).

## THE OTHER PATH: THE SECOND ECONOMY

From the '60s onwards, economic policy-makers provided a latent compromise to a large segment of state and quasi-state employees. People were obliged to sell their labor in the first economy but were allowed to utilize the rest of their energies in the second economy.

The overwhelming majority, some four-fifths of all of the members of agricultural cooperatives, had household plots provided for them by co-operatives, together with certain services such as help with cultivation, transport or purchasing of products. In a sense, the household plot scheme was latent compensation for the forced collectivization of the late '40s and (in a second wave) post 1956. This loose system of household plots also compensated for low agricultural wages in the first economy. It served as a basis for consent in villages where households found successful strategies in accumulating from the '70s on.

In the early seventies, the majority (almost two-thirds) of household plots were being gardened for home consumption. Vegetables and potatoes were grown according to the needs of the extended family, including sons and daughters, who had already moved to nearby cities and were employed in industries or services. Household plots also provided the corn and feedstuff necessary for the feeding of one or two pigs. Acquisition of deep-freezers started during the '80s and provided a new solution for food preservation compared to the traditional means. This meant that the traditional pig butchering might take place two or three times a year, not only in winter, and that the amount of fruits and vegetables consumed could be significantly increased as well.

Although the amount of goods devoted to family consumption grew, the proportion of produce directly consumed decreased when compared to the proportion produced for sale. By the late '70s about three-quarters of household plot production was being put on the market. In the first half of the '80s, incomes in the second economy amounted to one-third of the wages paid in the first economy, while in terms of time, it is estimated that a quarter of all time spent in the first economy was being used in the second economy (Gábor-Galasi 1985). This estimate includes the activities of small scale agricultural production, self-built construction and private and semi-private activities in trade. The total second economy income was estimated to be as high as one-fifth of GNP. The share of small scale agricultural production therefore was in some cases surprisingly high. For example, more than half of all fruit, potatoes, eggs, grapes and pigs were produced in this sector.

The other significant phenomena which served as a hotbed of entrepreneurship were also connected to agricultural cooperatives and the second economy. These were the industrial and service subdivisions, or subsidiary branches of agricultural co-operatives. The subsidiary branches were in practice established by entrepreneurs for whom it was more convenient to use the umbrella-organization of the co-operative in an environment of (less effective, but still existing) ideological campaigns against petty bourgeois mentality and a consumption-driven way of life. These subsidiary units provided 60 per cent of value added to co-operatives, while the co-ops gave them legal status (Rupp 1983).

These semi-private organizational solutions also began to spread in the '70s and provided competitive wages for skilled workers. The comparative advantages of remaining in or going back to the countryside grew significantly, especially if one could combine the advantages of being an employee in the first economy with becoming a part-time entrepreneur in the second. Skilled workers found the purchasing power of the local market appealing and began to work, at least on a part-time basis, on their own account as well. These skilled workers with their 'double' status on the labor market had special preferences in the internal labor market for firms. They preferred to remain at the bottom of the internal labor market and maintain a stable wage-effort ratio, instead of maximizing their efforts in the first economy (Kertesi – Sziráczi 1985).

Families which consisted of both a member of the co-operative and a skilled worker could enjoy the advantages of household plots as well as benefit from part time skilled activity in the second economy. This might partly explain why, in spite of the deteriorating economic conditions in the country as a whole, small town and village conditions seemingly improved. The number of two-storey buildings with bathrooms and running water began to grow and changed the townscape over two decades. In the '70s, most skilled workers with double status were providing auxiliary income from the second economy only. But from the '80s on, a growing proportion of them became independent. According to the results of interviews with local entrepreneurs, the most dynamic and successful entrepreneurs of the '90s had begun to work on their own account from the early '80s.

The social context of the reform discourse in the '30s and '70s was different in several ways. The political elites of these decades had learned to fear. The right wing conservatives of the '30s learned the lessons of the Bolshevik 1919 revolution, while the later socialists learned the lessons of 1956 (Szalai 1989). In spite of the basic differences in ideological framing and in the social conditions, one similar element to the '30s and '70s was the moderately repressive authoritarian character of the regimes. The first one was driven by revenge and restitution while the

second one was reform-oriented. The first could not provide a consistent solution for resolving social tensions and dealing with the problems associated with the lowest socio-economic strata, while the second provided an informal solution. The first did not incorporate reform-minded intellectuals or didn't provide a peaceful social transition, while the second one, it seems, did.

Was the second economy, after all, a late realization, a reincarnation of the "third way"? In the strict sense it was not. It did not involve the voluntary association of independent entrepreneurs. Quite the contrary, it allowed semi-autonomy within the framework of compulsory association. It was a completely different combination of autonomy and control.

But in a way, it was also a combination of co-operation and entrepreneurship, a combination of the advantages of the great agricultural units and small household plots. The co-op helped in organizing the input and the output markets of market-oriented household plots. The state could control wages in the first economy and, to a certain extent, the size of accumulation of wealth within the second economy as well.

Nevertheless, it would be misleading to declare that there was no intellectual connection whatsoever between "third way" and the second economy. The most influential members of the agrarian pressure group of the '60s and '70s had grown up under the intellectual legacy of the "third way". There existed the idea of reforms as positive social phenomena and the works of critical public intellectuals. These were layers of thinking which might have received sharp criticism in the earlier years of the planned economy, but which could be identified in the reform period of the '60s. There was no manifest ideological reference to, or interference with, "third way" ideas. But still active public intellectuals from the '30s criticized the dangers of consumerism ("refrigerator socialism") on the basis of a traditional peasant ethos, in which consumption was supposed to serve work and not vice versa.

The combination of household plots and co-ops – of the first and the second economy – was not an explicit realization of a "third way" utopia. On the other hand, the political elite at that point was seeking legitimacy after the '56 revolution. At the expense of extra vigilance it allowed those who were highly motivated to slowly prosper.

If the "third way" was a down-to-earth utopia, the second economy in Hungary was an outcome of a down-to-earth policy. It was a policy in which different factions of the political elite figured out the institutional framework of a hidden compromise. Several members of these factions preserved the intellectual heritage of the "third way".

The “other path” (de Soto’s famous book), is a realistic analysis of the informal sector in South-America, more specifically, Peru. Although it is a scientific piece, it has its ideological message as well; it provided a realistic alternative to the “shining path”, an alternative motivated by survival and everyday interests instead of radical politics (de Soto 1989). The “other path” is a sort of second economy. Both in the Peruvian and Hungarian cases, the main function of the second economy was to correct the pitfalls and errors of the first one. Beyond this similarity, however, the second economy has different functions in the two cases. In the Peruvian case it reacts to the challenge of masses trying to escape from an agriculture-supported existence, settle down and survive in urban agglomerations. In Hungary, it was about those who combined full-time and part-time jobs in state and private sectors. The main actors were, in the first case, urban paupers, while in the second, the rural middle class. Similarly, in the first case, the most important watershed was the distinction between legal and illegal activities, while in the second it was between the state and the private sectors.

The emphasis of the Hungarian reform discourse was not on illegal economic activities but on the market, the need for personalized property relations. This emphasis helped to remove ideological obstacles to the transformation. As we have seen in the previous chapters, in 1988 a quarter of the adult population showed a preference towards enterprising and even those who disavowed this option did not usually do so on the basis of ideological values.

## **BEYOND THE “THIRD WAY” AND THE “OTHER PATH”: WHERE DO ENTREPRENEURS COME FROM?**

Among the immanent historical preconditions of the post-socialist transition, one can count the second economy and the high speed of the changeover of the elites before the institutional changes. Where these conditions are present, they help to reduce the social costs of transition (Lengyel 1992).

Hungary is an example where both preconditions seemed to be present in the late ‘80s – and where, suddenly, the idea of the “third way” appeared again on the intellectual horizon. Systemic change had just begun. New movements and parties were in the making, and the works of the reform-minded public intellectuals of the ‘30s became a point of reference once again. The “third way” became a point of crystallization for a wing of national democratic ideologues and had been under attack by liberal democrats who declared that there was no “third way” in Europe.



Although the very concept of the third way was explicitly denied, the core of it proved to be very viable. If second economy and the active circulation of elites were historical preconditions, it also seemed to be generally accepted that a strong middle class was a structural condition for successful transformation. However the context was completely new. There were some who argued that unrestricted foreign capital might generate a comprador bourgeoisie (Szelényi 1990). Others, without any third way sentiments, also put emphasis on a slow, organic development of the new proprietor class (Kornai 1990, Kuczai et al. 1991).

Yet, if the recruitment of the middle class is of outstanding importance, the question inevitably emerges: where do entrepreneurs come from? There are three types of explanations concerning the recruitment of bourgeoisie in East-European societies during the transition period. Two of them are diachronic: according to their logic one can find the roots of the bourgeoisie in the past; that is, the social rules of recruitment are determined by historical factors.

The first model might be called the *long-term historical legacies* explanation. The core of this argument is that the new entrepreneurial class will consist of those whose families belonged to the bourgeoisie in the pre-socialist past; whose parents owned land or had employees. An example of this kind of explanation is found in interrupted embourgeoisement theory (Szelényi 1988). On the basis of empirical surveys during the early '80s concerning family agricultural production, Szelényi suggested that entrepreneurial activities might be best understood on the basis of family background. The heirs of middle and rich peasant families (i.e. those who had learned to independently handle finances) are the most likely to be entrepreneurs. They inherited a culture of responsibility and decision making. Their life history is mediated by their family background, but the emphasis is on social heritage.

Another aspect of long-term historical legacies is the ethnic background of potential entrepreneurs. If ethnic background was important in the early phase of modernization and even in the inter-war period, there might be reason to believe that there were surviving patterns of economic behavior. In the case of our research, the criteria for registering ethnic status was whether any of the grandparents belonged to a national or ethnic minority and if so, which one. One has to keep in mind that many of the grandfathers' generation in ethnic groups were subject to political discrimination. Ethnic stereotypes contributed to the fixation of minority behavior patterns by influencing public opinion. In the early period of modernization, due to the admixture of these forms of minority behavior, cultural traditions and institutional constraints, socially mobile ethnic groups which were hindered in their social advancement drifted towards work

with low prestige but potentially fast material payback or compensation. As a result, they were considerably over-represented in certain business sectors. In the first half of the twentieth century, attitudes towards business started to change. With the formation of large corporate hierarchies and increased professionalism the prestige of businesses grew and the importance of family and ethnic relations decreased (Lengyel 1990). On the other hand, due to the impact of the economic crisis in traditionally low prestige areas, among peddlers and hawkers of second-hand goods, intermediary agents and marketers, the ethnic composition was broadened.

The second diachronic model emphasizes *short-term, socialist legacies*. It argues that the most decisive factor in mapping a new social structure is the former position of power. Two diverging hypotheses may be derived from this. One is that cadres convert their power into private business positions. The other contradicts the first one by stating that former socialist party members are ideologically against privatization and entrepreneurship. The first has a positive and the second a negative effect on entrepreneurial inclination. But socialist legacies are predicted to play an important role in shaping the social space for entrepreneurship in both cases. Relying upon the Polányian concept of redistribution, Victor Nee proposed the thesis that when market allocation replaces redistributive mechanisms, the resources of power also shift from redistribution to the market, the market provides more incentives and this substantially affects social mobility (Nee 1989). In connection with this change, he also presumed that during a transition the role of political resources would decrease and that cadres would have negligible or no role in becoming entrepreneurs. The findings of his research (based on a sample from a Chinese village) disproved this hypothesis. Cadres – leaders at lower levels of the hierarchy in this case – had greater chances to become entrepreneurs than non-cadres did, even though the clear majority of entrepreneurial households were not cadre households earlier.

The vision of a “great coalition” of the old and new elites found that former cadres played a quite significant role in the making of the new bourgeoisie (Hankiss 1989). Another analyst, Erzsébet Szalai, stated that the new managerial elite are recruited from members of the “beat generation”. Because they are qualified experts with meritocratic values they are able to keep or transfer their power (Szalai 1989). According to these versions of socialist legacy theory, potential entrepreneurs are those who had the power to accumulate wealth and connections during their former years.

Finally, the third model states that neither long- nor short-term historical legacies, family backgrounds or former political roles determines entrepreneurial inclination,

but rather it is available personal conditions, skills and demographic characteristics that matter (Kuczi et al. 1991). This model is a synchronous one: the emphasis is not on historical antecedents but on “*here and now*” *personal attributes*.

In the following I will test the validity of the models mentioned above concerning diachronic and synchronous explanations of entrepreneurial inclination. Data are based on a nation-wide representative survey from 1988 (3000 persons)<sup>2</sup>.

## TESTING THE VALIDITY OF THE MODELS

As one can judge from empirical evidence the three theories concerning recruitment of post-socialist entrepreneurs are far from being equally valid. Six logistic regression models were constructed in order to evaluate the explanatory power of the above-mentioned theories. In Model 1/a the parents’ occupational and educational status were the independent variables and the model fits well. The mother’s occupation proved to be more important than that of the father. Interestingly enough, in contrast to the statistics in the table, the model did not include the mother’s education since it proved to be not significant. In Model 1/b we modified and extended the circle of independent variables which represent the different aspects of *long term historical heritage*. Instead of the parents’ education, the ethnic background, the father’s property (i.e. size of land owned) and the number of father’s employees were included. We expected that these variables – especially the property and managerial power components – would contribute significantly to explaining entrepreneurial inclinations. These expectations proved to be false. Being insignificant, none of them were incorporated into the model. The model’s explanatory power is less than that of the previous one.

*Table 1. Estimation of entrepreneurial inclination by long term and socialist heritage variables in 1988*

Variable	Model 1/a	Model 1/b	Model 2
CONSTANT	-1.728	-1.1064	-0.6363
	(48.3013)	(83.3688)	(5.3001)
FOCCU	0.6260	0.5424	*
	(12.2492)	(10.6445)	*
MOCCU	-0.7240	0.6530	*
	(14.569)	(14.6604)	
FEDU	0.0758	*	*
	(10.0541)		

MEDU	#	*	*
ETHNIC	*	#	*
FLAND	*	#	*
FEMPLOY	*	#	*
PARTY	*	*	-0.4760
			(3.9134)
Model Chi-Square	33.011	19.836	8.82
D. of Freedom	3	2	2

\* Variable not included

# Variable not in the model because the parameter was not significant. Notes:

Logistic regression model with forward step algorithm. B values  
(Ward coefficient in brackets)

FEDU - Fathers' education

(Years of father's classes when the interviewee was 14 years old)

FOCCU - Fathers' occupation (1 if father was worker)

MOCCU - Mothers' occupation (1 if mother was a housewife)

MEDU - Mothers' education (Years of mother's classes when the interviewee was 14 years old)

PARTY - Membership of HSWP or HSP

LEADER - 1 if the int. was ever a leader

FEMPLOY - #fathers' employees when the interviewee was 14 years old

FLAND - size of fathers' land when the interviewee was 14 years old

Source: Author's own calculation, based on Tárki A Tdata-B90

Among the model-families, the *socialist heritage model* had the least explanatory power. Former party membership seemed to counter-indicate entrepreneurial inclination, while former leaders were more interested in entrepreneurial career patterns. There is a hidden counteraction between the two components. We know from cadre statistics that the overwhelming majority of the economic elite were party members. At lower levels of leadership, the proportion of party members was over the average and among the members of the economic elite the proportion of party members was as high as four-fifths, even in the late '80s. Neither party membership nor the former or present leadership position appears to explain too much about entrepreneurial inclination. Former leaders are a little more interested in becoming independent than the average, but party members are certainly not the main source of recruitment of entrepreneurs. There

## WHERE DO ENTREPRENEURS COME FROM?

were well known examples of such kinds of careers among top civil servants (a former prime minister became vice-president of an international bank, for example). Leaders and professionals were vastly over-represented among party members, but all in all the 800 000 strong political class of party members did not differ significantly from the average in terms of entrepreneurial potential. This indicates, on the other hand, that the ideological obstacle of market institutionalization did not have much impact on them. Closer analysis could shed light on the inner distribution of the membership of the former ruling party. A small number consistently refused market institutionalization and economic and social reforms, while the greater part supported the values behind economic reform more intensively than the average for non-party people. This can be explained through identifying the higher educational and occupational status of this stratum. There are good reasons to suppose that the ideological diversity of “conservative” and “reform-minded” wings led to the splitting of the party before the free elections.

*Table 2. Estimation of entrepreneurial inclination by occupation, gender, age, education and income in 1988*

Variable	Model 3/a	Model 3/b
CONSTANT	-2.5340 (121.9819)	-1.6722 (20.2642)
PROFES	#	-0.8770 (5.4668)
WHITECOL	#	*
SWORKER	0.4245 (4.6215)	
UNWORKER	#	*
GENDER	*	1.1057 (39.0833)
AGE	*	-0.4880 (32.7665)
EDU	*	0.3206 (12.9433)
RELIG	*	*
INCOM	0.6964	

	(33.9749)	
SECONDEC	0.7744	
	(18.1504)	
Model Chi-Square	61.76	100.757
D. of Freedom	3	4

\* Variable not included

# Variable not in the model because the parameter was not significant

Notes:

Logistic regression mode with forward step algorithm. B values (Ward coefficient in brackets)

PROFES - 1 if the int. was professional

WHITECOL -1 if the int. was white-collar

SWORKER - 1 if the int.was skilled worker

UWORKER - 1 if the int.was unskilled worker

RELIG - 1 if the int. was not believer

INCOME - Monthly net income (Thousand Forints)

SECONDEC - Activity in second economy (1 if yes)

GENDER - 1 male

AGE - Age of interviewee

EDU - Education of interviewee (Years of classes)

Source: Author's own calculation, Tárki A, Tdata-B90

In Model 3/a we wanted to test a part of the third explanation. Here we took into account occupation, activity in the second economy and income. The *second economy*, as one could expect from the above discussion, had a positive and significant effect on entrepreneurial inclination. Income and having skilled worker status had a strong positive effect too.

In Model 3/b we took into account a wide range of synchronous variables, including occupation, education and demographic status. This model proved to be the most valid. Age, gender and education explain much more about entrepreneurial inclination than the rest of the variables. Even occupation proved to be a non-significant driver. All this means that the synchronous “here and now” *personal conditions* are most important in explaining entrepreneurial inclination.

## CONCLUDING REMARKS

In the '30s Hungary faced serious social obstacles to modernization. The diverging interests of the conservative elites, the weak middle classes and the obsolete structure of the labor force were the most important elements of these social obstacles. The down-to-earth utopia of the third way provided a combined solution to these problems: persuading the elites that they should fulfill their historical responsibilities, distribute land to landless peasants, educate them in the culture of entrepreneurship, support the emergence of a strong middle class and combine the advantages of both small and great estates.

The elites during the war and planned economy did not opt to recommend the third way ideology. Forced collectivization and anti-kulak campaigns served opposite aims: pushing the labor reserve from agriculture to industry; diminishing instead of strengthening the middle classes. The majority of people (even those who had formerly worked on their own account) became employees instead of becoming independent economic actors. But from the '60s onwards an alternative path was clear. Household plots and the sub-dividing of agricultural co-operatives offered an institutional framework for semi-autonomous economic activities. Dual labor market positions and the second economy spread while the contribution of the second economy to GDP grew significantly. The ambiguous development of a new middle class began. The majority of those who were involved in the second economy tried to produce marketable goods and services, but at the same time maintained their main jobs in state-run enterprises as employees.

Where did these new entrepreneurs come from after the system change? Was the second economy the major source of entrepreneurship? Ethnic background and party affiliation – previously thought to be important elements behind economic attitudes – proved to be insignificant in the explanation. The family background had some explanatory power – the education and occupation of the mother was more important than that of the father – but historical explanations for entrepreneurial inclination were less satisfactory than synchronous ones.

In explaining the recruitment of potential entrepreneurs, demographic status, education, occupational position and activity in the second economy all proved to be important.

At the dawn of the changes in the system, the proportion of potential entrepreneurs grew significantly, and at reaching two-fifths of the active population, it peaked.

In the synchronous models, beyond income, age, gender and activity in the second economy, having a skilled worker position (having professional and/or

white-collar status) proved to be important. Although the economic attitudes of the sexes became more balanced in the meantime, gender did not lose its explanatory power in this respect. The attitude of professionals changed negatively against a private economy. The marketization of culture had a negative impact on the acceptance of the entrepreneurial alternative among professionals, although this stratum was one of the most enthusiastic about market institutionalization and privatization a few years ago.

What is interesting here is that personal conditions and characteristics were found to be important elements behind entrepreneurial inclination. The second economy played a remarkable role but not the single most outstanding one. The second economy was the “other path”: it reflected and to some extent corrected the ill-functioning of the first economy, dominated by the state. The second economy could provide the combined advantages of small and great estates and in a certain way contributed to the development of a new middle class. Nevertheless, it was not a late realization of the third way. The third way was an alternative scheme for integrating economic processes.

But may a second economy be a dominant mechanism of economic integration at all? In short periods of social shocks and post-war shortages barter and black market were able to fulfill such a function. But in longer periods the second economy, as the name suggests, works as a complementary mechanism for integration. As one can judge from the data, the most important elements determining entrepreneurial inclination were “here and now” personal conditions and characteristics. These were clearly influenced by family background: the higher the educational and occupational status of the mother, the more the positive effect on the entrepreneurial spirit of their offspring. State socialism as a system had no particularly important effect on the entrepreneurial spirit. Ideological constraints were ineffective and party membership had only a slight negative impact on entrepreneurship, while former leadership experiences had a positive one. However, some “here and now” conditions (like education, occupation and experiences in the second economy) were also accumulated during the state socialist period. In a sense, the second economy itself was an institutional solution for state socialism, although it was not an integral part of it. It was tolerated in certain countries and periods – like in the Soviet Union during the NEP –, or even encouraged – like in Hungary and China during the reforms –, but it was forbidden and sanctioned in the majority of cases for long periods.

The second economy is an ambivalent institutional and habitual heritage and has side effects on the composition of the entrepreneurial middle class of post-socialism. On the one hand, those who were involved in the second economy



learned to take care of their careers and developed marketable skills. On the other hand, new entrepreneurs learned the rules of economic behavior in a shortage economy what had consequences both on the personal and on the broader institutional level as well. A large proportion of them remained interested in short term advantages, double occupational status and tax-avoidance.

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## NOTES

- 1 This chapter is based on a paper presented at a conference in IUPERJ, Rio de Janeiro, in 1993
- 2 Source: Tárki A, Tdata-B90 <http://www.tarki.hu/cgi-bin/katalogus>





**II.**  
**ENTREPRENEURIAL SPIRIT AND**  
**POST-SOCIALIST TRANSFORMATION**



## **THE UPSWING OF ENTREPRENEURIAL INCLINATION BETWEEN 1988 AND 1990<sup>1</sup>**

In 1988, a quarter of the adult Hungarian population thought that they would like to be entrepreneurs. The great majority thus rejected the idea of entrepreneurship. A search for the motives behind this rejection found that ideology played little role and that even objective social conditions (the economic recession, taxes, terms of credit) seemed to be less inhibiting than the respondents' assessment of their own abilities.

This chapter seeks to answer the question whether there were considerable changes in entrepreneurial inclination during systemic change (between 1988 and 1990), and, if so, what social factors can be found in the background. First, the situation in 1988 will be reviewed with the help of an extended number of variables. Then the figures for 1988 and 1990 will be compared and the changes analyzed. The social characteristics of each group – those who chose to adopt and those who chose to reject entrepreneurship at both points in time and those whose attitudes changed during this time – will be scrutinized. It lends special importance to the study of the latter issue that it may provide an answer to the question: what social factors support the growth of entrepreneurial inclination. Next, the validity of models which deal with the presence of and changes in entrepreneurial inclination will be checked using logistic regression models.

### **DATA AND MODELS**

The findings of this study are based on a sample of 3000 respondents from 1988 and a sample of 1000 from 1990. In both cases entrepreneurial inclination was tested using the question: "Would you like to be an entrepreneur?". As a matter of course, the proportion of affirmative answers is larger than the proportion of actual entrepreneurs and certainly exceeds the number of those who have purposeful entrepreneurial aspirations. However, the answers do give the possibility to measure entrepreneurial inclination. The high rate of negative answers suggests that respondents have considered their subjective perspectives and weighed their possibilities more or less realistically.

The two surveys did not only contain comparable questions, but by surveying a selection of respondents from the 1988 sample in 1990 again, they afford an insight into the stability and change of opinions and social background variables. To this end, the two data files were merged, containing the 1988 and 1990 responses of the same people.

*Table 1. Entrepreneurial inclination in 1988 and 1990 (%)*

	1988	1990
Inclined toward enterprising	24.9	44.1
Not inclined toward enterprising	75.1	55.9
	n=2821	n=986

*Source: own calculation, Tárki A, Tdata-B90 and Tárki C, Tdata-C36. For the sake of comparability, the question “Would you like to be an entrepreneur?” is treated as a dichotomous variable, disregarding the 4% “it depends” answers of 1988.*

In the 1990 sample fewer young people and more people over 60 were included than in 1988. Since entrepreneurial inclination is typical of the younger generation the rate of those inclined toward entrepreneurship might be higher than demonstrated if the proportions were identical.

The findings of the adjustment test reveal that the subsample is not distorted towards basic variables. The CHI square value of 5.456 calculated on the basis of the GENDER and AGE variables of the two samples is lower than the table value (14.1) at the 0.05 significance level. Consequently, according to the combined GENDER and AGE variables the 1990 sample can be handled as a representative subsample of the 1988 survey.

In the following, after describing the social characteristics of entrepreneurial inclination several models are presented:

In the first model, entrepreneurial inclination is predicted to be most strongly influenced by age and gender at both points in time. A significantly greater proportion of younger males are expected to be bent on entrepreneurship when compared to older males, or females of the same age. As regards family status, far more single males are expected to be inclined toward enterprising, and the status of the spouse is expected to have an influence on economic attitudes. We also check the widely-held notion that entrepreneurial inclination varies by nature of settlement.

In the second model the influence of family variables explains entrepreneurial inclinations in the first place. According to expectations, people with greater cultural capital and those whose parents were economically independent are more favorably inclined towards entrepreneurship. At the same time, it is assumed that the two years between 1988 and 1990 had some sobering effect. More particularly, entrepreneurial inclination is expected to have grown but at the same time it has become more group-specific. We presume that the circle of potential entrepreneurs would have become more socially closed both in terms of personal qualities and social origins, although numerically it has expanded.



According to the third model, decisions concerning entrepreneurship are most strongly influenced by acquired knowledge and social position. This model suggests that those who have more information about relevant conditions, and have specific social positions which can facilitate their transition to the entrepreneurial sphere will be more inclined toward enterprising. Those with higher education or more skilled occupations and a higher income, as well as active earners are expected to be more open to enterprise. This does not mean a simple division between white-collar and blue-collar workers; in fact, we expect to find greater divergence between certain groups of blue-collar workers than between white-collar workers and blue-collar workers.

In the fourth model, a person's wish to enter the entrepreneurial field is closely connected to his or her life strategy and the strength of his or her social connections. An entrepreneurial inclination indicates the extent to which a person finds it conceivable and necessary to change their life circumstances. Accordingly, those are expected to be more inclined toward enterprising who have a wider range of social ties (more friends); are active; belong to the younger generation; have been involved in the second economy and/or are dissatisfied with their workplaces and those who would be willing to move for a better job.

In the fifth model, all the factors studied in the previous models are taken together to see which of them influences significantly entrepreneurial inclination; that is, which variables have a stronger effect. We assume that growth in entrepreneurial inclination can be basically attributed to the same social factors that explain the presence of this inclination.

## DESCRIPTIVE FINDINGS

In 1988 the nature of the respondents' settlement showed no significant relationship to entrepreneurial inclination. It is therefore untenable to assume that entrepreneurship attracts the urban dweller the most. Nor did 'family status' have an influence in itself, although we expected that potential entrepreneurs might be overrepresented among single young males. This is obviously an outcome of the cross effect of age and gender. Entrepreneurial inclination was indeed higher among single males (42 per cent) than among married men (36 per cent). Potential entrepreneurs are represented most highly in the youngest age brackets of both single and married males, but this rate is lower for singles than for married men (50 per cent vs. 59 per cent). As for women, the influence of family status is not so marked. It is therefore rejected that single young males are the most inclined toward entrepreneurship. Those who have already settled down with families are

more open in this respect. The statistical indices reveal a weaker association for single females and males than the main effect of age and gender, irrespective of family status.

Spousal income had a meager influence on entrepreneurial attitude (unlike the respondent's own income). However, the social position of the spouse matters more. There was a medium-strong correlation between the spouse's education and occupation and entrepreneurial inclination. The question arises whether the influence of the spouse is different for the two sexes. Hypothetically a husband's social status is more important for a woman (in material terms) than vice versa. However, another assumption which in part contradicts the previous one can also be formulated about the spouse's social status. Research results from a small sample of villagers suggest that one type of entrepreneurs had married "upward": as skilled workers, they married teachers, nursery teachers or saving bank managers with higher prestige in the local community, mostly before launching an enterprise. (Tóth, 1991)

This might lead to the hypothesis that those "marrying upwards" are more entrepreneurially-inclined than average. Three interlocking reasons might be mentioned in support of this hypothesis. First, this marriage pattern itself displays a kind of outbreak behavior, a sort of "social venture", an ability to come to grips with breaking traditions. Second, it can be interpreted as an utilization of the spouse's "cultural assets". Thirdly, this behavior can also be interpreted as a drive for status compensation; that is, becoming self-employed is a move undertaken in order to rise to the married partner's social status.

There is a slight but not significant correlation in the case of women: notably, there is a small rise in entrepreneurial inclination when the husband is not a worker. Therefore, it must be discarded that a woman's drive for independence is more heavily influenced by the husband's social status than vice versa. Among males this correlation is stronger: the wives of professionals, white-collar and skilled workers demonstrate above-average motivation while the husbands of female leaders are less inclined toward entrepreneurship than the average.

The 'social venture' hypothesis cannot be verified by the facts either. Generally there is no significant correlation between status differences in marriage and entrepreneurial inclination. The only deviation is that the proportion of potential entrepreneurs is somewhat lower than average among women who marry "upwards". The proportion of those who marry "upwards" is naturally higher among workers, simply due to statistical distribution, but these higher proportions do not affect their entrepreneurial inclination. Moreover marrying "upward" is less frequent among actual entrepreneurs: the relevant proportion is

below the national average. Finally, the correlation does not hold true for village-dweller males either: somewhat fewer of those villagers who married upward are inclined toward enterprising than those who married women of the same status. All in all, family status has a weak influence on the reported aspirations toward independence, but the wives' role is a bit stronger than that of the husbands'.

Another group of questions inquires about social origin. The importance of this aspect is enhanced by its relevance to economic ideology. The problem centers on the chances of the rise of a bourgeois middle class. By analyzing the composition of entrepreneurial rural households, Iván Szelényi concluded that family background significantly influences a person's chances of embourgeoisement (Szelényi, 1988). This social heritage can be modified by individual life courses, but those who preserve this starting advantage do have better chance to avoid becoming proletarians or cadres. His findings suggest the plausible hypothesis that those who inherit a sort of business culture from their parents and grandparents are more likely to become entrepreneurs.

István Varga and his co-author formulated a different viewpoint: they argued that the offsprings of proprietors were no more or less fit for entrepreneurship than others (Varga-Banai, 1991).

Three aspects of the connection between social origin and entrepreneurial inclination are worth considering in detail. First, the thesis of social heritage in the narrow sense could be controlled with the parents' landed property. Since landed property is a characteristic of the peasants, one may expect a significant positive correlation between the size of the parents' landed property and the children's entrepreneurial inclination. Second, the role of the mother's and father's education and occupation should be studied. Research findings that focus on the economic elite reveal that the mother's education and occupation exert a greater influence on the position of the elite than those of the father's (Lengyel, 1992.a). It is assumed that this statement also applies to potential entrepreneurs. Thirdly, reference should be made to dynamic connections. It is supposed that the role of origin affects entrepreneurial inclination in regard both to having an entrepreneurial family background and more broadly, to having a professional or skilled worker background. What prompts this hypothesis is the fact that in the studied period the restitution of nationalized property and the partial return of appropriated land and capital seemed to be possible and might have encouraged the revival of formerly disregarded career opportunities among those concerned.

In checking our models, concerning landed property we start out from the fact that 14 per cent of the parents of respondents from the sample were reported to have had land before. The very existence of parents' landed property had no

significant influence on entrepreneurial inclination, but the size of the land had a positive effect. At the same time it was found that those whose parents were self-employed had below-average inclination toward entrepreneurship.

With respect to the second model data show that the mother's education was more strongly related to the child's entrepreneurial inclination than that of the father's. The mother's educational status is nearly as strong an indicator as the active/inactive status of the person. While women in general are less inclined toward entrepreneurship than men, the female roles (those of the mother and wife) within the family more pronouncedly influence entrepreneurial aspirations than those of the father and husband.

Concerning the third model an examination of occupational categories raises the question whether the difference *between* workers and office employees or the difference *within* these groups is more decisive with respect to entrepreneurial inclination. According to our hypothesis the difference is greater between skilled workers on the one hand and semi-skilled and unskilled workers on the other than between blue-collar and white-collar workers. It is also assumed that leaders and professionals are further removed from white-collar workers in the narrow sense (the office personnel without diploma) than from skilled workers in terms of economic independence.

There is no significant difference with respect to entrepreneurial inclination between workers and office personnel. The corresponding figures are 24 per cent among workers and 29 per cent among office employees that is, the difference is slight. Within the workers' strata the deviation is far greater: 37 per cent of skilled workers and only 17 per cent of semi-skilled workers would launch a business venture of their own. The differences are far less pronounced within the group of office employees. Therefore the main difference with regard to entrepreneurial inclination is not between the colors of the collars but between the two major groups of workers.

What characterizes these groups? First of all, the two groups of workers are gender-specific: some three-quarters of the skilled workers are male. Or, the other way round, over half of male workers and only one-fifth of female workers are engaged in skilled work. Age distribution is also important: about half of the skilled workers are below 35 years of age, while only a little over one-quarter of the semi-skilled and unskilled laborers belong to this age group. Strange as it may sound, the two groups of workers significantly differ in terms of family background. In the group of skilled workers, nearly half of the mothers had received an education above the level of six years of primary schooling, compared to one-fifth in the rest of the worker strata. In the strata of the semi-skilled and unskilled workers, nearly

half of all the mothers were housewives, the corresponding figures for skilled workers being lower.

Within the category of workers the table statistics reveal that a slightly more important role is played by fathers when compared to mothers. One-quarter of the skilled workers had skilled worker fathers. In the case of the semi-skilled and unskilled laborers, nearly half of the fathers belonged to this category and another 30 per cent were self-employed and worked in agriculture.

One has to take note of two other factors with a medium-strong influence, as revealed by the analysis of cross tables. One is involvement in the second economy; the other is former leadership experience. About one quarter of the adults reported some income from the second economy<sup>2</sup>. Entrepreneurial inclination was 37 per cent within this group, that is much higher than the average. Who are most likely to receive income from the second economy? 37 per cent of the professionals had an income from this source and this trait was more typical of younger generations. Leaders and white-collar workers earned around the average and groups of workers below the average.

Some 9 per cent of the respondents who do not work in managerial posts right now indicated that they had been leaders before. Their entrepreneurial inclination is far above average at 40 per cent. This group with former managerial experiences is overrepresented in the age group of 46-59 years and among professionals.

## **CHANGES BETWEEN 1988 AND 1990**

The data from the 1990 survey confirm the preliminary assumptions about a significant rise in entrepreneurial inclination. Over the two years there was a massive rise in the number of those who could imagine setting up their own business. After 1988, the number of entrepreneurs spectacularly increased, doubled between 1988 and 1990. The increasing number of new partnerships was even more astonishing: against the establishment of 451 Ltds in 1988, over 18.000 were registered in late 1990<sup>3</sup>.

Two factors have to be taken into account in the analysis of this spectacular rise in entrepreneurship: a) the rise conceals an increase mostly in small-scale ventures; and, b) according to the economic association and transformation acts state-owned enterprises could also set up Ltds. According to a BKE-TÄRKI survey, 15 per cent of Ltds were owned by the state, 25 per cent had mixed (state and private) ownership and 60 per cent were privately owned. Another survey shows that an overwhelming majority of the newly launched ventures were on the small scale: in 55 per cent of new Ltds the number of employees was a maximum

of 3 and 38 per cent of the businesses were run in private homes. 87 per cent of the individual entrepreneurs had no more than three employees.

At the same time according to government estimates, in 1990, 19 per cent (and in 1991, 25 per cent) of the GDP came from the private sector against 16 per cent in 1988.

*Table 2. Changes in the number of entrepreneurs and private enterprises*

Year	Joint stock co. & Ltd.		Joint venture	Self-employed (a)
1985	62		43	171 038
1986	74		70	179 629
1987	137.....136			186 438
	Joint stock co.	Ltd		
1988	116	451	227	196 748
1989	307	4 485	1 357	320 619
1990	646	18 317	5 770	393 619
1991	1 072	41 206	11 335	521 417
1992 (b)	1 395	50 622	13 414	532 984(c)

(a): until 1988 the number of retailers and artisans

(b): statistics from June

(c): data from March 1992

*Source: KSH Statisztikai Évkönyv 1987, 1988, 1989, 1990 [Central Statistical Office Yearbooks], Statisztikai Havi Közlemények [Monthly Statistical Bulletin], Gazdasági Statisztikai Évkönyv 1990 [Yearbook of Economic Statistics], Statisztikai zsebkönyv 1991 [Statistical Almanach].*

It seems logical to ascribe the fast growth rate of those inclined toward entrepreneurship to the direct and indirect effects of the political and institutional changes that occurred in 1989-90 (Andorka 1990, 1992).

According to the 1988 survey, the majority of the respondents who rejected the idea of starting a private enterprise referred to some subjective reason (lack of talents; age; not being the type, etc.). It cannot be presumed that these subjective conditions of the respondents underwent such dramatic changes during the two years and could explain the significant increase in entrepreneurial inclination.

Let us rather stress three other factors that might have influenced the interpretation of the subjective situation and hence eventually promoted entrepreneurial aspirations:

- a) The legal rules that came into effect enlarged the scope of entrepreneurship. Act VI. 1988 provided opportunities for economic associations; Act XIII. 1989 for the transformation of state enterprises; Act V. 1990 simplified the conditions for launching business ventures and served as the legal protection of private property and promoted unbiased competition.
- b) Enterprises and entrepreneurs assumed a key role in economic ideology, became widely known and were positively judged by the mass media.
- c) The signs of economic decline became visible by 1990. At the same time the possibilities of the restricting family consumption had decreased for considerable number of people (Tardos 1988).

Macroeconomic indicators revealed the deepening of the recession. The rate of inflation rose from 15.5 per cent in 1988 to 29 per cent in 1990, while – after stagnation in 1988-89 – the GDP decreased by 3 per cent in 1990 and there was an 8.5 per cent decrease in industrial production. Though there was no significant rise in the number of the unemployed, a group of permanently jobless people emerged.

Research using the 1990 data on entrepreneurial inclination variable shows that members of the older generation, women, the lower educated and people in less well paid employment were the least inclined toward entrepreneurship. In contrast young males, leaders and skilled workers were most strongly attracted to enterprising. There were significant changes with regard to certain background variables between 1988 and 1990. A radical change in the political environment, the spread of entrepreneurial ventures and the emergence of an openly pro-market economic policy affected the different demographic, occupational and educational groups of the population differently. A comparison between data for 1988 and 1990 reveals that there was an above-average growth in the number of enterprise-friendly respondents among women, old-age pensioners and white-collars, those with only elementary schooling, and low wage earners.

*Table 3. Changes in entrepreneurial inclination between 1988 and 1990 according to major background variables*

	Proportion of potential entrepreneurs in % of the category	
	1988	1990
TOGETHER	24.9	44.1
GENDER		
male	37.3	53.6
female	16.3	36.7
AGE		
-35	39.1	64.0
36-45	30.5	58.5
46-59	16.8	35.2
60-	8.9	20.4
OCCUPATION		
leader	28.1	50.0
professional	26.7	41.0
white-collar worker	19.9	51.7
skilled worker	36.7	50.7
other worker	16.7	33.7
EDUCATION		
maximum 6 primary classes	8.9	20.1
8 primary classes	19.3	43.8
vocational training	36.5	61.9
secondary schooling	31.7	51.5
university	30.5	45.0
INCOME (1)		
below 6000 Ft	21.1	40.9
6000-10 000 Ft	30.8	51.1
above 10 000 Ft	47.4	55.9
HSWP membership(3)		
was not member	25.4	45.7
was member	22.5	43.4
RELIGION(3)		
not religious	30.8	45.7
religious	20.4	38.4
LF STATUS		
active	32.1	54.2
inactive	11.6	24.4
FRIENDS(2)		
has more than 5 friends	28.0	54.4
has 2-5 friends	26.7	49.0
has 1 friend	19.5	35.1
has no friends	15.2	30.0



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INCOME FROM SECOND ECONOMY(3)		
yes	35.9	56.0
no	21.5	40.4
PLANNING TO MOVE FROM PRESENT HOME(2)		
yes	32.9	59.8
no	22.3	42.6
FATHER'S EDUCATION		
maximum 6 primary classes	19.4	37.7
8 primary classes	36.9	59.5
vocational training	34.7	51.9
secondary school	32.3	50.9
university	28.2	44.4
MOTHER'S EDUCATION		
maximum 6 primary classes	19.5	36.8
8 primary classes	37.8	58.2
vocational training	40.6	63.6
secondary school	37.4	58.6
university	29.7	52.2
FATHER'S OCCUPATION(3)		
self-employed	17.3	34.6
leader	30.0	53.8
professional	16.7	37.5
white-collar worker	31.3	52.6
skilled worker	35.7	50.7
other worker	25.2	46.2
pensioner	38.6	30.8
MOTHER'S OCCUPATION(3)		
self-employed	17.5	35.8
leader	41.9	62.5
professional	27.0	60.0
white-collar worker	38.1	66.7
skilled worker	43.0	64.1
other worker	34.0	54.9
pensioner	20.6	36.0

(1): according to income in 1988 in both cases

(2): on the basis of responses in the 1990 survey

(3): on the basis of responses in the 1988 survey

Source: own calculation, Tárki A, Tdata-B90 and Tárki C, Tdata-C36

It is worth taking a closer look at age groups because in 1990 age shows the closest correlation with changes in entrepreneurial aspirations. This fact disproves the assumption that with increases in entrepreneurial inclination the role of age will decrease.

The situation is somewhat influenced by the fact that the sample aged an average two years from 1988 to 1990; that is, the proportion of the people above 60 grew and that of the people below 35 decreased somewhat. Even if we reckon with weighted figures (adjusted to the age distribution in 1988) in 1990, age remains to be the most strongly correlated with entrepreneurial inclination. Besides, this variable required particular attention because the indirect effect of age groups underlies the influence of other variables as well. An examination of variables that are most strongly correlated with entrepreneurial inclination in each age group (education, gender, income, occupation, parents' education and occupation, involvement in the second economy) reveals that below 35 years of age these variables are weakly related to entrepreneurial inclination while among the middle-aged (between 36 and 45 years of age) and the older active people (46-59 years old) the correlation is always stronger. Age as such would keep people above 35 away from entrepreneurship if other variables (higher education, managerial experience, involvement in second economy) did not promote entrepreneurial inclination. This coincides with the finding of Tibor Kuczsi and Ágnes Vajda that people above 30 are overrepresented among actual entrepreneurs<sup>4</sup>. Distribution by age groups shows that, similarly to 1988, in 1990 the younger generation (below 35) was again the most inclined toward entrepreneurship, at 64.0 per cent.

In 1990, the proportion of potential entrepreneurs by gender was explicit. This is not simply due to the rise in the number of women who changed their minds. Men are slightly overrepresented among those who rejected entrepreneurship in 1988 but accepted it in 1990. But especially high (69 per cent) is the percentage of men in the group of those who had turned away from entrepreneurship over the two years.

In terms of occupational groups an above-average rise in attraction to enterprising was found among leaders, white-collar workers and unskilled workers.

In 1990, too, affinity toward entrepreneurship had a medium-strong correlation with education. It would be logical to assume that the educational level of several people had increased over the two years and this change in education strongly influenced positive changes in opinions about enterprising. Testing this assumption, however, reveals that there is a very weak correlation between the two changes: an increase in schooling did not entail an increase in entrepreneurial inclination.

In the 1990 sample, those with eight years of education or with vocational training were the most inclined to change their mind and become entrepreneurs in 1990. Among the higher educated there was a smaller growth in entrepreneurial inclination, but this group had an above-average interest in entrepreneurship in both years. The highest proportion of potential entrepreneurs was among those trained in a vocation in both samples. Those who changed their mind in the negative direction are not specifically differentiated by education, but there is a slightly higher than average proportion of the higher educated among them. One must conclude that the narrow group of those who answered 'yes' in 1988 and 'no' in 1990 cannot be described as being undereducated or untrained, or having cognitive problems with the question.

In 1988 the leaders showed an above-average interest in entrepreneurship. Among the occupational categories white-collarers changed their mind the most toward enterprise from 1988 to 1990. The lowest proportion of change in this direction was among professionals and unskilled workers. Thus in 1990 white-collar workers came abreast of skilled workers and leaders, with a more than 2.5-fold increase in potential entrepreneurs among them. Taking the income categories of 1988, one sees the highest proportion of change toward entrepreneurship in the low income groups, but they continued to have the lowest proportion of potential entrepreneurs in 1990.

Compared to 1988, children of parents with maximum six primary years of education were even less inclined toward entrepreneurship in 1990. Since children of parents with a low level of education outnumber the rest of the respondents, this factor also constitutes a barrier to the expansion of the circle of potential entrepreneurs.

The massive rise in entrepreneurial inclination between 1988 and 1990 must be seen as a culmination in intention, above which no rise is probable. One must reckon with stagnation at the rate of 1988-1990 or with a decrease, in view of the first negative experiences<sup>5</sup>

## **LOGISTIC REGRESSION MODELS OF ENTREPRENEURIAL INCLINATION**

In most of the models explaining inclination to be entrepreneurial, the models built from 1990 figures give better predictions for the observed distribution of entrepreneurial inclination than models based on figures for 1988. This is in spite of the fact that due to the distribution of responses to entrepreneurial inclination

(0.75 against 0.25 in 1988, and 0.45 and 0.55 in 1990) it is harder to prognosticate on the basis of the 1990 data.

The analytical results show that in both studied years the demographic factors (model 1) take a decisive role for those inclined towards entrepreneurship.

*Table 4. Logistic regression models of entrepreneurial inclination (models 1-2)*

Model Variables	Model 1		Model 2	
	1988	1990	1988	1990
Constant	-0.6690 (0.2064)	1.0384 (0.1715)	-1.5188 (0.1492)	-0.5900 (0.1860)
Gender	1.0366 (0.1847)	0.7499 (0.1514)	-	-
Age	0.5263 (0.0852)	-0.6805 (0.0675)	-	-
Father's education	-	-	0.2266 (0.0613)	*
Mother's education	-	-	*	0.2855 (0.0743)
Father is worker	-	-	*	0.4227 (0.1571)
Mother is housewife	-	-	*	-0.6102 (0.1592)
-2 log likelihood	771.475	1054.210	1024.037	1027.476
model chi2	69.349	130.227	13.449	38.225
degree of freedom	2	2	1	3
number of cases	781	857	910	769
would be entrepreneur (1)	100	71.43	100.0	76.63
would not be entrepreneur (1)	0	61.64	0.0	41.18

- : not included in the model

\* : not included in the model due to insignificance of effect.

1 : cases correctly ranged by the model in percentage of the observed cases

*Source: own calculation, Tárki A, Tdata-B90 and Tárki C, Tdata-C36.*

Analysis of the cross tabs revealed that an above-average proportion of men and younger people were inclined to be entrepreneurs. Now it is demonstrated that in both 1988 and 1990 being male and a member of the younger generation increased the probability of entrepreneurial inclination. As the models confirm,

the effect of gender decreased from 1988 to 1990. As can be seen from the cross table analysis, inclination of women toward enterprising grew more strongly and came near to that of men<sup>6</sup>. By contrast, the negative effect of age grew slightly.

The second model, showing the effect of the family background through parents' education and occupational position, gives a better prediction for 1990 than for 1988. The role of family background variables increased by 1990 in explaining entrepreneurial inclination. Both the mother's education and occupation (being a housewife or not) and the father's occupation (being a laborer or not) influenced one's inclination toward entrepreneurship according to the model.

Model 2 itself is far less suitable for predicting entrepreneurial inclination for 1988 than model 3, which includes social status and acquired knowledge as explanatory variables.

Examining the coefficients in model 3 one finds that the influence of social status on entrepreneurial inclination decreased from 1988 to 1990. Party membership – for 1988 – was shown as being significant by the model, in contrast to the cross tabs. This is probably due to the cross effect of party membership, education and occupation in the tables. While in 1988 the influence of schooling was strong and positive (that is, higher education increased the probability of entrepreneurial inclination), in 1990 its influence decreased, and neither the influence of HSWP membership nor income was significant.

Schooling had a positive effect in both years, but being a 'professional' – implying a higher level of education – strongly cut back the probability of entrepreneurial inclination. This fact gives a new hue to the picture gained from the cross tab analyses. There we found that professionals were inclined slightly above the average toward entrepreneurship. The regression analysis revealed that this phenomena can be ascribed to the stronger entrepreneurial inclination of the higher educated. Examining just the category of professional itself, we find a negative effect that in fact decreases the inclination toward enterprising.

Participation in the second economy had a strong positive effect in both years. As was seen, however, involvement in the second economy was overrepresented among professionals. All this prompts the assumption that the professionals have a strata with marketable knowledge, involvement in the second economy and inclination toward enterprising, and another strata that is gradually turning away from market values.

As regards income, one finds that in 1990 it no longer had a significant effect. This means that from 1988 to 1990 lower income groups came abreast of the higher income brackets, being increasingly inclined toward entrepreneurship. Of the models belonging to the 1988 data, model 3 follows model 1 in giving the

best prognostication, while model 2 provides the worst. Significant differences can thus be found between the two years: while in 1988 the factors of here and now – the combined effect of acquired social position, schooling, income and HSWP membership – could fairly well predict the probability of entrepreneurial inclination, by 1990 the effect of these factors decreased and the circle of those bent on enterprising had become extended. On the other hand, by 1990 the influence of family background variables had strengthened, indicating that the family background (mother’s education and parents’ occupation) had become a factor in decisions about economic independence. In view of this, the circle of the enterprise-favorable population contracted: there was a decrease over the two years in sympathy toward enterprising among those whose mothers were housewives and whose father worked at blue-collar jobs.

*Table 5. Logistic regression models of entrepreneurial inclination (models 3-4)*

Models Variable	Model 3		Model 4	
	1988	1990	1988	1990
Constant	-2.4413 (0.3857)	-1.0202 (0.1936)	-2.0289 (0.2478)	-1.2938 (0.4180)
Schooling	0.3769 (0.0911)	0.2880 (0.0627)	-	-
Leader	*	*	-	-
Professional	-0.8430 (0.3763)	-0.8477 (0.2904)	-	-
Skilled worker	0.8366 (0.1914)	*	-	-
White-collar worker	*	*	-	-
Second economy	0.4992 (0.1954)	0.4820 (0.1680)	-	-
Income	0.3054 (0.1426)	*	-	-
Party membership	-0.5014 (0.2446)	*	-	-
Changing flats	-	-	*	0.6404 (0.2454)
Number of friends	-	-	0.3127 (0.0782)	0.3324 (0.0683)
Satisfied (work)	-	-	*	-0.1787 (0.0722)
Satisfied (income)	-	-	*	*
-2 log likelihood	816.266	1139.609	809.955	920.448

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model chi2	66.688	31.384	17.034	40.058
degree of freedom	6	3	1	3
number of cases	790	853	747	696
would be entrepreneur (1)	96.1	71.43	100.0	75.34
would not be entrepreneur(1)	6.15	39.52	0.0	44.34

- : not included in the model

\* : not included in the model due to insignificance of effect

1 : number of cases correctly ranged by the model in percentage of the observed cases

Source: own calculation, Tárki A, Tdata-B90 and Tárki C, Tdata-C36.

As regards the figures for 1990, model 1 containing demographic factors and the full model are followed by model 4 which includes social connections and satisfaction with work. The influence of these factors significantly increased over the two years. This change is also connected with an increase in the effect of age as revealed by model 1. As a matter of course, the younger generations in which entrepreneurial inclination grew most sharply have wider social contacts (more friends) than older people and they are more capable of radically changing their lives and moving to new homes in the hope of better jobs.

Besides the effects of age, the significance of these factors was also promoted by political and institutional changes. Modified institutional conditions facilitated the unfolding and utilization of personal potential. With the disappearance of political and institutional obstacles and the fast rise in the number of new enterprises, the assisting and orientating role of social contacts increased in the launching of new businesses. Those who had a more extended circle of friends could gain information, advice and more exact knowledge about economic ventures more quickly than those who did not have such a wide social network<sup>7</sup>. Besides, the building of a wide network of relations presupposes similar skills in communication to those required for the launching of an enterprise.

The results of model 4 give more refined information about the differences between the two years. In 1990 the willingness to move and an increasing number of friends had a positive influence on entrepreneurial inclination and the effect on job satisfaction was significant. The latter demands attention because our findings do not confirm the assumption that income maximization is the sole or dominant motive in being inclined toward entrepreneurship. Our regression analysis reveals that satisfaction with one's income does not correlate with

entrepreneurial inclination (but that does not mean that it significantly influences a positive change in attitudes toward enterprising, as will be seen later). It is dissatisfaction with one's job rather than one's income that directly influences entrepreneurial inclination.

The adjustment of model 4 to our data considerably increased during the two years, which implies the increasing role of social capital and job satisfaction in positive attitudes to entrepreneurship. In view of the full model presenting all the studied variables one may assert that from 1988 to 1990 the scope and role which accounts for the presence of entrepreneurial inclination changed concerning several points. In 1990 the role of social status decreased and that of attitudes to work (job satisfaction), possible regional mobility and personal contacts increased.

As the analysis of model 2 revealed, the effect of family background also increased over the two years studied. This is also confirmed by the fact that in 1990 out of the family background variables, the mother's occupation shows a significant effect in the full model.

*Table 6. Logistic regression models of entrepreneurial inclination (full model)*

Model Variable	full model	
	1988	1990
Constant	0.3237 (0.5385)	2.0688 (0.4593)
Gender	0.9361 (0.2086)	0.6677 (0.1678)
Age	-0.3892 (0.0974)	-0.5736 (0.0760)
Schooling	0.3574 (0.0864)	*
Activity	*	*
Religion	*	*
Managerial post	*	*
Professional	*	*
Skilled worker	0.5710 (0.2221)	*
White-collar worker	*	*
Other worker	*	*
Second economy	*	*
Father's education	*	*
Mother's education	*	*



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Father is worker	*	*
Mother is housewife	*	-0.4925
		(0.1646)
Mobility	*	*
Friends	*	0.2309
		(0.0710)
HSWP membership	*	*
Income	*	*
Satisfaction with job	*	-0.1070
		(0.0509)
Satisfaction with income	*	*
-2 log		
likelihood	677.010	898.338
Model chi2	85.767	128.081
degree of freedom	4	5
number of cases	720	746
would be entrepreneur(1)	98.93	71.05
would not be entrepreneur(1)	6.88	63.58

\* : not included in the model due to insignificance of effect

(1) : cases correctly ranged by the model in percentage of the observed cases

*Source: own calculation, Tárki A, Tdata-B90 and Tárki C, Tdata-C36.*

### POSITIVE CHANGES OF OPINION

Finally, positive changes in opinion about enterprising should be examined. A positive change of opinion implies someone saying 'no' to entrepreneurship in 1988 and 'yes' in 1990.

Underlying this change of opinion, two groups of motives can be discerned. One is the motive to escape. The cross tables display that slightly more of those complaining of exhaustion or struggling to make ends meet changed their opinion than the average. This escape into entrepreneurship, however, is not a strong effect and does not delineate a separate group within the entrepreneurial category. It is not true to say that the great rise in the number of entrepreneurs in 1990 was propelled solely the desire to escape from worsening living conditions and depressing financial burdens.

There is, however, another group of motives that makes a positive choice and a thoughtful strategy more possible: the motives of outbreak. Those who are dissatisfied with their incomes and working conditions and those who are willing to move for new jobs are overrepresented among respondents who changed

their minds. These two groups of motivation usually go together and show no correlation with demographic factors, social status, family background or income variables.

In the following, changes in entrepreneurial attitudes are being tested. Three possible explanations are taken into consideration:

- 1) Changes in entrepreneurial attitudes are determined by other factors than those underlying the presence of entrepreneurial inclination. It is expected that a change in attitude toward entrepreneurship is more closely related to other attitude variables (feelings of success, satisfaction, sense of well-being).
- 2) The explanatory factors are the same but certain categories of these factors behave differently in reference to an inclination towards entrepreneurship.
- 3) The same factors and categories are behind *the presence* of entrepreneurial attitude and behind the *changes* in entrepreneurial attitude.

*Table 7. Logistic regression models of changes in entrepreneurial inclination (models 1-3)*

Model Variable	Model 1	Model 2	Model 3
Constant	0.1190 (0.2227)	-	-1.0909 (0.0885)
Age	-0.0257 (0.0049)	-	-
White-collar worker	-	-	0.5156 (0.1980)
Satisfaction with income	-	-	-
-2 log likelihood	1036.966	-	944.765
Model chi2	29.411	-	6.564
degree of freedom	1	-	1
number of cases	924	-	813
would be entrepreneur (1)	100%	-	100%
would not be entrepreneur (1)	0%	-	0%

*1: cases correctly ranged by the model in percentage of the observed cases.*

*Source: own calculation, Tárki A, Tdata-B90 and Tárki C, Tdata-C36.*

The results provided by the logistic regression models suggest that both the dynamic and the static phenomena of entrepreneurial inclination are governed by the same social factors.

It must be noted, however, that our models seem far more suited to explaining the presence of than the change in entrepreneurial attitudes. On the one hand, the

predictions made by the models are weaker, and on the other, one of our models did not work (model 2) and in each of the others only one factor was significant.

With regard to positive changes of opinion, the best result is the prognostication in model one which contains the demographic variables. In this model only the age effect is significant: the older one is, the less probably he or she will change their mind in the positive direction.

Model 3 implying occupational position, income situation, participation in the second economy and HSWP membership shows far weaker results. Only the white-collar category is significant: being a white-collar worker increases the probability of opinion change.

*Table 8. Logistic regression models of the change in entrepreneurial inclination (model 4 and full model)*

Model Variables	Model 4	Full model
Constant	-2.3443 (0.3746)	0.1142 (0.3344)
Age	-	-0.2878 (0.0903)
White-collar worker	-	0.5135 (0.2441)
Satisfaction with income	-	-0.2220 (0.1093)
Willingness to move	0.6028 (0.2600)	-
Number of friends	0.2309 (0.759)	-
-2 log likelihood	788.236	645.999
model chi2	15.135	22.360
degree of freedom	2	3
number of cases	695	572
would not be entrepreneur(1)	100%	99.52%
would be entrepreneur(1)	0%	3.23%

(1): cases correctly ranged by the model in percentage of the observed cases.

Source: own calculation, *Tárki A, Tdata-B90 and Tárki C, Tdata-C36.*

In model 4 only readiness to move and the range of social contacts play a role, and unlike model 4 of entrepreneurial inclination in 1990, the model does not contain job satisfaction. The effect of the two factors included is confirmed by model 4: both the willingness to change homes for a better job and a larger

number of friends increased the probability that someone would positively change his mind. Of the two factors, readiness to move is associated with a greater probability of opinion change.

In the model containing all the variables, which provides a worse result than model 1 which only contains demographic factors, satisfaction with income also plays a role (besides being a white-collar worker and age, as included in the previous models). Decreasing satisfaction with income entails a positive change in attitudes toward entrepreneurship. This factor, however, exerts a weaker influence than age and belonging to the white-collar category.

The demonstrated effect of dissatisfaction with income adds a new hue to what we concluded in the discussion about entrepreneurial inclination. It suggests that the *presence* of entrepreneurial inclination can be attributed to a post-material factor – primarily dissatisfaction with working conditions – while a *rise* in entrepreneurial inclination is ascribable to dissatisfaction with earnings.

## CONCLUDING REMARKS

Between 1988 and 1990 there was a significant rise in entrepreneurial inclination to over two-fifths of the adult population. Our estimates suggest that inclination toward entrepreneurship has reached its zenith, with only stagnation or regression to follow.

Data reveal that both in 1988 and in 1990 demographic indicators were most closely correlated with entrepreneurial inclination. Origin, income and religion exerted a more moderate but not negligible influence than demographic variables, occupation and education, while HSWP membership and ethnic background showed no significant correlation.

Gender-specific differences were manifest both in different attitudes to entrepreneurship and in the stronger influence of the wife's social status on entrepreneurial attitudes. This finding shows that the wives of professionals, white-collar workers and skilled workers are more stimulating than the average, while their husbands in managerial posts are less inclined towards self-employed status than the average. Marrying upwards, or status compensation, plays no role in the presence of entrepreneurial inclination.

A comparison of actual and potential entrepreneurs according to family background revealed that a relatively weak positive influence was exerted by a self-employed family background among entrepreneurs, while no such correlation was found in the category of potential entrepreneurs who were young people, born in the '50s and '60s. Though considerably less significant than the person's own

occupation and education, the status of respondents' parents was far from being negligible. One should speak about certain behavioral patterns of professionals and skilled workers which, though not based on a self-employed existence, are somewhere near bourgeois values in regard to calculation, economizing and long-term planning. During the period of transition, the importance of family background in explaining positive attitudes toward entrepreneurship seems to increase.

Both the managerial experience and the involvement in the second economy are important indicators of being interested in entrepreneurship. Among the professionals, however, there seems to have emerged a rising divide in entrepreneurial tendencies. Professionals with marketable skills and being familiar with the second economy reckon positively with this possibility while the rest, who formerly showed an above-average interest in entrepreneurship too, seem to have turned away from it.

The other important social rift in regard to entrepreneurial attitudes is *within* the worker category, not between blue-collar and white-collar workers: while of all the occupational groups skilled workers display the greatest interest in entrepreneurship, the weakest interest is shown by semi-skilled and unskilled labor.

Two fundamental economic effects affected and shaped the circle of potential entrepreneurs: the economic-political changes that were beneficial to independent ventures and the protracted economic recession. At the same time, the social mechanism of recruitment also changed in two ways. On the one hand, the circle of potential entrepreneurs became less stratum-specific: the answer to the question whether one wishes to become an entrepreneur depends, besides demographic factors, more on social resources and job satisfaction than on occupation and education.

On the other hand, there was a palpable decrease from 1988 to 1990 in potential entrepreneurs among people with a family background of lower social status. This effect ran counter to the previous one; by 1990 the actual circle of potential entrepreneurs in this category had contracted.

In 1988 the group of those who wished to launch enterprises was inter-generationally more open, but more closed in regard to intra-generational status criteria. By 1990 the situation had become reversed: the circle of potential entrepreneurs became more closed inter-generationally, while the importance of intra-generational status criteria seemed to have waned.

Essentially, the *upswing* in entrepreneurial inclination is explained by the same social mechanism as the *presence* of entrepreneurial attitude. The social

profile of those who changed their minds positively towards entrepreneurship later cannot be drawn so clearly as the portrait of those who had always wanted to become entrepreneurs. People with lower education and white-collar workers are overrepresented in this group, and so are those who are more dissatisfied with their earnings than with their jobs.

What probably connects economic effects and social recruitment mechanisms is the fact that the recession increased the number of ‘forced’ entrepreneurs, thus making the layer of potential entrepreneurs more open, while on the other side, the economic political changes favored the utilization of different types of social and contact resources.

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## NOTES

- 1 Modified version of the paper "A vállalkozói hajlandóság terjedése" (Szociológiai Szemle 1993/1, pp. 35-58) co-authored with István János Tóth. We express thanks to Péter Vidor for his advice regarding methodology, as well as to Róbert Angelusz, Tibor Kuczi and Teréz Laky for critical comments.
- 2 The relationship between entrepreneurship and the second economy is revealed in the previous chapter, as well as in the writings of István R. Gábor and Tibor Kuczi and his co-authors (R.Gabor 1990, Kuczi et al. 1991).
- 3 Teréz Laky found a smaller rate of growth (Laky 1993).
- 4 In their view, a greater proportion of entrepreneurs older than 30 is attributable to the fact that a longer period of 'accumulation' is required for this career: financial and social capital as well as experience must be accumulated. (T. Kuczi – Á. Vajda 1991, p.5).
- 5 Surveys confirm predictions concerning the stagnation or decrease in the proportion of potential entrepreneurs. 45 per cent of the respondents in an April 1991 survey answered positively to the question of whether they were inclined "to participate in some ventures as investors". See Lehmann-Szemerszki (1991). A survey of late 1991 using 6000 households suggests stabilization in the number of potential and actual entrepreneurs. 10 per cent of the households surveyed had an entrepreneur and 36 per cent of the households positively answered the question of whether they would become entrepreneurs under appropriate conditions. (Hogyan élünk...?, 1992) In a survey in spring of 1992, the proportion of potential entrepreneurs was 27 per cent (Lengyel, 1992a).
- 6 Examining the composition and gender distribution of potential entrepreneurs, Tamás Kolosi and Péter Róbert arrived at a different conclusion (Kolosi T. – Róbert P. 1992).
- 7 The research of Róbert Angelusz and Róbert Tardos demonstrate the increasing significance of networks of relations in various fields (Angelusz-Tardos 1991).



# ENTREPRENEURSHIP AND THE PERCEPTION OF SOCIO-ECONOMIC CHANGES IN THE EARLY '90S<sup>1</sup>

Investigations have revealed that the majority of the population found the plight of the Hungarian economy critical in the first half of the '90s. While this statement is made, the reader needs also to be reminded of the nearly forgotten fact that the crisis emerged on a nationwide scale back in the latter half of the '80s: at the beginning of the decade one third (and at the end of the decade three-quarters) of the population thought that a protracted crisis was to be faced and an even greater proportion (four-fifth of the total) believed that the recession was grave. It is not the actual processes that principally determine the nature of social tensions but rather how people experience and live through these processes – which often remain concealed to them. In the following, I detail the social perception of a few potential sources of tension based on the findings of empirical sociological research. Topics to be discussed briefly include opinions on unemployment, financial standing and social inequalities.

## WHO IS AFRAID OF UNEMPLOYMENT?

In the first half of the '90s the number of those employed considerably decreased. This is only partly due to rising levels of unemployment because the rate of those who were inactive also increased similarly.

*Table 1: Labor market position of population above 15 years of age (1992-1994, %)+*

	1992	1993	1994
Employed	50	46	47
Unemployed	6	7	5
Pensioner	35	37	38
Dependent	9	10	10

*+ In this chapter - unless otherwise indicated - information is based on data from the Hungarian Household Panel Survey (Tdata-G33 <http://www.tarki.hu>) carried out by the Sociological Department of the Budapest University of Economic Sciences, the Central Statistical Office and TÁRKI.*

By 1994, the number of those who were jobless somewhat decreased while the number of pensioners kept increasing. Consequently, concerning household income structure, income derived from social security increased and income

from the market decreased. Though four-fifth of households had some market income, its proportion was only slightly over half of the total household income. (Tóth, 1994)

*Table 2: Types of income in equivalent household income (1992-1994, %)*

	1991/92	1992/93	1993/94
market income	63	56	54
social insurance and social allowances	35	40	41
household transfer and other income	2	4	5

*Source: Tdata-G33 <http://www.tarki.hu>*

There is considerably higher unemployment among young people, the untrained and in the Roma population than the average, while unemployment is also higher among the rural population (Nagy 1994). The number of potentially unemployed – that is, those who were afraid of losing their jobs – grew from one-sixth in the late ‘80s to one-third in 1992 and dropped to one-quarter in 1994.

As for occupational categories, there is one group (the unskilled) who are far more afraid of losing their jobs than the average (over one-third of them are potentially jobless). It is noteworthy that individual entrepreneurs are just as scared of the failure of their businesses as the unskilled are of losing their jobs. Existential uncertainty is higher among medium and lower ranking managers than among intellectuals.

*Table 3: Are you afraid of losing your job? (by occupation, 1994, %)*

	rather yes	yes, very much
independent ++	9	16
leader	10	7
intellectual	6	4
white-collar worker	6	11
skilled worker	9	15
unskilled worker	12	23

++ *Are you afraid your venture will fail?*

*Source: Tdata-G33 <http://www.tarki.hu>*

Since both the unemployment rate and fear of joblessness have decreased, the more serious problem here is caused by the fact that unemployment lasted for more than a year in about half of the cases identified. Comparing the rates of long term and general unemployment, one finds that, though extensively present in the young age group, unemployment is a transitory phenomenon.

*Table 4: Proportion of unemployed and permanently unemployed in each social group (1994, %)*

	unemployment rate	rate of those out of job for over a year as compared to all jobless
males	16	58
females	11	42
aged 16-19	52	-
aged 20-29	15	44
aged 30-39	13	53
aged 40-54	14	61
above 55	8	-
less than 8 elementary grades	35	-
8 elementary grades of educ.	26	58
trained in vocational schools	17	52
secondary school graduates	10	48
tertiary education graduates	3	-
residents of capital	12	41
dwellers of villages and farms	18	56
Roma	47	67

*Source: Tdata-G33 <http://www.tarki.hu>*

Similarly high is unemployment for those with an education of fewer than eight years, but since these individuals are mostly elderly people on the verge of retiring, no permanent unemployment can be talked of in this group. By contrast, lasting joblessness hits Roma and middle-aged males particularly hard. To differentiate the picture, it has to be noted that these two groups are

overrepresented among entrepreneurs and potential entrepreneurs. Research has shown that among the group of people who are out of work for a long time, there are not only hopeless cases. Some individuals successfully return to work, others support themselves through the black economy, while others launch businesses. However, the majority are unable to do this due to their existential situation, state of health or family situation (Csoba, 1994). The overwhelming majority of people and over half of earners think that unemployment should be avoided at any cost.

*Table 5: Is unemployment to be avoided? (1988-1994, %)*

	Unemployment must be avoided at any cost		Economic problems cannot be solved without unemployment	
	1988	1994	1988	1994
leaders	15	33	85	67
self-employed	40	38	60	62
intellectuals	26	19	74	81
adult population	54	62	46	38
active population	54	51	46	49

*Source: Tárki A, Tdata-B90, Tdata-G33 <http://www.tarki.hu>*

At this point, the opinion of managers and intellectuals is sharply confronted with public opinion, as they profess that the economic problems of the present cannot be solved without unemployment. In the late '80s most people thought unemployment would improve work discipline, whereas today hardly more than half of intellectuals agree. Other social groups, meanwhile, are convinced of the opposite.

*Table 6: Does unemployment help improve work discipline? (1988-1994, %)*

	yes		No	
	1988	1994	1988	1994
leaders	83	44	17	56
self-employed	54	48	46	52
intellectuals	71	53	29	47
adult population	59	39	41	61
active population	59	42	41	58

*Source: Tárki A, Tdata-B90, Tdata-G33 <http://www.tarki.hu>*

Although the fear of unemployment never rose as high as it did in Poland at the time of the Balcerowicz project when two-thirds of males and four-fifth of females were afraid of losing their jobs, one can only confirm Adam Przeworski's view that a fear of unemployment is one of the key issues of a transition economy (Przeworski, 1993).

One reason for this is that unemployment considerably enhances uncertainty and hence undermines trust in democratic institutions. Przeworski bases this inference on the Polish example, while in Hungary it is borne out mostly in the North-East crisis region. Since fear of unemployment did not assume the dimensions of shocking the public, the above implication is necessarily limited in effect.

There is, however, another reason: as differences in opinions revealed, diverse evaluations about unemployment might be fuelling a conflict and may reveal hidden social strife.

## FALLING EARNINGS – RISING SPIRITS?

Expectations concerning the financial situation of the population are closely related with perceptions about the economic crisis: in the early '80s less than half and at the end of the decade two-thirds of the sample thought the general population's financial standing would deteriorate. The ratio was similar in 1993 and in the meantime the number of those hoping for improvement sank to a minimum.

*Table 7: How will the population's financial position change in the next year? (1980-1994, active population, %)*

	improve	won't change	worsen
1980	13	39	48
1988	16	19	65
1993	6	29	65
1994	17	44	39

*Source: Igényszintek '80, Tárki A, Tdata-B90, Tdata-G33 <http://www.tarki.hu>*

Predictions about the financial outlook of one's own family, however, somewhat deviated from this pessimistic trend. Although more and more people expected and experienced a deterioration in their financial positions, fewer people expected a worsening of their own family's financial status than of the

population's status in general, and an increasing number trusted more in the improvement of their own financial situation than in that of the general population. The discrepancy between subjective expectations and the expected prospects for the entire population suggests a hidden optimism: the sample saw better chances for their individual prosperity than for the prosperity of others.

*Table 8: How will the financial position of the respondent's family change next year? (1980-1994, active population, %)*

	will improve	won't change	will worsen
1980	54	36	10
1988	24	21	51
1993	12	38	50
1994	22	51	27

*Source: Igényszintek '80, Tárki A, Tdata-B90, Tdata-G33 <http://www.tarki.hu>*

What makes this feature especially noteworthy is that the majority rank themselves as being in the middle of the income distribution; more than half of the rich and also the poor think that their financial standing is similar to that of the mean.

In the Spring of 1994 there was a significant improvement in expectations concerning the population's perspectives and those of their families. Some interpret this as being a sign of real improvements in real-life variables while others associate it with expectations related to the change in government. Since the survey the analysis is based on was conducted before the election it is certain that the findings that appear to break with the trend of the '80s-'90s could reflect expectations associated with political changes of various directions. It is also a fact, and one that might be interpreted as a reflection of changes in real-world processes, that there was a drop in the number of those whose financial situation deteriorated over the previous year.

*Table 9: How has the financial situation of respondent's family changed? (1980-1994, active population, %)*

	improved	hasn't changed	worsened
1980	36	53	11
1988	14	39	47
1992	9	40	51

1993	6	34	60
1994	10	44	46

*Source: Igényszintek '80, TÁRKI A Tdata-B90, Tdata-G33*

The tendency to changes in income situations suggests, however, that for most social groups, real income further declined. Exceptions only include top leaders and some professionals.

*Table 10: Personal income of each social group and the price index (1992=100)*

	1993	1994
employed	117	138
top leaders	126	156
intellectuals	125	149
entrepreneurs	112	125
skilled workers	123	138
unemployed	111	114
pensioners	121	142
consumer price index	123	144

*Source: Tdata-G33, <http://www.tarki.hu>*

The worse income – better spirits paradox of 1994 is partly explained by the fact that the assessment of a family’s financial capacity depends not only on personal earnings but on family income, property and financial security as well. This contradiction is of course partly due to the nature of the survey which does not realistically reflect invisible incomes.

This applies first of all to entrepreneurs whose invisible income is estimated to amount to 70-150 per cent of revealed personal income. This, however, only results in a 2-3 per cent improvement of the corrected income index, provided that the scope of the invisible income did not grow considerably over the given period. No wonder that the self-employed are one of the most dissatisfied groups in society.

*Table 11: Discontent among the self-employed, the adult population, the permanently unemployed and the permanently poor (1993, rate of those discontent, %)\**

Dissatisfied with	Self-employed	Adult population	Permanent unemp.	Permanent poor
own life so far	26+	21	42	44
future prospects	48+	42	63	59
living standards	45+	37	65	63
family relations	4+	4	7	8
public security	30	30	34	34
earnings	42	49	95	76
possib. of political say	47	45	51	56
economic situation	82	75	84	82

*\*Source: Tdata-G33*

*+Source: Czakó Á. (et al.), "Vállalkozások és vállalkozók" [Enterprises and entrepreneurs], BKE-KSH, 1994, Bp.*

Entrepreneurial dissatisfaction is fuelled by this low income dynamic on the one hand, and on the other, by the fact that entrepreneurs can meet their above-average and precisely definable aspirations far less easily than groups with less definite, more occasional life strategies. A third factor is the anomic situation of a lack of trust; in not supporting those who follow normative standards and not sanctioning those who breach norms. Entrepreneurs have less confidence in basic economic institutions and banks and are less satisfied with nearly every aspect of life than employees. Research has found that a small proportion of all entrepreneurs is directly profit-oriented with the majority being only interested in upkeep and maximizing their household income. Two large and increasing groups of this type include 'forced' entrepreneurs and those who treat entrepreneurship as a source of extra income (Á.Czakó et al., 1994). Across society, however, a decrease in or restructuring of extra income is demonstrable.

*Table 12: Households and small-scale production (1987-1994, %)*

household produce	1987	1992	1994
only for sale	19	10	8
for sale, secondarily	10	7	4
only for own consumption	38	34	44
do not produce	33	49	44

*Source: Tdata-G33, Spéder 1994*



While in the second half of the '80s two-thirds of households did some small-scale farming, in the early '90s only barely more than half were doing so. While in 1987 29 per cent of households produced for the market, in 1994 this number was a mere 12 per cent, while the proportion of households producing for family consumption increased (Spéder, 1994).

Data reveal that compared to one-tenth in the '80s, in 1994 some one-third of the sample lived below the subsistence level. In urban families with two children – a type closest to the national average – the subsistence level was a monthly income of 12,650 HUF/capita. There was a significant increase in the number of poor (T. Kolosi – I. Bedekovics – P.Szívós 1994). If the definition of the poor is restricted to a more limited circle for operational reasons (to the lower income quintile computed from the per capita income) one can easily receive insight into the social composition and dynamism of this group. In this group, children, households with three or more children, Roma and household dependants are heavily overrepresented (Andorka – Spéder 1994).

*Table 13: Proportion of those belonging to the bottom quintile of per capita income in each social group (1994, %)*

aged 14 or below	32
aged 15-19	30
aged 20-29	19
aged 30-39	25
aged 40-49	18
aged 50-59	14
aged 60 and above	9
residents of capital	9
villagers and farm people	25
on child care leave	36
family dependant	45
Roma	73
unemployed	38
households with 3 children or more	54

*Source: Tdata-G33 <http://www.tarki.hu>*

All in all, one-quarter of all households and one-third of people belonging to households (poor households are as a rule more numerous) were temporarily or

permanently indigent. Numbers of those in temporary poverty are higher than those in permanent poverty, with a higher rate of those who pro tempore fall into the lower quintile for a year.

*Table 14: Dynamics of poverty (1992-1994, %)*

	households	individuals
permanently poor	5	7
temporarily poor	22	27
from this – for two years	7	10
from this – for one year	15	17
not poor	73	66

*Source: Tdata-G33 <http://www.tarki.hu>*

More than half of those who belonged to the bottom quintile in 1992 had left this category by 1994; about half of them rising up to join the intermediate or upper income groups. A larger proportion – 60 per cent – in the upper quintile maintained their income position, but about half of those who left their brackets sank to the middle or bottom quintiles.

Lasting poverty, spanning all the three years studied, only characterized 5 per cent of households and 7 per cent of persons belonging to all households. However, more than half of Roma households, a quarter of families with three or more children and a fifth of jobless and household dependants belonged to this category.

Another source of social discontent detectable despite the improving mood of the public is thus lasting poverty. The stratified social group with weak self-assertion, as previously described, does not only consist of hopeless people. While the general state of mind of entrepreneurs may be considerably improved through the spread of institutions and tools which reward normative behavior, the poor would welcome social policy measures designed to compensate for the factors which cause lasting poverty.

One of the paradoxes of public thought in the late '80s was that people wished to adopt western experiences, the market economy and the spread of the institutions which facilitate entrepreneurship, but at the same time they thought that far smaller differences in income levels were more 'just' than they actually were (Tóth, 1992). This latter feature is not only typical of a planned economy in its late phase (Czirják et al., 1993). Similar norms concerning equity were found in Dutch and German public opinion, with the non- negligible difference

that actual income differences were far larger there. The Gini-index used to measure income deviations was 0.21 in Hungary in the second half of the '80s and 0.27 in West Germany. Signs indicate that, in the first half of the '90s, income deviation reached the West German level of 0.27. In the meantime, the otherwise low level of income diversity in East Germany remained practically the same at 0.18. (Andorka – Headey – Krause, 1994) Research has found, however, that dissatisfaction with living standards does not principally depend on the relative income position but on attitudes and the total income situation. In other words: it is not the widening of the income gap that irritates the public but the causes of it; when norm-breaching behavior is suspected. This is understandable since three-quarters of the population opine that anyone who desires to be a success will be forced to violate certain rules.

## ENTREPRENEURIAL INCLINATION

As we have seen, the proportion of potential entrepreneurs was around a quarter of the adult population in 1988, which rose significantly until 1990 and has declined since then. A typical entrepreneur was in his or her forties; potential businessmen were overrepresented by those in their thirties and younger (Kuczzi et al. 1991) The deterioration in living conditions and the experiences of entrepreneurship have added up to produce a decline and stagnation in entrepreneurial ambitions since that time.

As far as attitudes of potential entrepreneurs are concerned, let us concentrate on a few issues of key importance in economic ideology. The problem of state and private property (which is closely related to the issue of privatization) can be illustrated through the following table.

*Table 15. State or private sector should be dominant? (%)*

1988			
	state	private sector	hard to decide
Potential entrepreneurs	25	61	14
Others (except for entrepreneurs)	37	42	21
1990			
	state	private sector	hard to decide
Potential entrepreneurs	23	61	16
Others (except for entrepreneurs)	42	35	23

*Source: own calculation, Tárki A, Tdata-B90 and Tárki C, Tdata-C36*

Potential entrepreneurs had a clear-cut opinion about the need for the dominance of the private sector from the very beginning of the change of system and this opinion proved to be stable. In the meantime, the proportion of potential entrepreneurs grew significantly, as we have seen. On the other hand, the enthusiasm towards privatization of those who didn't want to be entrepreneurs seemingly decreased in the meantime. While, in 1988, 42 per cent of this employee group thought that the private sector should be dominant and 37 per cent the state, two years later 42 per cent thought that the state should remain dominant.

The proportion of those who share the values of market institutionalization and privatization consistently varies between one-third and one-quarter, and the popularity of privatization slightly decreased. In May of 1991 some 40 per cent of the population thought that the privatization of the big enterprises should be avoided. 46 per cent said that these enterprises shouldn't be sold to foreigners and 52 per cent thought that enrichment of businessmen shouldn't be allowed (Hann – Laki 1992). The popularity of privatization decreased in Poland too (Sovinski 1992).

On the one hand, the proportion of potential entrepreneurs grew significantly, while on the other hand the opinions of those who rejected market institutionalization and entrepreneurial values became more consistent. This means that there was a growing distance and hidden tension between the opinions of potential employers and employees.

*Table 16. Opinions about the best solution for the Hungarian economy (%)*

	1988		1990		
	Pot. entr.	Others (exc. f. entr.)	Pot. entr.	Others (exc. f. entr.)	Economic elite
1. to continue the reforms	13	15	11	16	22
2. to leave the important decisions in the hands of the state	7	10	4	13	3
3. to give the important decisions to the workers	16	28	22	29	1
4. to make use of Western experiences	64	47	64	42	74
Total	100	100	100	100	100

*Source: Author's calculation, Tárki A, Tdata-B90, Tárki C, Tdata-C36,  
<http://www.tarki.hu>, Lengyel 1992*

As for the direction of economic policy, the opinion of potential entrepreneurs is closer to the views of the economic elite (managers, bankers, top civil servants) than to the rest of society. The most outstanding single option is “to make use of Western experiences” in answering the question of what should be done. The second best option is worker participation according to the opinions of potential entrepreneurs, while the elite emphasize the importance of reforms. Although the most popular view among employees doesn’t differ from the previous, less than half of them support “Westernization” and a slightly growing proportion (one-eighth) prefer the state. This is consistent with the evaluation of privatization and the reasons are obviously growing uncertainty, unemployment and the fear of being a loser of the market institutionalization process.

## CONCLUSION

In 1994, despite the deteriorating financial conditions, signs of an improving feeling of social well-being and optimism were registered. However, these signs of improving mood were highly uncertain and fragile, being attributable to a large extent to the coming elections. Hidden sources of tension were detectable in public opinions; among other issues, with unemployment. There were three social groups that were the focus of tensions: the permanently unemployed, the long-term poor and the self-employed. The first two largely overlap. It is therefore not unemployment, poverty and the “backsliding” middle-class that cause problems in general, since the greater part of the former is only temporary, and the latter’s income position also displayed the tendency to deterioration and improvement alike in the early ‘90s. The grave problem to be faced is caused by the group that fall within these large blocks, and by the middle class entrepreneurial types who take risks but work in an excessively uncertain social milieu.

The behavioral patterns of employees who work in small private firms seem to be more favorable to entrepreneurial ventures than those in larger state enterprises. A market orientation and the degree of organizational hierarchy appear to jointly influence entrepreneurial ambitions. It can be presumed that market-oriented small ventures employ candidates who have flexible skills and those who are able to participate in solving relevant tasks. Favorable economic policy changes and hopes inspired by the change of political system also fed this growth, while economic recession had a negative effect.

The decrease in the early ‘90s also has important social implications. While a protracted recession continues to be an influencing factor, most illusions have now been shattered.

Income differences have grown, though most people would like to see them decrease. This, however, is not typical of a transitional economy, since the public in western countries have a similar attitude. What might generate further tension is not relative income positions but absolute income levels and (especially in the case of entrepreneurs) the intensification of aspirations and some ill-prepared economic policy measures which irritated some of the public. Social tensions were not considerable in that most people were averse to taking part in demonstrations or strikes.

The related opinions of social groups who keenly sense social tensions do not differ significantly from the average. This reassuring image, however, only has limited predictive force and will not prevail unless methods of conflict management take social tensions into consideration and confidence in fundamental social institutions does not increase.

In the first half of the '90s, research demonstrated that three institutions had low social approval: the government, the trade unions and the parliament. This is a warning signal, because – although the lack of confidence does not yet affect the legitimacy, but only the functioning of these institutions – with an increase in tension the remaining goodwill embodied in them may also deteriorate.

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## NOTES

- 1 This chapter is based on an unpublished paper written in 1994





**III.**  
**LONG-TERM CHANGES AND A EUROPEAN  
COMPARATIVE PERSPECTIVE**



## **FROM CRISIS TO CRISIS: LONG-TERM CHANGES OF ENTREPRENEURIAL INCLINATION<sup>1</sup>**

In this chapter I am going to review the long term changes of entrepreneurial inclination and their social implications. Like in the previous chapters, entrepreneurial inclination was measured by the “Would you like to be an entrepreneur?” question. Potential entrepreneurs are those who answered “yes” to this question.

In the last years of state socialism a quarter of the Hungarian adult population did show entrepreneurial inclination, and both entrepreneurs and potential entrepreneurs had well-defined social characteristics (Hegedűs – Márkus 1978, Kuczi et al. 1991, Laky 1984, Laky – Neumann 1992). One could expect that amongst favorable institutional changes the circle of potential entrepreneurs would significantly enlarge.

In 1990 exactly this seemed to happen: the entrepreneur became the hero of everyday economic ideologies (Laki 1998, Laki – Szalai 2004) and two fifths of the Hungarians identified themselves with this image. Still it could not be expected that the circle of potential entrepreneurs would become dominant with the institutionalization of the market economy. If people are asked about their personal perspectives or wishes and not about their sympathies toward abstract economic models the majority would prefer a safe employee status to entrepreneurship.

Our predictions indicated 40-45 per cent of the adult population as the upper limit of the proportion of potential entrepreneurs. The real question was whether this upper limit will prevail or will fluctuate and decline. Actually the latter scenario took place. It did so happen in spite of the fact that the institutions of market economy have been strengthened and the role of private property has grown significantly.

In the first section below I will outline the social image of potential entrepreneurs in the take-off period and in the early ‘90s. Next, some of the constant and changing features of this image in the last two decades will be described. The social characteristics of potential entrepreneurs and the changing motives of those who didn’t want to be entrepreneurs will be explored. In the conclusion some hidden social and institutional explanations of the fluctuating trend of entrepreneurial inclination will be highlighted.

## TAKE-OFF: 1988-1990

As it has been mentioned above, in 1988 a quarter of the adult population thought they would gladly enter business, while 70 per cent discarded the personal perspective of independence, and the rest left the answer dependent on circumstances. Gender, age, occupation and schooling accounted in the first place for this distribution of opinions. Two-third of potential entrepreneurs, however, were male in every cohort. The gender composition of actual entrepreneurs was similar. But in terms of age a difference prevailed: while the typical entrepreneur was in his forties, potential businessmen were overrepresented by those in their thirties and younger (Kuczai et al. 1991).

Above-average interest towards entrepreneurship could be observed among managers, professionals and skilled workers. Rejection couldn't be explained by ideological reasons, or by the social environment. The explanation mostly included subjective reasons such as age, division of labor in the family, risk avoidance, or health condition. All this allowed for the assumption that entrepreneurial ambitions might rise, depending on the economic circumstances, but growth has its subjective limits.

In 1990, it was indeed found that entrepreneurial inclination rose to above 40 per cent. The composition of potential entrepreneurs also somewhat changed. The gender ratio became more balanced, but the difference between age groups became more spectacular. Due to political and ideological reasons the figures for 1990 were highly salient and marked a peak. In this period newly accepted laws promoted entrepreneurship, private property and neutral competition.

Economic ideology stressed enterprise-friendly values, and the failures or negative experiences of entrepreneurship were only later to come. Government estimates claimed that in 1989 16, in 1990 19, and in 1991 25 per cent of the GDP was produced by the private sector.

The number of entrepreneurs spectacularly rose after 1988: between 1988 and 1990 their number nearly doubled, rising from 197 thousand to 394 thousand. The growth was even more rapid in the number of companies: against a mere 451 Ltds in 1988, their number exceeded 18 thousand by the end of 1990. First of all that meant the mushrooming of small ventures: nine out of ten individual ventures and more than half of the Ltds had less than three employees.

## ENTREPRENEURIAL INCLINATION IN 1992

In 1992 the deteriorating living conditions and negative experiences of entrepreneurship produced a decline in entrepreneurial ambitions to slightly above the 1988 level.

The tendency formerly detected concerning age groups and gender, continued: business ambitions increasingly polarized among age groups and became more balanced between genders.

Our research findings seem to confirm the former assumption that the main dividing line with regard to economic attitudes does not lie between workers and the rest of the social groups, but within the workers. While the idea of entrepreneurship appealed to skilled workers far above average level, unskilled groups seemed interested much below the average.

While the employees of state enterprises and offices displayed below average, those working for Ltds and foundations had an above-average inclination for enterprising. The personnel of joint stock companies and cooperatives had a slightly above average positive attitude towards entrepreneurship. The behavioral patterns of employees in small private firms were closer to the entrepreneurial attitude than those in larger private firms and especially state enterprises. Both the market orientation of the given firm and the degree of its organizational hierarchy seem to influence the entrepreneurial ambitions of their staff. The employees of firms pursuing market-oriented activities, who have an insight into these activities and participate in solving relevant tasks, can have more distinct ideas of their entrepreneurial perspectives. It can rightly be presumed that market-oriented small ventures employ staff who have more convertible knowledge, market information and skills (Gross 1991, Audretsch et al. 2002). At that time nearly two-thirds of the companies were exclusively, and one out of eight partly state-owned, that is, private companies represented some one-quarter proportion. With regard to entrepreneurial inclination, the differences between firms confirm the picture outlined above.

A mere 10 per cent of firms was partly or wholly foreign property, but this fact didn't have any significant influence on the staff's entrepreneurial ambitions. As regards managers, it was not the difference between the private and state sectors, but the different requirements of domestic and foreign companies that really mattered, as a content analysis of adverts for managerial posts revealed (Bartha et al 1992). Nor did the type of settlement show significant correlation with entrepreneurial drives. The population of Budapest and the large cities had slightly above average, while the rural population slightly below average interest

in getting independent. It is perhaps astonishing at first sight, that people living in scattered farmsteads were inclined towards enterprising far above the average level, which can probably be attributed to experiences of independent production. Since, however, they constitute a small fragment of the population only, their behavior has no significant impact.

Some one-quarter of the adult population had transfer accounts and among them, the rate of potential entrepreneurs was somewhat above the average level. Similar proportions of people had savings at home and savings deposited in a bank, but they were somewhat less open towards entrepreneurship than the average. It should be noted however that about 60 per cent of savings was below 50 thousand forints, that is, a meager sum. Earlier investments made – however modest – had a more significant correlation with ambitions to become independent. Those who invested over 100 thousand Forints into their business had explicit entrepreneurial aspirations. Those who invested less into their household plot buildings, largely aimed to produce for the family only, so their inclination to entrepreneurship was below the average.

Some 60 per cent of potential entrepreneurs would spend the profit on investment, while some 40 per cent would improve their living standards. This reply was consistent with former investment and savings. Those potential entrepreneurs who had a nest-egg, savings-book or transfer account wanted to convert their profit into investment rather than consumption to an above-average degree.

Employees of private firms preferred investment whereas the employees of state enterprises who were inclined toward entrepreneurship expected to improve their living standards rather than invest.

Age and gender were less important factors in the prognosis about the goals of potential entrepreneurs than they were in determining the entrepreneurial inclination as such. By contrast, the utilization of profit shows a strikingly strong correlation with the type of settlement, income and schooling.

*Table 1. Use of profit, by schooling in 1992 (%)*

Schooling	Invest	Improve living standard
Primary school	46.3	53.7
Vocational training	57.4	42.6
Secondary school	65.1	34.9
College, university	75.2	24.8
Together	57.5	42.5

*Source: Tdata-G33 <http://www.tarki.hu>, N= 1390*

Not only the level of education but also the type of settlement proved to be significant in this regard. While in terms of entrepreneurial inclination, there was no fundamental difference between the urban and rural populations, there was a clear-cut difference between the attitudes of potential entrepreneurs in Budapest and those in the countryside: the former were more vocation-oriented, and the latter concentrated more on their own needs.

When asked what they would do – go into business or improve their living standards – If they had a windfall, 22 per cent opted for enterprising. The proportions and correlations were similar to those outlined by the replies to “Would you become an entrepreneur?”. The deviation is accounted for by education and occupation, not by age.

About one-third of the active population had fears of losing their jobs – they can be considered the potentially jobless; slightly more than one-quarter were uncertain and two-fifth found this alternative unlikely. Earlier, it had been found that there was some overlap between potential entrepreneurs and the potentially unemployed, that is the motive of escape also played a role in going into entrepreneurship. This motive, however, is not effective: it soon turned out that those in a marginal position on the labor market have hardly any convertible market knowledge. Neither the potentially jobless nor those who felt their positions only relatively stable were overrepresented among the potential entrepreneurs.

By contrast, the views about the chances of finding a job and the entrepreneurial aspirations display some correlation. Those who thought they would easily get a new job had above-average rate of entrepreneurial ambitions. Those who replied hesitantly were likely to be uncertain on both issues. They seem to represent a rather young stratum with secondary level education.

*Table 2. Entrepreneurial inclination and labor market chances in 1992 (%)*

Would it be easy or hard to find a job?	Would you be an entrepreneur?		
	Yes	It depends	No
easy	42.5	11.7	45.8
rather easy	36.9	16.9	46.2
so-so	33.0	15.3	51.7
rather hard	30.2	11.5	58.3
hard	29.0	12.7	58.3
Together	32.2	13.2	52.1

*Source: Tdata-G33 <http://www.tarki.hu>, N= 1877*

Both potential entrepreneurs and the potentially jobless thought in a higher than average proportion that unemployment benefit should be raised. Those feeling threatened to lose their jobs believed less strongly than the average that unemployment would help strengthen work discipline and were also less convinced that unemployment was necessary.

Those who were inclined toward independence had an above average dissatisfaction with their job, career and income, but an above-average satisfaction with their future prospects, sharing the latter views with the group of the actually self-employed. More than half of the population experienced a deterioration in the financial standing of their families at that time. Both the potential entrepreneurs and the potentially unemployed talked about an above-average level of deterioration in their family's financial situation.

*Table 3. Views in 1992 about the family's financial conditions in the previous and in the next year (%)*

Previous year			
	Potential entrepreneur	Potential unemployed	Adult population
Significantly deteriorated	7.4	8.5	5.9
Deteriorated	48.8	55.4	46.8
Didn't change	34.2	30.4	38.2
Improved	8.0	5.2	7.4
Significantly improved	0.3	0.2	0.2
Doesn't know	1.4	0.3	1.7
N	1086	655	4066
Next year			
	Potential entrepreneur	Potential unemployed	Adult population
Will badly deteriorate	6.0	7.6	4.8
Will deteriorate	34.6	45.2	35.7
Won't change	30.5	24.7	31.0
Will improve	16.7	8.9	11.6
Will largely improve	0.7	0.2	0.3
Doesn't know	18.4	13.3	16.5
N	1084	653	4063

*Source: Tdata-G33 <http://www.tarki.hu>*



While in predicting the perspectives of the near future the potential entrepreneurs had a somewhat above-average trust that things will improve, those deeming unemployment a real threat reckoned with a further considerable sinking of their family's living standard. A tendency of hidden optimism, that expectations are better than the evaluation of the past financial position, applies to all the studied groups, just like in the '80s (see Chapter 2).

## CHANGES IN ENTREPRENEURIAL INCLINATION

The most important change concerning entrepreneurial inclination during the last two decades is that entrepreneurial inclination after an initial take-off has dropped below the original one-quarter level and it is fluctuating below that. An overwhelming majority always rejected the personal career perspective of entrepreneurship. Since the economic crisis of the mid-nineties the proportion of potential entrepreneurs as well as of those who gave the "it depends" answer varied between one out of six and one out of eight.

*Table 4. Entrepreneurial inclination 1988-2011 (%)*

	1988	1990	1992	1994	1996	2002	2008	2009	2011
Would become entrepreneur	25	44	27	23	16	12	14	16	13
It depends	4	.	10	11	11	12	19	13	16
Would not become one	71	56	63	66	73	76	67	71	71
N	2941	986*	4073	3902	3564	763**	1441***	940	911

*\* The answer was dichotomous; \*\* Regional sample, Kaposvár district; \*\*\* Regional sample, Kaposvár district, recoded 11-point scale: 7-10= Would become entrepreneur; 4-6= It depends; 0-3= Wouldn't become entrepreneur.*

*Sources of data are Tárki A, Tdata-B90 and Tárki C, Tdata-C36, Tdata-G33, Tdata-F17, Tdata F65, Tdata-H05, Tdata-H14 <http://www.tarki.hu/cgi-bin/katalogus>, Flash Eurobarometer 192 <http://zacat.gesis.org/webview>, Corvinus University of Budapest, Centre for Empirical Social Research DP-T1, IRM3, <http://www.etk.uni-corvinus.hu/>*

The proportion of potential entrepreneurs dropped about half in the last two decades. These changes have some socio-demographic characteristics. Entrepreneurial inclination is in inverse connection with age. The decrease of entrepreneurial inclination is higher than average within the youngest and the older cohorts.

Table 5. Entrepreneurial inclination by age group in 1992 and 2011(%)

Age	Would become entrepreneur		It depends		Would not become entrepreneur	
	1992	2011	1992	2011	1992	2011
30	44.5	20.6	14.9	29.7	40.6	49.8
31 – 40	36.4	22.9	14.5	20.9	49.0	56.2
41 – 50	30.6	13.1	13.0	13.7	56.4	73.2
51 – 60	16.5	8.6	5.0	11.9	78.5	79.5
61 -	6.6	2.5	3.2	4.1	90.2	93.4
Together	26.7	12.9	10.0	15.7	63.3	71.4

*N= 4073, 910; Sources: Tdata-G33, Corvinus University of Budapest, Centre for Empirical Social Research DP-TI, IRM3*

The rate of those who rejected the alternative of entrepreneurship has decreased while that of those whose choice depended upon the circumstances has increased.

Table 6. Entrepreneurial inclination by gender in 1992 and 2011(%)

	Would become entrepreneur		It depends		Would not become entrepreneur	
	1992	2011	1992	2011	1992	2011
Male	33.3	16.2	12.3	17.3	54.4	66.1
Female	21.4	10.3	6.2	14.3	70.5	75.5
Together	26.7	12.9	10.0	15.8	63.3	71.2

*N= 4073, 910;*

*Sources: Tdata-G33, Corvinus University of Budapest, Centre for Empirical Social Research DP-TI, IRM3*

The “it depends” answers were overrepresented among the young and their rate was higher among men than among women as well. This seems to support the view that these respondents based their decision more on changes in the economic conditions than on some subjective restricting factors. After two decades, the gender distribution of the “it depends” answers is more balanced what might indicate that the breakdown of the background motives has been changed too. It seems to be less valid now that men take into account the macro while women the micro motives when thinking about their career.

Only less than half of those having a positive opinion in 1992 stuck to their views in the following year, while 85 per cent of the former opponents did. As could be expected, least consistent were those who said “it depends”. Nearly half of them rejected entrepreneurship in 1993 and one-quarter changed their mind later positively towards entrepreneurship.

Schooling shows a strong correlation with entrepreneurial inclination. Those with a certificate of vocational training, as well as secondary or tertiary education are overrepresented among potential businesspersons. There is a difference between college and university graduates, the latter not having higher-than-average aspirations. Those with less than 8 primary schooling show entrepreneurial inclination well below the average. Roma on the other hand were much more interested in entrepreneurship than the rest.

In the early years of democratic transition two out of five interviewees thought that the unemployment was unavoidable and half of the potential entrepreneurs shared this view. Half of the population and potential entrepreneurs were convinced that unemployment could strengthen work discipline.

*Table 7. Entrepreneurial inclination and evaluation of unemployment in 1992 and in 2008 (%)*

	Potential entrepreneur		Adult population	
	1992	2008	1992	2008
Unemployment is necessary	50.9	42.2	40.0	36.3
Unemployment promotes work discipline	52.6	26.2	50.4	24.3
N	1035	187	3740	1382

*Source: Tdata-G33, <http://www.tarki.hu>, Corvinus University of Budapest, Centre for Empirical Social Research DP-T1*

These views have significantly weakened: in 2008 only a quarter of the population and potential entrepreneurs thought that unemployment had to do with work discipline. The proportion of those who think about unemployment as an unavoidable social phenomenon has decreased similarly to the gap between the opinion of potential entrepreneurs and the rest of the population.

In the early '90s, only one-fifth of the population said they would move to another settlement if they got a better job opportunity there. Among potential entrepreneurs their rate was above one-third. Those who would not mind living in another country amounted to below 10 per cent, whereas one-fifth of the potential

entrepreneurs pronounced similar willingness. In 2011, the proportion of potential migrants within the adult population remained approximately the same while among potential entrepreneurs it has increased to one-quarter. Entrepreneurial inclination therefore did show significant correlation with migration from the beginning and the connection between these two forms of exit potential has become stronger.

When asked about the friendly connections the respondents mentioned seven friends on the average both in 1992 and in 2011. Among potential businessmen the number of friends was and remained well above the average. They have more foreign friends than the rest and they discuss political issues with their friends more frequently.

The motives of those who refused the entrepreneurial alternative changed significantly between 1988 and 2011. In the first period, between 1988 and 1994 the proportion of ideological reasoning decreased further, so did the references to subjective conditions. The proportion of risk-avoidance decreased while age increased within this group of arguments. On the other hand the proportion of those who referred to the lack of capital grew significantly. All in all, the role of objective social conditions in refusing self-employment became more important in the '90s than it used to be.

*Table 8. Why wouldn't you be an entrepreneur in 1988 and 1994? (%)*

	1988	1994
ideological reasons	8	1
health conditions	4	3
age	23	34
doesn't take risk, prefer security	20	5
lack of skills and talent	20	14
lack of capital	11	32
taxes, economic circumstances	8	8
else	6	3
Together	100	100
N	2088	2807

*Source: Tárki A, Tdata-B90, Tdata-G33, <http://www.tarki.hu>*

In 1988 and 1994, the question was about why someone would refuse the self-employment alternative. In 2007 and 2011, the question was slightly differently

raised, that is why someone would prefer an employee status to an entrepreneurial one. Open question was used in 1988 while later optional answers were offered. In 2011, the “other” answers were open ended again which provides a possibility to identify some hidden motives. All in all, the reasons of refusals in the two periods are comparable in broad categories only. Age and health for example were not among the prepared answers in 2007 and 2011, while fix income and fix work time hadn’t been mentioned previously.

*Table 9. Why would you rather be an employee and not an entrepreneur in 2007 and 2011? (%)*

	2007	2011
fix income	24	30
fix work time	11	15
social security and insurances	7	11
lack of idea	5	4
lack of capital	9	13
lack of skills	8	8
administrative problems	6	3
this is the normal, expected thing to do	4	7
severity of decision, being tied to business	6	2
afraid of legal, social consequences if fail	4	5
other reason	16	2
Together	100	100
N	303	1332

*Source: Corvinus University of Budapest, Centre for Empirical Social Research DP-T1, IRM 3*

Apparently, between 2007 and 2011, due to the economic crisis significant changes happened again. The preference of secured and fix income and therefore risk avoidance in a broad sense became eminent. Among the objective criteria the administrative conditions were mentioned more or less in the same proportions as before. At the same time, among the “other” reasons scattered new ideological motives appeared: blaming the state for not supporting small entrepreneurs and criticizing great enterprises for suppressing small ones. Others are aware of the economic circumstances: “one should be crazy to start a new venture in such hard times” as an interviewee commented the question. The appreciation of fix work

time and occasionally more leisure time (a motive, completely missing previously from the reasoning) are based on new experiences too: when entrepreneurship is wide-spread it becomes visible that the self-employed frequently work more than eight hours and are tied to their businesses.

## CONCLUSION

The analysis of the social causes of the rise of entrepreneurial spirit between 1988 and 1990 has proved that besides demographic factors networks and intergenerational effects also had a significant explanatory force. There was an above-average positive change of opinion among young people, the lower educated, the white-collar employees and those who were dissatisfied with their earnings but not with their work.

At that time economic recession contributed to the increase of potential entrepreneurs.

Favorable economic policy changes and hopes inspired by the transformation of the political environment also fed this growth. This analysis covers a period lasting from the crisis of the '80s to the crisis after 2008. Economic crisis can trigger very different policies and very different social sentiments according to the political climate (Gourevitch 1986). Behind the significant rise in entrepreneurial drives in the late '80s there were also illusions, people tended to disregard the lack of skills and the possibility of bankruptcy. The decrease in recent years reveals different social implications.

While protracting recession continues to be an influencing factor, most of the illusions have been shattered. Economic crisis in the late '80s coincided with hopes and promises of political renewal, two decades later the economic crisis coincides with fears and lost illusions.

Business failure has become a reality both transmitted by the media and experienced first hand. The decrease in the rate of potential entrepreneurs is therefore mostly attributable to the unfavorable economic conditions and the discouraging effect of actual failures.

Secondly, those who wanted to enter the entrepreneurial arena had a chance to do so in the previous years. So the layer of entrepreneurs sucked up a part of the potential entrepreneurs.

Thirdly, the decline can also be regarded as part of a learning process in which people encounter formerly abstract economic ideological concepts like unemployment and entrepreneurship and their relevant opinions gradually

become more consistent. People who used to regard obligatory work as a social burden start to appreciate fix workload and fix income of employees.

Fourthly, there is a slow erosion in the image of the entrepreneur: it is less homogenous and less positive than it was in the eighties. Negative connotations may alienate those who think that entrepreneurship in many cases is not far from monkey business. The image of the entrepreneur who used to be the hero of the economy in the '80s now is closer to a fortune hunter for many who dislike this image. Attacks of economic policy against black market on the other hand make those who identify with the fortune hunter image more careful.

Fifthly, the perspective of "forced entrepreneurship" seems to be less realistic for undereducated people than it was in the early nineties. The lower income groups, the village dwellers and those who have elementary education only are overrepresented among those who do not want to be entrepreneurs. Researches in entrepreneurship highlighted the surprising finding that chances of viability of small ventures established by forced entrepreneurs could be better than that of the ones based on a new business idea (Czakó et al 1996). Forced entrepreneurship had a double impact on the survival chances of small ventures. Those who escaped forward were over-average successful, but those who became unemployed and started their business after some obligatory training proved to be less successful than the rest (Lengyel 1997, 2002). All in all competitive circumstances discouraged those without marketable skills to start a new business.

Upon the influence of the macroeconomic and policy factors, a fluctuation in entrepreneurial aspirations could be predicted. The other factors – rise in the number of actual entrepreneurs, the process of social learning, erosion and declining interest of forced entrepreneurs – exerted their influence toward a reduction of the rate of potential entrepreneurs.

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## NOTES

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# THE EFFECT OF ENTREPRENEURIAL INCLINATION UPON ENTREPRENEURIAL CAREER AND WELL-BEING<sup>1</sup>

## INTRODUCTION

If there is consensus about the essential contribution of Cantillon, Say, Schumpeter and Kirzner to the presentation of the entrepreneur as a key economic actor, a similar consensus prevails in the research tradition of entrepreneurial motivation concerning the contribution of McClland (Blaug 2000, Schumpeter 1980, Kirzner 1973, 1985, McClland 1967, 1987). The performance motive he suggested as the main culturally conditioned factor orienting people towards entrepreneurship signposted the course of research by generating fruitful disputes, for one thing. Since then a sizeable literature has arisen about entrepreneurial attitudes, intentions and dispositions, as well as about potential entrepreneurs (Ashcroft et al. 2004, Krueger 2004, Chell et al. 1991, Fitzsimmons – Douglas 2005, Etzioni 1987, Kets de Vries 1996, Koh 1996).

There is a noteworthy distinction between those who would like to be entrepreneurs and those who actually intend to be. *The entrepreneurial potential means an inclination*, a kind of openness, readiness to grasp a business opportunity, not necessarily a deliberate intention to become an entrepreneur (Krueger – Brazeal 1994). This issue has relevance here because the paper is concerned with entrepreneurial inclination, and at certain points it is possible to test its correlation with more concrete entrepreneurial ambitions, and to examine the combined effect of the two factors.

In the literature there is yet another differentiation between “push” and “pull” type entrepreneurs: the former is compelled to leave his former place of work and life position by the circumstances (including the person’s own feelings of being out of place), the latter designates those who wish to try out a business opportunity. In their international investigation Amit and Muller (1995) found that some two-thirds of entrepreneurs belonged to the “push” and one-third to the “pull” category and that the latter were more successful, gauging success by per capita turnover and personal income. The most frequent common traits self-reported by both groups were organizing skill, integrity, adaptation, creativity, communicative and managerial skills. Their self-descriptions included far less frequently risk-taking, intense effort, negotiating ability, professional expertise, work relations with sellers and buyers, the ability to handle uncertain situations

and good luck. The last two – least frequently mentioned – features did indicate the only statistically significant difference between the two groups, namely: the push-type entrepreneurs mentioned them somewhat more frequently.

Hungarian research of entrepreneurship has a rich tradition (Hegedüs – Márkus 1978, Laky 1984, Kuczsi-Vajda 1996, Laky-Neumann 1992, Czakó et al. 1996, Laki 1998, Laki-Szalai 2004, Róbert 1996, Kuczsi 2000). Hungarian and Eastern European investigations of entrepreneurial inclination have a somewhat shorter history (Lengyel 1996, Stoyanov 1997-98, Bolcic 1997-98, Radaev 1997-98). Among other findings, they reveal that in 1988 about a quarter of the Hungarian adult population would have been ready to go into business. The decisive majority rejected the perspective of an entrepreneurial career for existential or other reasons, but not for ideological considerations. The rate of potential entrepreneurs considerably increased at the beginning of the 1990s and sank lower in the mid-'90s than it was prior to the political change, before it finally settled. Eastern European investigations have also revealed that the potential and actual entrepreneurs had a lot of social characteristics in common – professionals and skilled workers being overrepresented in both groups, although social background variables did influence more strongly the composition of the acting entrepreneurs than the potential group.

However, former studies have left a lot of questions unsettled. If entrepreneurial inclination indeed fluctuates the way it seems, then what accounts for this fluctuation; does this attitude have some regularity at all; what impact does it have on becoming an entrepreneur? Some of these questions can be checked on the data base of the Hungarian Household Panel of 1992-97. There is a lucky circumstance that extends research possibilities: there was a query of the sample again in 2007 – though it appeared risky and hardly feasible methodologically – and the new data allow for the examination of effects in the longer run.<sup>2</sup>

This paper presents some basic facts of the social-cultural composition and motivation of potential entrepreneurs in the early 1990s and about the volatility of entrepreneurial inclination and entrepreneurship in the 1990s. It examines what was the predictive force of entrepreneurial inclination: who of those inclined did actually become entrepreneurs in the shorter run – between 1993 and 1997 –, and in a longer period (between 1993 and 2007); Finally, it reveals what impact entrepreneurial inclination has on the quality of life, on objective and subjective well-being.

First, table analysis is conducted to examine the social composition of potential entrepreneurs, their attitudes and the volatility of entrepreneurial inclination. Next, other elementary statistical means and regression models are applied to see

whether – in connection with demographic conditions, social origin, education – entrepreneurial inclination does influence actual entrepreneurship, family enterprise and income as well as subjective well-being.

### **SOCIAL CHARACTERISTICS OF ENTREPRENEURIAL INCLINATION IN THE EARLY 1990s**

The stratum of potential entrepreneurs displays a specific demographic profile. They are overrepresented among men and young people. There is a weaker correlation with the type of settlement. Entrepreneurial inclination is also significantly correlated with the social background. The higher the school qualifications of the parents, the more inclined the children appeared to go into business. It is noteworthy that the schooling of the mother appeared more influential in this regard than the father's.

There was also a significant correlation between the parents' occupations and the respondent's entrepreneurial inclination, but some characteristics must be pointed out. Potential entrepreneurs were overrepresented especially in groups in which the father was a manager or skilled worker, while in groups where the father was an entrepreneur there was below average inclination to become an entrepreneur. Essentially similar tendencies were gleaned from the occupational data of the mothers, but since a lower rate of mothers were in employment, the indication is less marked.

No noticeable influence was exerted on potential entrepreneurship by the parents' ownership of a shop, factory, housing estate or land above 20 acres. When at a later phase of polling the question was put whether the parents or grandparents included entrepreneurs, the answers already correlated positively with the inclinations. Entrepreneurial inclination was higher among people who came from families with parents or grandparents with business background. Cohort effect was presumed to underlie this phenomenon. The average age of the respondents was 46 years, the majority were children in the 1950s when a family's entrepreneurial past was rather a social handicap. In the older age bracket, where there was a greater chance for the parents to have been entrepreneurs, the entrepreneurial inclinations were low because of age itself. In the youngest age group all this applies to the grandparents in the first place.

The school qualifications of the informants were considerably correlated with entrepreneurial motivation. Potential entrepreneurs were significantly underrepresented among those who had eight primary classes or less education, and overrepresented among skilled workers and those with secondary schooling.

Among those with tertiary education, however, entrepreneurial inclinations only slightly exceeded the average. A more detailed analysis revealed that graduates of colleges were more inclined to business of their own, while graduates of universities were less attracted by this perspective.

Respondents with careers of high and low ebbs, and those whose disjunct career started with a leap, or – though less markedly – those who had been managers earlier were considerably overrepresented among potential entrepreneurs.

*Table 1. Correlation between entrepreneurial inclination and some social background variables (Cramer's V/Phi)*

	Potential entrepreneurs in 1992	Potential entrepreneurs between 1992 and 1997 (declaring their inclination 3 or more times)
Gender	.126****	.072****
Age	.31****	.2****
Type of settlement	Ns	Ns
Father's schooling	.164****	.11****
Father's occupation	.152****	.114****
Mother's schooling	.171****	.122****
Mother's occupation	.13****	.083****
Parents owned shop, factory, house to let, land over 20 acres	Ns	.024**
Entrepreneur among parents, or grandparents	.072***	Ns
Education	.116****	.091****
Former managerial post	.048*	Ns
Disjunct career by leap	.084****	.08****
Fluctuating career	.11****	.1****
Member of HSWP	Ns	Ns
Was employed in 1992	.126****	.078****
Self-ranking in lower, middle or upper class	Ns	.039*
Became entrepreneur between 1993 and 1997	.141****	.041****

*Source: Tdata-G33 <http://www.tarki.hu>*

These are mostly robust correlations that applied in all studied years among the long-term entrepreneurs as well. Some others only proved significant for a few years: these include type of settlement, former party-membership, managerial experience, family tradition of entrepreneurship. It is noteworthy that the majority of inherited and acquired resources were more strongly correlated with the initial entrepreneurial inclination than with a lasting potential entrepreneurship. The inverse is the case with the assessment of one's social status and the parents' wealth. Subjective class position did not show considerable relation with readiness to go into business originally, nor was this correlation remarkably strong in case of persistent inclinations. Those who ranked themselves in the middle or upper classes – amounting to some 30 per cent of the population – were slightly overrepresented among potential entrepreneurs.

There was significant statistical correlation between potential enterprising and later actual entrepreneurship in the short run. This correlation was not deterministic, but in the shorter run there were about twice as many potential entrepreneurs who actually launched entrepreneurial careers than the average. Or, to put it in another way, about two-thirds of starting entrepreneurs between 1993 and 1997 did not discard the idea of becoming entrepreneurs in 1992.

## **ATTITUDES AND OPINIONS OF POTENTIAL ENTREPRENEURS**

Among potential entrepreneurs a significantly higher rate than the average wanted to change their lives in other respects as well. One fifth planned to change jobs as against less than one-tenth of those who rejected entrepreneurship. Even in the 2-4 per cent fragment of those who planned to change jobs for family or educational reasons there was a significantly higher rate of potential entrepreneurs.

A very intriguing correlation is shown by the analysis that compared the “would you like to be an entrepreneur” question (the gauge of the entrepreneurial inclination) with the question “are you planning to become an entrepreneur”, “are you planning to go into business or trade”. It was found that the overwhelming majority – some nine-tenths – of those planning to set up on their own would gladly become entrepreneurs, but one-tenth would not, or had reservations. In some cases, this may indicate sheer inconsistency, but others, who listed reservations may have chosen their answer carefully. In the latter case, this must be related to the “pull” and “push” type entrepreneurship, that is, to the two kinds of motives that guide one into business: either the grasping of the opportunity or due to compulsion. In one case, performance, the possibility of self-realization is in the background, apart from the material motive (Lengyel 2002, Czakó et al. 1996),

in the other case the motivation is the chance of losing a job or just pressure for money. This may also be borne out by the fact that answering the question of the family's income prospects for the next year, the majority of potential entrepreneurs was more optimistic than the average (and displayed a more definite vision, too), but they were slightly overrepresented among those who thought the family's financial situation would considerably deteriorate as well. This connection was confirmed even more markedly by the fact that an above-average rate of potential entrepreneurs said their income did not cover the general family expenses, while they were slightly overrepresented on the opposite pole too.

*Table 2. Correlation of entrepreneurial inclination with plans and opinions  
(Cramer's V/Phi)*

	Potential entrepreneurs in 1992	Inclined to entrepreneurship durably between 1992 and 1997 (in 3 or more years)
Planning to change jobs	.176****	.069***
Planning to change jobs for family reasons	.062***	.06***
Planning to change jobs for studying	.049*	Ns
Planning to become entrepreneur	.225****	.111****
Planning to go into business, trade	.22****	.196****
Would invest profit	.092****	Ns
Would invest lottery win	.462****	.228****
Income prospects of family	.118****	.074****
Income covers running costs	.079****	Ns
Is unemployment an unavoidable concomitant of the present situation or must it be avoided at any costs?	.145****	.07****
Does unemployment improve work discipline?	.033*	Ns
Is there a chance of becoming unemployed?	Ns	Ns
Would it be easy or hard for you to find a job?	.115****	Ns

*Source: Tdata-G33 <http://www.tarki.hu/>*

This interpretation is modified by the fact that potential entrepreneurs did not deviate from the average concerning their fears of unemployment (about every third job-holder was afraid of losing his/her job). Thus, among the “push” factors it was material pressure rather than dissatisfaction with work or losing the job that played an important role. There was a significant divergence between those who would and those who would not become entrepreneurs in answering the question whether they would easily find a new job. Potential entrepreneurs were far more optimistic than the average.

There was a slightly above-average rate among potential entrepreneurs (about every other respondent) who shared the opinion that unemployment improved work discipline, and considerably more than the average declared that in the given economic situation unemployment was unavoidable. The dual motivation of entrepreneurship is also revealed by the finding that some two-thirds of the potential entrepreneurs were ready to invest the profit and one-third would improve their own living standard. An even more marked deviation was found between potential entrepreneurs and the rejecters of this possibility when it came to the utilization of a lottery win. Over half the potential entrepreneurs would invest the amount, while only every tenth of those who felt no inclination to entrepreneurship would do so.

As for satisfaction with life, the responses are not easy to interpret at first sight. Potential entrepreneurs were satisfied with their standard of living and lives so far about as much as the average. These are the questions with which cognitive aspects of subjective well-being are usually measured and no difference was found in these dimensions. By contrast, potential entrepreneurs were significantly more dissatisfied with their work, housing and especially income than the average. Thus, the main motive force behind entrepreneurial inclination was dissatisfaction with the material conditions. There were, however, two dimensions along which potential entrepreneurs were more satisfied than the rest. One was the state of health; this is not surprising as it also derives from the negative correlation between entrepreneurial inclination and age, deteriorating health in old age. State of health played a very important role in rejecting entrepreneurship. The other aspect along which potential entrepreneurs were significantly more positive than the average was satisfaction with future prospects. Moreover, this correlation proved lasting, for it was found at every query between 1992 and 1997 that potential entrepreneurs judged their future prospects and health more favorably than the average, while there was below-average satisfaction among them concerning their work and income. In some years it was also found that

they judged their strong ties (family and kinship relations) less favorably than the average, but this was significant concerning the broader kinship relations only.

### **VOLATILITY OF ENTREPRENEURIAL INCLINATION AND ENTREPRENEURSHIP BETWEEN 1992 AND 1997**

About half to three-fifths of potential entrepreneurs of a year were also inclined towards entrepreneurship a year earlier. Entrepreneurial inclination does display some stability, the related attitudes are consistent.

*Table 3. Rate of potential entrepreneurs who were also inclined to entrepreneurship in the previous year*

	1993	1994	1995	1996	1997
%	59,8	47,0	56,9	53,5	47,6
N	829	832	631	434	313
Phi (****)	.34	.33	.29	.29	.36

*Source: Tdata-G33 <http://www.tarki.hu/>*

However this connection is rather loose, for many people changed their opinion from one year to the other. That may have several reasons. One obvious reason is inherent in the social-economic system. When economic conditions and prospects deteriorate, when economic regulation is modified unfavorably, there is a concomitant decrease in the proportion of potential entrepreneurs and an increase in the number of those who want to wait and see, or change their minds. This is different from it the economic climate which, in theory reflects upon the general conditions but may also deviate from them. It means how – optimistically or pessimistically – people judge their living conditions, their own and the society’s prospects. Opinions may also be shaped by a peculiar media effect: how the media depict the circumstances, how attractive or alarming they describe the possibilities, how they characterize the entrepreneurs. Further influencing factors may be the change in one’s life situation and health. Besides, “would you like to be an entrepreneur” refers to inclination rather than intention, hence it is broad enough to be influenced by factors unexplored by the investigation, still contributing to volatility. Compared to these, it is a mere technical problem that the panel database also necessarily changed slightly from year to year; some respondents died, some moved away, became inaccessible, some others were



newly included, all this also modifying the volatility of the rate of potential entrepreneurs.

Beside entrepreneurial inclinations, the rate of practicing entrepreneurs also fluctuates, in response to the phenomena of the economic life. Three-to-four-fifths of entrepreneurs were entrepreneurs in the previous year as well. Thus, acts are more consistent than words, they have more retaining power. On the whole, some half of the potential entrepreneurs were new every next year of investigation as against one quarter of the acting entrepreneurs.

*Table 4. Rate of entrepreneurs who were entrepreneurs in the previous year as well*

Year	1993	1994	1995	1996	1997
%	82.7	61.0	68.8	71.1	75.3
N	207	228	208	211	146
Phi (****)	.67	.65	.66	.69	.62

*Source: Tdata-G33 <http://www.tarki.hu/>*

The overwhelming majority of potential entrepreneurs were positive about entrepreneurship for at least two years, and two-to-three-fifths for at least three years. The latter group can be taken for steady potential entrepreneurs. (Their rate is lower in the first year for panel erosion than in the rest of the years.)

*Table 5. The rate of potential entrepreneurs in the given year who were inclined to entrepreneurship for at least two more years (%)*

	1992	1993	1994	1995	1996	1997
Another two years	29.1	41.1	43.6	55.8	58.0	47.9
Cramer's V	.401****	.497****	.532****	.596****	.556****	.427****
N	1369	958	1031	711	509	355

*Source: Tdata-G33 <http://www.tarki.hu/>*

## SHORT-TERM IMPACT OF ENTREPRENEURIAL INCLINATION ON BECOMING ENTREPRENEUR

Reviewing the data by years, one finds that some two-fifths to two-thirds of the novices in entrepreneurship in a year pronounced positively about entrepreneurial inclinations in the previous year. The correlation was significant, positive, but weak.

Eliminating eventualities from a year-by-year analysis and see how entrepreneurial inclinations in 1992 are correlated with practical entrepreneurship between 1993 and 1997, a stronger correlation is found. Nearly three-fifths of new entrepreneurs between 1993 and 1997 expressed entrepreneurial inclinations in 1992, and every tenth entrepreneur made it conditional upon the circumstances whether they set up on their own or not. Roughly speaking over two thirds of the entrepreneurs were deliberating this alternative earlier.

*Table 6. Correlation between entrepreneurial inclination in 1992 and entrepreneurial status between 1993 and 1997 (%)*

Would you like to be an entrepreneur? (1992)	Were you an entrepreneur between 1993 and 1997?		Together
	No	Yes	
No	64.9	30.3	63.6
It depends	10.0	11.8	10.1
Yes	25.1	57.9	26.3
Total	100.0	100.0	100.0
N	3914	152	4066

*Source: Tdata-G33 [http://www.tarki.hu/Phi=.147\\*\\*\\*\\*](http://www.tarki.hu/Phi=.147****)*

Taking a look at the social composition and opinions of those who rejected, one finds indeed that the elderly and the untrained are overrepresented among them, but the university graduates are as well. It is revealing to compare this finding not only with the average population – the majority of whom would not have ventured into entrepreneurship and did not become entrepreneurs either – but also with those who were positive about an entrepreneurial prospect and did become entrepreneurs later. From these, the forced entrepreneurs as interpreted above differed in that women, intellectuals, semi-skilled and unskilled workers were overrepresented among them. Compared to both the entrepreneurs and the employed strata, there was a higher rate among forced entrepreneurs of those who were afraid of losing their jobs in 1992 yet they rejected the idea of entrepreneurship and did not even plan to change their places of work.

## EFFECTS OF ENTREPRENEURIAL INCLINATION IN THE LONGER RUN

### Who became entrepreneurs in the light of entrepreneurial inclination between 1993 and 2007?

As was seen above, there was a significant but weak, far from deterministic, correlation between potential entrepreneurship and the later entrepreneurial status. Two-thirds of those who became entrepreneurs had deliberated this possibility earlier. The decisive part of those who did not become entrepreneurs – the overwhelming majority – rejected the idea of entrepreneurship from the start. Over one third is the share of the potential entrepreneurs who eventually did not become entrepreneurs. In other words, every twentieth of those who discarded the idea of entrepreneurship in 1992 became entrepreneurs, while the corresponding figure for those who did not discard this possibility in 1992 was every fifth. The givers of “yes” and “it depends” answers to the question “would you like to be an entrepreneur?” became entrepreneurs later in equal proportions, therefore they are handled together hereinafter: the common element of their attitudes was that they did not preclude an entrepreneurial alternative from the start. It is worthy of note that by gender and age, the groups of “yes” and “it depends” answers were identical, but among the latter the higher education graduates, white-collar workers and former managers were overrepresented. On the basis of the table describing the connection, an ordinal variable of becoming an entrepreneur can be worked out with four values relying upon the four cells of the table.

*Table 7. Correlation between entrepreneurial inclination in 1992 and entrepreneurial status between 1993 and 2007 (%)*

Would you become an entrepreneur? 1992	Were you an entrepreneur between 1993 and 2007?		
	No	Yes	Together
No	62.1	31.3	58.4
Yes, it depends	37.9	68.7	41.6
Total	100.0	100.0	100.0
N	1582	214	1796

*Source: MHP-HÉV, [http://www.tarki.hu/hev/hev-1/join\\_form](http://www.tarki.hu/hev/hev-1/join_form),  $\Phi = .202^{***}$*

The first, most populous group comprises those who were not attracted by the personal perspective of entrepreneurship and did not launch their own business; they are the *rejecters*, the conscious *non-entrepreneurs*. The second group contains

those who did not reject the idea of entrepreneurship but did not eventually start a business: let us call them “*day-dreamers*” or “*the interested*”. The third is the narrow group of “*forced entrepreneurs*” who became entrepreneurs for some reason, although at the beginning they had no intention to do so. The fourth group is composed of the “*conscious entrepreneurs*” who thought they didn’t mind becoming and did become entrepreneurs. A somewhat similar typology could be found in the literature: Dumitru Sandu, and following him Emilia Palkó and Zsuzsa Sólyom distinguished between the non-entrepreneurs, the wistfuls, the intentional and the real entrepreneurs (Palkó–Sólyom, 2005). They put emphasis on the distinction between inclination and intention, an aspect I would like to deal with later. Here however I want to look at the similarities and differences of forced and conscious entrepreneurs as well.

Starting the analysis at the end, in the last group – of *potential entrepreneurs* in 1992 and actual entrepreneurs later – men, people below fifty and each educational category above 8 elementary grades are overrepresented. Similarly, former managerial experience almost doubled the rate of those who had inclinations towards entrepreneurship and also launched their businesses later. Higher education of the parents, self-reported middle class belonging and leaps in a disjunct career all had positive impacts on the emergence of this group. As for occupation, managers, white-collar workers and skilled workers in 1992 were overrepresented among those who felt like enterprising and did enter into business later.

Among “*forced entrepreneurs*”, too, men, younger people and those with higher qualifications, those who lived in the capital or a large town, those who had managerial experience and middle-class identity were overrepresented. As for occupational groups, forced entrepreneurs were overrepresented among the professionals. Since compared to the population as a whole, the group of entrepreneurs is meager, former socialist party membership and the variable of entrepreneurship used here are not significantly correlated. It is however worthy of note that among the forced entrepreneurs, former party members numbered one and a half times more than the average. This data points out that although the political turn did not take place amidst great social upheavals or loss of existence on a mass scale, and the respondents did not think their careers had more highs and lows than the average, there was probably an above-average rate among former party members who were pressed to change their careers.

The category of “*day-dreamers*” shows fewer typical socio-demographic characteristics. Perhaps the only noteworthy feature is that skilled workers were overrepresented among them. Another characteristic found among them

was that an even higher rate than those who *behaved consistently* (that is, those attracted by the thought of entrepreneurship and then translating the thought into practice) comprised those who *thought consistently*, that is, they were inclined to entrepreneurship years after the first interview as well. That may somewhat neutralize the possible negative connotations of the label, suggesting that under the intentions and inclinations that failed to be realized there was consistent opinion. Ideas and feeling that are not followed by acts are not necessarily and exclusively attributable to immaturity and eventuality, but also to the enormity of obstacles or constraints hindering realization. Indeed, the social conditions of the potential entrepreneurs who failed to become entrepreneurs were unfavorable in comparison with conscious and forced entrepreneurs. Thus, instead of the term “day-dreamers” it is more accurate to describe their attitude with “interestedness”. But there was a far smaller rate among them who were hatching concrete plans of undertaking or trading. Their curiosity proved lasting but did not come close to being realized.

Among those who turned down the idea of entrepreneurship, the effect of some bare social factors can be discerned: in this group, the elderly, the inactive, women, the uneducated and those in ill health were overrepresented.

### **CONTROLLED EFFECT OF ENTREPRENEURIAL INCLINATION UPON THE ENTREPRENEURIAL CAREER**

It is to be tested whether the long-term effect of entrepreneurial inclination upon an entrepreneurial career remains unchanged if it is controlled with such powerful explanatory factors as the demographic features, origin, schooling and labor market activity, which had their impact on entrepreneurial inclinations as well. A model is to be chosen in which the variables for the situation in 1992 or before can be compared to the status in 1993 and after.

The logistic regression model reveals that potential entrepreneurship is in significant positive correlation with a subsequent entrepreneurial career even if its effect is examined together with the effect of the inherited and acquired social background variables. School qualification has a considerable and positive effect, while older age has a significantly negative effect on becoming an entrepreneur. Also positive but less marked influence is exerted on an entrepreneurial career by the higher qualifications of the parents and by being a man. Economic activity lost its significance, just as the place of residence and one-time wealth of parents did.

*Table 8. Logistic regression model of entrepreneurial career estimated by previous entrepreneurial inclination and control variables*

Variable	B	Wald	Exp(B)	significance
vh92	.80	22.6	2.2	.000
anyaisk	.36	4.6	1.4	.039
nem	.33	4.2	1.4	.040
kor	-1.1	19.1	0.3	.000
isk	1.3	29.7	3.7	.000
constant	-3.4	185.7	0.03	.000

N= 1742; Forward stepwise method, cut point: 0.5

Cox&Schnell= .086; Nagelkerke= .17; correctly ranged= 88.6;

Dependent Variable: entrepreneur between 1993 and 2007

Variables not in the equation: Bp, aktinakt, szvagyon

Where vh92 (1= potential entrepreneur and “it depends” in 1992); anyaisk (1= mother’s schooling above 8 elementary grades); nem (1= male); kor (1= 50 and above); isk (1= respondent’s schooling above 8 elementary grades); Bp (1= Budapest resident); aktinakt (1= active); szvagy (1= parents used to have a shop, factory, housing estate, or land of 20+ acres)

*Source: MHP-HÉV, [http://www.tarki.hu/hev/hev-1/join\\_form](http://www.tarki.hu/hev/hev-1/join_form)*

It was also examined what impact some other attitude variables of the starting situation had on entrepreneurial careers. How did concrete plans for some undertaking or trading activity influence the entry into the entrepreneurs’ stratum in addition to entrepreneurial inclination, and how satisfied were the respondents with their 1992 income, how much did they feel their income covered their expenses?

The involvement of attitude variables somewhat enhanced the explanatory power of the model. The variable incorporated in the model was the one that inquired about the plans of a concrete undertaking or business. Origin and gender lost their significance. Oddly enough, however, the concrete plans did not eliminate or even considerably weaken the explanatory force of entrepreneurial inclinations. Older age still had a strongly negative, and higher qualifications a considerably positive impact on entrepreneurial chances in the long run. The indicators of satisfaction with income and subjective class position – illuminating important connections in the table statistics – did not have significant explanatory power in the model. This may perhaps be attributed to the fact that these attitude variables themselves were influenced by the same background variables as was the attitude to entrepreneurship in general.

The other aspect examined in this way was to see which of the above factors had influence upon the family enterprise, whether together with, or independently of, the respondent other family members had also become entrepreneurs. In addition to the negative impact of age and positive influence of schooling, origin and middle-class identity influenced family entrepreneurship, together with the respondent's initial opinion about the personal chances of entrepreneurship. Concrete plans and satisfaction lost their effect in this broader context.

*Table 9. Logistic regression model of entrepreneurial career estimated by previous entrepreneurial inclination, intention and control variables*

Variable	B	Wald	Exp(B)	significance
Vh92	.71	15.85	2.03	.000
kor	-1.04	17.39	.35	.000
isk	1.41	29.22	4.07	.000
vtkt	1.01	19.07	2.47	.000
constant	-3.39	159.45	.04	.000

N= 1652; Forward stepwise method, cut point: 0.5

Cox&Schnell= .095; Nagelkerke= .186; correctly ranged= 88.6;

Dependent Variable: entrepreneur between 1993 and 2007

Variables not in the equation: Bp, aktinakt, szvagyon, anyaisk, nem, eljöv, fedezi, középoszt  
 Where vh92 (1= potential entrepreneur and "it depends" in 1992); anyaisk (1= mother's schooling above 8 elementary grades); nem (1= male); kor (1= 50 and above); isk (1= respondent's schooling above 8 elementary grades); Bp (1= Budapest inhabitant); aktinakt (1= active); szvagy (1= parents had a shop, factory, housing estate, land of 20+ acres); eljöv (1= satisfied with income); fedezi (1= income covers outlay); középo (1= ranks himself in middle class) vtkt (1= plans to launch undertaking, business, trading activity)

*Source: MHP-HÉV, [http://www.tarki.hu/hev/hev-1/join\\_form](http://www.tarki.hu/hev/hev-1/join_form)*

## IMPACT OF POTENTIAL ENTREPRENEURSHIP ON INCOME CHANCES

Various average incomes in 2007 are significantly correlated with entrepreneurial inclination in 1992. This applies first of all to the income from the full-time main job, which was over one and half times as much among potential entrepreneurs than the income of the rejecters of entrepreneurship. It also applies to a household's entrepreneurial profit and return on capital in 2007, since the ratio between the income of the rejecters of entrepreneurship and that of the potential entrepreneurs was 1 to 3. The per capita income of a household, however, no longer showed considerable differences along the dimension of earlier entrepreneurial

inclinations. Moreover, even the earlier rejecters appeared to have some, but not significant, advantage in this regard.

Income chances are more massively influenced by active than by potential entrepreneurship. The entrepreneurial profit of the household was about fourteen-fold, the return on capital was eight-fold above the respective incomes of non-entrepreneurs. More moderate but significant advantage was found for entrepreneurs concerning per capita household income as well. When not only the personal but also family entrepreneurship is taken into account, the capital income exceeds by 25 times the corresponding incomes of households without family enterprise.

*Table 10. Attitudes towards entrepreneurship and average incomes in 2007 (HUF)*

	Annual personal income from main job	Total personal income per year	Entrepreneurial profit of household per year	Total capital income of household per year	Per capita household income per month
Rejecter	309697	845342	7283	12140	59459
Interested	510013	910281	16506	28285	54922
Forced entr.	706665	1344076	113699	119655	70251
Conscious entr.	796712	1164056	153041	164966	64873
Average	431230	911630	26230	34031	58786
N	1795	1795	1795	1795	1795
Eta	.228	.151	.215	.199	.094
F	32.7***	13.9***	28.9***	24.7***	5.7**

*Source: MHP, HÉV, <http://www.tarki.hu>*

An intriguing connection is revealed by the comparison of average incomes and the categories of attitude types to entrepreneurship. Those who were interested in the personal perspective of entrepreneurship but did not launch a business were found to have a more favorable income position than those who discarded the idea of entrepreneurship from the start. This advantage was found considerable for each studied income type excepting the per capita household income, along which dimension the conscious non-entrepreneurs were better off. Far greater than the above categories was the advantage of those who did start private enterprises. At first glance, there is a paradox here: forced entrepreneurs – who originally rejected the idea of entrepreneurship and later joined the entrepreneurs for various reasons – did not only acquire higher incomes than the rejecters and the



potential entrepreneurs but their total personal income and per capita household income also exceeded the respective incomes of those who became entrepreneurs purposefully. Something similar was found by the panel survey of entrepreneurs between 1993 and 1996. It was found that the survival chances were greater of forced entrepreneurs than of those who wanted to try out a market idea (Lengyel 2002).

The correlations can be controlled by models in which the effects of socio-demographic and cultural differences are measured. Regression models reveal that former entrepreneurial inclination did positively influence entrepreneurial profit in 2007 even beside the effect of the social background variables. (Moreover, it also influenced similarly, even more strongly, other family capital incomes.) However, potential entrepreneurship did not influence the whole of later personal and household incomes. It only had an effect on one of their components, which was related to business, hence this effect, though lasting, was limited. This effect is, however, retained when examined together with the more concrete 'plans to launch enterprise, shop, business' whose effect did not prove significant on the income chances. By contrast, the actual entrepreneurial experience has naturally a decisive impact on this type of capital income distribution, overwriting the effect of all other variables. Nearly significant was the explanatory power of entrepreneurial inclination and gender, but it dropped out of the model as did schooling in the explanation of profit after the involvement of the entrepreneurial variable. It must be added that potential entrepreneurship, education and the entrepreneurial status itself only contribute a weak explanatory force to entrepreneurial incomes, and eventually, to the explanation of the distribution of success.

As mentioned above, regarding the whole of the household and personal income, entrepreneurial inclination has no explanatory force. By contrast, age, school qualifications, place of residence, and even the schooling of the parents are highly influential. Current income chances are no longer considerably influenced by the parents' one-time financial standing. In the explanation of household incomes gender plays no role, but it does influence personal income with at least as much force as schooling. It is noteworthy that attitudes to entrepreneurship displayed fifteen years ago influenced capital incomes significantly, although far less than the actual entrepreneurial experience.

## HOW ENTREPRENEURIAL INCLINATION CORRELATES WITH SUBJECTIVE WELL-BEING?

Potential entrepreneurship expressed fifteen years ago correlates with present-day subjective well-being: potential entrepreneurs are now more satisfied with their state of health and with their future prospects than the average. Otherwise, there is no noteworthy correlation with other dimensions of satisfaction or with happiness. Potential entrepreneurs were dissatisfied with their work, home, and income, and satisfied with their health and future prospects more than the average in 1992. This correlation with dissatisfaction disappeared and the one with satisfaction remained by 2007. One of these factors reflects upon an aptitude – even though subjectively – which can only be influenced within limits. Someone either does or doesn't feel any health problems, and it is secondary how well grounded these feelings are because they may hinder activity in any way. The other – satisfaction with future prospect – is also a question of mental constitution. It is unjustified to state, even despite the temporal difference, that there is an exclusive causality between entrepreneurial inclination and these two dimensions of satisfaction, with the former being the cause. What is justified to be stated is that there is a lasting positive connection between them. In the short run it can be presumed that dissatisfaction with the material circumstances is one of the – negative – sources of the entrepreneurial inclinations. In the same way, it can also be presumed that a positive source of potential entrepreneurship is optimism. This assumption may be right even if these correlations can be traced back to further causal components.

When the potential and actual entrepreneurs are compared, it is found that acting entrepreneurs are more satisfied with their current lives than the non-entrepreneurs. Those who were interested in entrepreneurship but eventually did not enter the group of entrepreneurs were more dissatisfied with their income and standard of living than either the actual entrepreneurs or those who rejected this entrepreneurial option. The potential entrepreneurs reported to be in far better health conditions than the rejecters. Conscious entrepreneurs judged their life chances slightly more favorably and were more satisfied than the forced entrepreneurs.

## CONCLUSION

In the paper above I first examined the social composition of Hungarian potential entrepreneurs that is what social characteristics entrepreneurial inclination

displayed between 1992 and 1997. I found that there was a robust correlation between entrepreneurial inclination and age and gender. Further, the higher educated, the skilled workers, those with higher educated parents and those on the labor market were overrepresented among potential entrepreneurs. There was extremely strong correlation between potential entrepreneurship and the prospect of making investments in case an accidental jackpot occurs, and potential entrepreneurs were also strongly correlated with the concrete plans to enter the business sphere or change jobs. Entrepreneurial inclination was in connection with the “push” factors – components of material dissatisfaction – in the short run. Potential entrepreneurs in the 1990s were dissatisfied with their current material conditions and satisfied to an above-average degree with their prospects and personal performance (in that they did not see decisive hindrances to it). In the studied period, about half the potential and a quarter of the acting entrepreneurs were new from year to year. Both groups showed considerable volatility, though evidently there was greater fluctuation in verbal utterances than in deeds. Two-thirds of the starting entrepreneurs between 1993 and 1997 were earlier inclined to entrepreneurship, one-third rejecting this career option earlier.

In two-thirds of the 2007 sample the initial attitude to entrepreneurship displayed in 1992 is known. Some one-third did not discard the idea of entrepreneurship – they were either ready to set up on their own or gave “it depends” answer, but later they did not actually become entrepreneurs. Every twelfth respondent was a potential, and later actual entrepreneur, while every twenty-second did not want to choose the entrepreneurial career and still he became an entrepreneur. The younger ones, males and the higher educated were overrepresented among those with a consistent entrepreneurial attitude as well as among the forced entrepreneurs, with intellectuals being also overrepresented among “push”-type entrepreneurs.

Despite the experienced volatility, entrepreneurial inclination exerted a significant positive effect on entrepreneurial career chances even when the correlation was tested with social background variables and attitudes. This effect persisted even when potential entrepreneurship and concrete entrepreneurial intentions were included in the same model. The panel survey thus revealed that *inclination* and *intention* influenced the chances of becoming independent with nearly identical force, *not cancelling out each other's effect*. By contrast, the “push” factor of initial dissatisfaction with work and material conditions lost significance. A similar conclusion can be inferred from an analysis of the long-term relation of entrepreneurial inclination and subjective well-being. It has been found that the *correlation of entrepreneurial inclination with dissatisfaction fades*

*in the long run, while its correlation with satisfaction persists.* If the target of the explanation is not the chance of becoming an entrepreneur but entrepreneurial success measured by the income, entrepreneurial inclination also has a positive explanatory force, while the concrete intentions to launch a business does not prove as important.

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## NOTES

- 1 Originally published in Kolosi T.-Tóth I.Gy. (eds.) *Társadalmi riport*, 2008, under the title of “A vállalkozói hajlandóság hatása a vállalkozásra és a jólétre. A Magyar Háztartás Panel néhány tanulsága (1992-2007)” Tárki, Budapest, 2008, pp. 429-450.
- 2 MHP and HÉV surveys were launched by TÁRKI Social Research Institute ([www.tarki.hu](http://www.tarki.hu))

# ENTREPRENEURIAL INCLINATION IN COMPARATIVE PERSPECTIVE<sup>1</sup>

## INTRODUCTION

This study analyses the data of the Flash Eurobarometer 192 database of 2007 in order to assess entrepreneurial inclination – that is, the size of the entrepreneur and the potential entrepreneur population in the 25 EU countries. We also look at the arguments of respondents for and against starting a business.

The concepts of *entrepreneurial inclination* and *potential entrepreneurs* are frequently applied in the previous chapters to the same social group. Those people who are inclined to start a business are, indeed, potential entrepreneurs in the broadest sense of the phrase. It does not need much explaining, however, that a theoretical possibility – an affinity for one particular approach to life – covers a broader spectrum (and responds to a different issue) than the desirability of a concrete business opportunity presenting itself here and now. It has been established by previous research that there is a distinction to be drawn between an *inclination* and an *intention* to embark on an entrepreneurial career. The latter applies to a narrower group (Krueger and Brazeal 1994; Ashcroft, Holden and Low 2004; Koh 1996; Stoyanov 1997).

We have also learned that entrepreneurial outcomes are affected by a number of unrelated factors, and both entrepreneurial inclination and entrepreneurial intention have a significant impact on a future business career, even with either one of these factors and other social factors held constant (McClelland 1987; Etzioni 1987; Fitzsimmons and Evans 2005; Lengyel 2002; Audretsch *et al.* 2002).

It now seems sensible to continue our inquiries by refining the conceptual framework. In addition to entrepreneurial inclination and entrepreneurial intention, it is worth looking into the issue of the personal desirability of a business career in the foreseeable future. Entrepreneurial inclination is assessed through the question: “Suppose you could choose between different kinds of jobs, which one would you prefer: being an employee or being self-employed?” This question inquires about a hypothetical situation, and respondents give their answers according to their inclinations, experiences or impressions.

In this chapter potential entrepreneurs are identified more accurately by the following question: “Personally, how desirable is it for you to become self-employed within the next five years?” (from very desirable, to not desirable at all). The personal desirability of starting a business career is not equivalent to having

concrete plans, but it does filter out those who are unable to start a business because of their age, health or various other reasons. This group therefore comprises those who have nothing against the option in principle, and who would rather be entrepreneurs than employees, if they could start all over and did not have to face insurmountable obstacles. *A potential entrepreneur is defined here as someone who finds an entrepreneurial career an attractive option within the next five years.*

We start our analysis by investigating what proportion of the population is favorably disposed towards entrepreneurship in principle, what proportion are potential entrepreneurs, and what proportion are actual entrepreneurs in the different countries and regions. We also look at the attitudes of respondents towards the feasibility of becoming self-employed. Next, we sketch a social profile of potential entrepreneurs, with the aim of finding an answer to the question of where entrepreneurs come from. We then turn to the factors listed by respondents as reasons for why the option of entrepreneurship is attractive to them. Finally, the arguments cited by those who reject the option of self-employment will be analyzed, along with the *risks* people associate with entrepreneurship (Miner and Raju 2004). We use a representative sample of the population aged 15 and over, weighted in proportion to country-level population sizes. The sample includes 18,655 individuals (Gallup 2007).

## **ENTREPRENEURIAL INCLINATION AND POTENTIAL ENTREPRENEURS: COUNTRIES AND REGIONS**

To find out whether an individual is inclined to a business career, a hypothetical choice between entrepreneurial and employee status is offered. In Europe as a whole, there is a fairly balanced split between the two options (Figure 1): almost half of all respondents (45 per cent) prefer self-employment (ranging from 35 per cent in the Scandinavian countries to 50 per cent in the Mediterranean region).

We find a level of entrepreneurial inclination that is well above average in Lithuania, Portugal, Ireland, Greece, Italy and Cyprus, with over half of the respondents in those countries preferring to be self-employed. By contrast, in the Benelux and Scandinavian countries, and in the greater part of the area of the historical Austro-Hungarian Monarchy (in Austria, Slovenia, the Czech Republic and Slovakia), less than two-fifths of the population are favorably disposed towards entrepreneurship. This is substantially below the average level. The proportion in Hungary (43 per cent) corresponds roughly to the EU average, as is the case for Germany, France, the United Kingdom and Poland.



Figure 1: Entrepreneurial inclination, by country

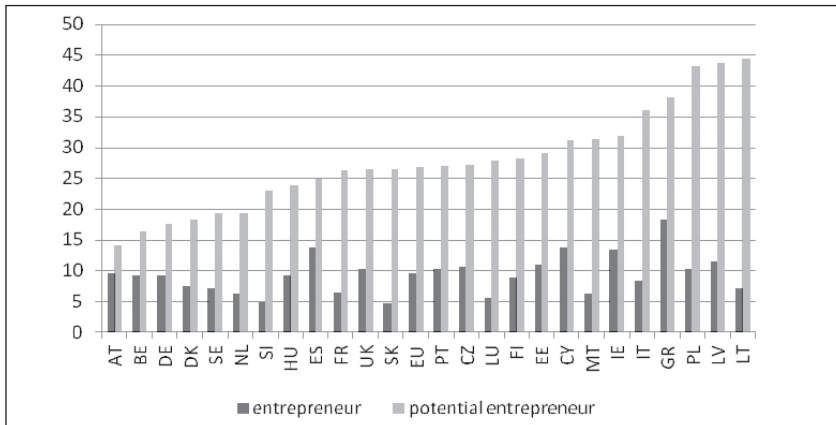


Source: author's calculations based on Flash Eurobarometer 192 (2007) data.

Note: Distribution of answers to the question: "Suppose you could choose between different kinds of jobs, which one would you prefer: being an employee or being self-employed?"

As might be expected, the figures show a smaller proportion of *potential entrepreneurs* – i.e. people who are ready to consider the option of self-employment within the next five years. Across the EU, on average just over one respondent in four is a potential entrepreneur (27 per cent), with a figure of 21 per cent in the Scandinavian region and 37 per cent in the countries of Eastern Europe.

Figure 2: Actual and potential entrepreneurs, by country



Source: author's calculations based on Flash Eurobarometer 192 (2007) data.

Note: Percentage of positive answers to the question: "Personally, how desirable is it for you to become self-employed within the next five years?"

Three explanations spring to mind for the discrepancy between the level of entrepreneurial inclination and the probability of potential entrepreneurs.

First, as was mentioned in the introduction, there may be people who are favorably disposed towards entrepreneurship but who are not really in a position to consider a business career. This could be for reasons of age, but there are countless other factors related to subjective qualities that may limit one's scope.

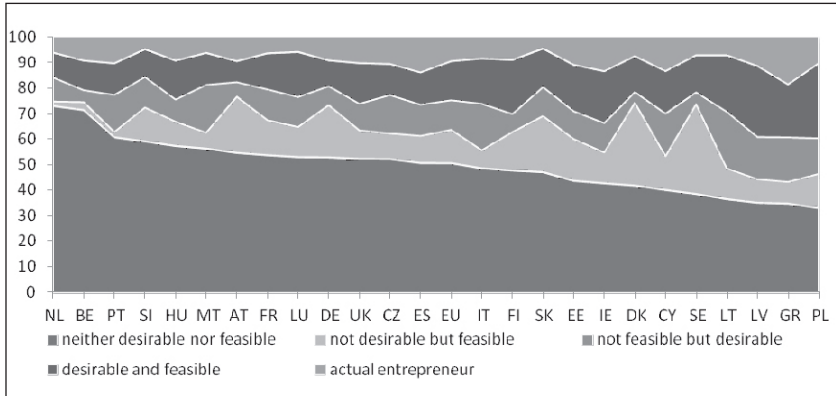
Second, the existence of a high proportion of actual entrepreneurs in a population necessarily shrinks the pool of *potential* entrepreneurs. In a country where well-nigh everyone has had the opportunity to try self-employment, the pool of potential entrepreneurs may be composed of new cohorts, people who find themselves in a new position in their lives, and people who have changed their minds.

The third explanation is to be found in the institutional context or business climate, which may be more or less favorable in any given country. There are substantially more potential entrepreneurs than average in the former Soviet states (Lithuania and Latvia) and in Poland, as well as in Greece and Italy. Moreover, people in Greece are twice as likely to be *actual* entrepreneurs as is the population of Europe on average. (The reasons behind the level of entrepreneurial potential in a country therefore appear rather more complex than a simple explanation in terms of an inverse relationship with the rate of self-employment.) In the Scandinavian and the Benelux countries, in Austria and in Germany, the proportion of potential entrepreneurs falls below the EU average; in Finland and Luxembourg it is close to it.

The proportion of actual entrepreneurs is, on average, 9.5 per cent across the EU. The figure is above this level in Cyprus, Ireland, Spain and, as mentioned above, Greece. We find a substantially lower than average probability of self-employment among the populations of the Netherlands, Luxembourg, Slovakia, Slovenia and Malta.

Thus, there are fewer potential entrepreneurs than there are people favorably disposed towards self-employment, and fewer still of those who find the option of a business career to be both attractive and realistic. This last group constitutes 15 per cent of the European population on average. The figures for Poland, Greece, Latvia, Lithuania and Ireland are significantly higher than the EU mean, while the values observed for Austria, the Netherlands, Slovenia and Germany are substantially lower. The Hungarian figure once again corresponds to the EU average.

Figure 3: The desirability and feasibility of becoming self-employed within the next five years, by country



Source: author's calculations based on Flash Eurobarometer 192 (2007) data.

With respect to the desirability and the feasibility of entrepreneurship, those who find self-employment desirable but not feasible deserve special attention. Across the EU, one respondent in nine says that, although the option of self-employment would suit them, they do not think it would be practicable. That is, we can distinguish not only the willing from the potential entrepreneurs, but also the desirability of self-employment in the near future from its practicability. The populations of Latvia, Lithuania, Italy, Greece, Cyprus and Malta have higher than average confidence in the feasibility of a business career. The Hungarian figure falls below the EU average.

As we have seen from the lists of countries, there seem to be regional differences in terms of the level of entrepreneurial potential and the likelihood of self-employment. Of the possible ways of grouping the countries, a division into major regions – Scandinavia, the Mediterranean region, Eastern Europe and Western Europe – matches the variation in entrepreneurial potential more closely than either a division into old and new EU member states or a distinction between the former socialist countries and the rest of Europe. The Scandinavian countries display a lower than average level of business inclination, as well as below-average entrepreneurial potential. With respect to entrepreneurial inclination, the Mediterranean countries are characterized by figures that are substantially higher than average. Potential entrepreneurs – those who find self-employment desirable – are also represented in higher than average proportions in the Mediterranean region (32 per cent), but even their values are surpassed by the figures observed in the Eastern European countries (36 per cent, against an average of 27 per cent).

The probability that someone considers self-employment to be both desirable and feasible is above the European average in Eastern Europe and somewhat below the average in Western Europe. The Northern (Scandinavian) region has a higher than average proportion of respondents who consider self-employment to be feasible but who do not wish to go down that path. The pattern is reversed for the East European and the Mediterranean countries: there is a higher than average probability of a desire to be self-employed coupled with skepticism about the feasibility. Looking at actual entrepreneurs, we find significant but far less marked differences.

We find a strong association between those who show entrepreneurial inclination and groups of potential entrepreneurs: an overwhelming majority (more than 80per cent) of those who reject the hypothetical option of self-employment also reject the concrete idea of starting a business within the next five years. Somewhat over half of those respondents who are, in principle, inclined to become self-employed also like the idea of starting a business within the next few years. In other words: about three-quarters of potential and actual entrepreneurs say that they would choose self-employment, given a hypothetical choice between that and employee status. What is puzzling about this result is that, on average, one entrepreneur in four would prefer to be an employee, which is a first approximation of the group of entrepreneurs for whom self-employment is a choice forced on them.

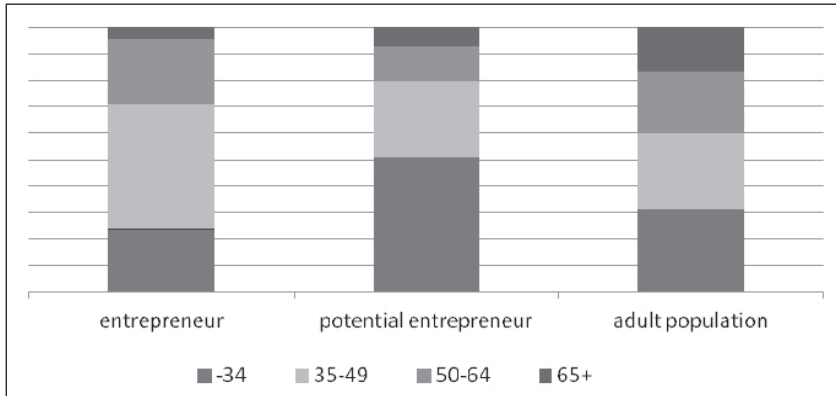
Within the group of potential entrepreneurs, we find roughly similar attitudes towards the theoretical option of self-employment among those who are confident of the feasibility of this personal option and those who find it desirable but impracticable in the next five years. In the Scandinavian countries, entrepreneurial inclination displays a weaker than average association with potential self-employment and a stronger than average association with actual self-employment. A weaker than average association between entrepreneurial inclination and the concrete contemplation of a business career is also characteristic of the Mediterranean region.

## **THE SOCIAL PROFILE OF POTENTIAL ENTREPRENEURS**

There is a balanced distribution of potential entrepreneurs across the genders: roughly half are male and half female. Of actual entrepreneurs, across the EU on average about 30per cent are women. Roughly half of all potential entrepreneurs are young people under the age of 35. Only 7 per cent of those contemplating the

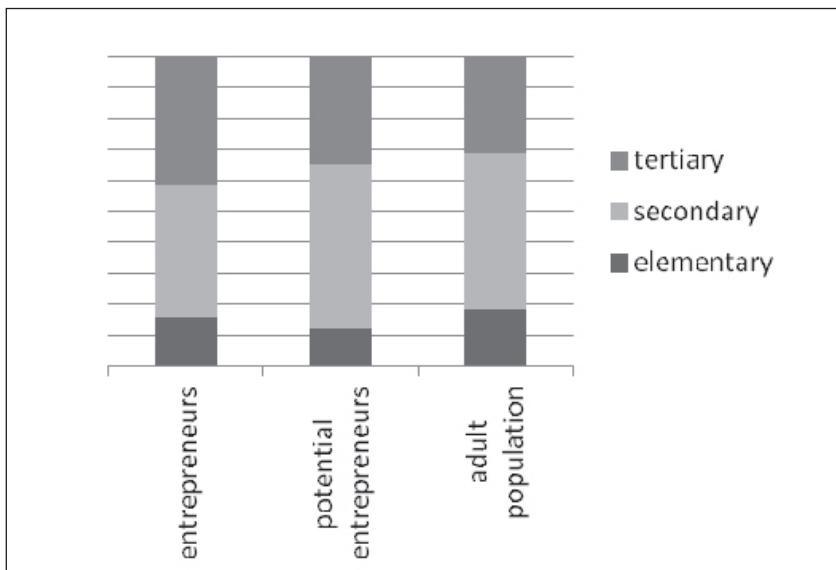
option of self-employment are over the age of 64. Put another way, the likelihood that people will be tempted by self-employment declines steeply with age.

Figure 4: The distribution of entrepreneurs, potential entrepreneurs and the adult population according to age groups, EU average values (%)



Source: author's calculations based on Flash Eurobarometer 192 (2007) data.

Figure 5: The distribution of entrepreneurs, potential entrepreneurs and the adult population, by educational level, EU average values (%)

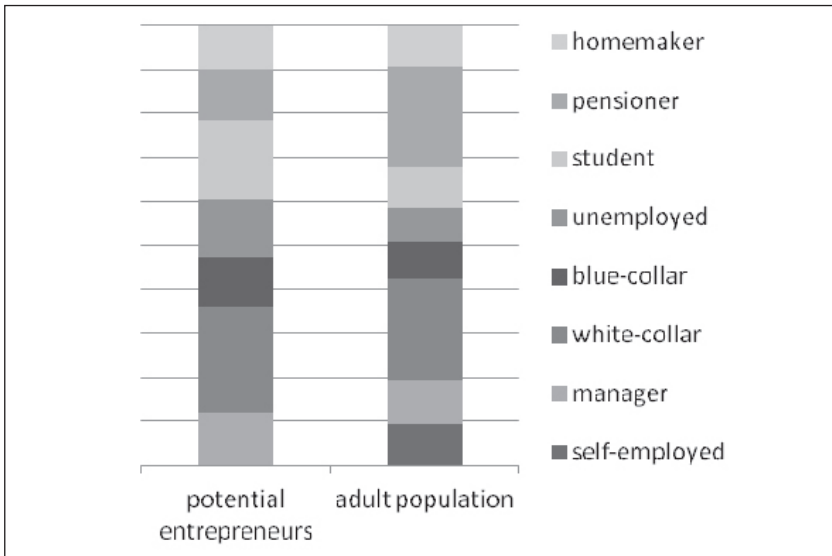


Source: author's calculations based on Flash Eurobarometer 192 (2007) data.

An analysis in terms of level of education reveals that there is a split between the population with just primary schooling and those with higher levels of education. Whereas, in the former group, only one person in six would be willing to start a business in the near future, the proportion is 29–30 per cent of those with secondary or higher education. This means that more than half of all potential entrepreneurs have secondary education, and more than a third are graduates of higher education.

Looking at labor market status, we find that 30 per cent of the active population – but more than 50 per cent of students – are potential entrepreneurs; the proportion of potential entrepreneurs among old-age pensioners is vanishingly small. Put another way, the proportion of students within the group of potential entrepreneurs is double their share of the adult population (9 per cent), while the proportion of pensioners is only half their share (23 per cent).

*Figure 6: The distribution of potential entrepreneurs and the adult population, by labor market status, EU average values*



*Source: author's calculations based on Flash Eurobarometer 192 (2007) data.*

Breaking the data down into finer labor market categories, a higher than average proportion of managers, blue-collar workers and the unemployed turn out to be tempted by the personal prospect of entrepreneurship. These groups are also overrepresented among those who are confident of the feasibility of this

option. Of those who find a business career to be desirable but impracticable within the next few years, the figures for students and the unemployed are higher than average.

The distribution of entrepreneurial inclination across the employment categories paints a somewhat different picture. When presented with a hypothetical choice between employee and self-employed status, students and the unemployed are still more likely than average to prefer the option of self-employment, whereas this choice is somewhat lower than average among managers and blue-collar workers. Thus students and the unemployed – those groups that have not integrated into the large employer organizations – show a higher regard for self-employment, both as a theoretical concept and as a concrete personal option.

Those who prefer being employees in principle and in general terms, but who are nevertheless attracted to the option of starting a business within the next five years, therefore appear to come from among the population of employees who work for large organizations. The survey used for our analysis took place in 2007, before the first signs of the economic crisis appeared. What could be behind this seeming inconsistency are the effects of the work micro-environment and the motives of that type of forced entrepreneur who escapes forward in order to avoid unemployment. Previous research evidence suggests that this type of person – by contrast to the unemployed, who have no other choice – is more successful at launching and maintaining a venture (Lengyel 2002).

We also see considerable variation across the regions of Europe. There are smaller differences between the labor market groups in the Scandinavian and the Western European countries than in the post-socialist or the Mediterranean countries. In those latter regions, a substantially higher than average proportion of students and the unemployed are attracted to the prospect of starting a business. Where there is a marked difference between the two country groups, it lies in the fact that, while Southern European homemakers show a below-average interest in a business career, their Eastern European peers' interest is well above average. This suggests that, in Eastern Europe, the inactive homemaker status may be an enforced choice, comparable to unemployment. A further distinguishing feature of the entrepreneurial potential in the post-socialist countries concerns the group of people who find the prospect of self-employment desirable but impracticable – i.e. those presumably constrained in fulfilling their aspirations. Whereas generally it is students and the unemployed who tend to be the most markedly overrepresented within the group that perceives obstacles to realizing their ambitions, in Eastern Europe it is blue-collar workers who are most likely to see feasibility problems with starting a business.

Origins are relatively weakly related to the probability of being an actual or a potential entrepreneur. The pattern that emerges is that, while actual entrepreneurs are overrepresented in the group of those who come from families with entrepreneur parents, potential entrepreneurs appear with higher than average probability among those who have an unskilled worker father and a mother employed in the public sector.

The relationships have been tested by regression models. Three families of models have been constructed, using age, gender, urbanization of residence, education, parents' business experience, activity and the post-socialist countries as control variables. The first model estimates the probability of entrepreneurial inclination; the second the probability of potential entrepreneurship; and the third the likelihood of a business career appearing desirable and feasible (Table 1).

The first generalization we can make is that the more specific the question asked, the more accurate the prediction we get. For entrepreneurial inclination, the variables that do not contribute to the results are education, the mother's business experience and a post-socialist background. Gender, labor market status and age affect entrepreneurial inclination in the expected direction. All other factors being equal, people who live in rural areas show slightly more theoretical interest in the idea of entrepreneurship than does the urban population.

When the question involves not a choice between two hypothetical options but the desirability of self-employment within the next five years (which identifies potential entrepreneurs), prediction specificity (and thus the explanatory power of the model) increases, and more than 70 per cent of cases can be correctly classified. The variables with a significant impact on potential entrepreneurship are, first, young age and labor market activity – each of which more than doubles the odds of potential self-employment; and, second, a post-socialist background, which (with all other factors held constant) also substantially increases willingness to start a business. This is an interesting result, since this dichotomous variable contrasts Eastern Europe with a group of countries that comprise the region with the highest entrepreneurial propensity (the Mediterranean countries), in addition to the Scandinavian states with their below-average values and Western Europe with its average figures. It is also worth noting that, while gender and parental business experience have a statistically significant effect in the expected direction, place of residence shows an opposite effect to that observed for the previous question: while the theoretical option of self-employment appeals more to the rural population, the more concrete issue of potential entrepreneurship has significantly stronger support among the urban population.



The model that estimates the odds of someone finding the prospect of self-employment both desirable and feasible (i.e. that explores the extent to which potential entrepreneurs are concerned with practicability) produces even more accurate results, with more than 80 per cent of cases correctly classified. All our explanatory variables have a statistically significant effect, and the direction of the effects is similar to that observed for potential entrepreneurship. The relative explanatory value of the variables is somewhat different, however: the role of young age is decreased and the roles of education, labor market activity and parental business experience are increased.

*Table 1: Binary logistic regression models: entrepreneurial inclination, potential entrepreneurs, the desirability and feasibility of self-employment*

Variables	Entrepreneurial inclination, Exp(B)	Potential entrepreneurs, Exp(B)	Desirability and feasibility of self-employment, Exp(B)	Potential entrepreneurs, Exp(B)	Desirability and feasibility of self-employment, Exp(B)
Gender (male = 1)	1.54****	1.39****	1.71****	1.26****	1.60****
Age (15–39 years = 1)	1.29****	2.40****	2.03****	2.46****	1.87****
Urbanization of residence (urban = 1)	0.93*	1.13****	1.15***	1.08	1.10*
Education (secondary or higher = 1)	0.93	1.23****	1.51****	1.53****	1.69****
Father's occupation (self-employed = 1)	1.37****	1.20****	1.39****	0.98	1.22****
Mother's occupation (self-employed = 1)	1.07	1.20***	1.29****	1.15	1.23**
Country background (post-socialist = 1)	1.09*	1.80****	1.91****		
Activity status (non-pensioner = 1)	1.15****	2.18****	2.69****	2.47****	3.02****
Entrepreneurial inclination (=1)				7.61****	5.39****
Countries (UK = 0)					

GYÖRGY LENGYEL

BE				0.70*	0.92
CZ				1.52**	0.91
DK				0.63*	0.92
DE				0.64****	0.67****
EE				1.34	1.26
GR				2.20****	1.37*
ES				1.12	0.85
FR				1.03	0.86*
IE				1.16	1.17
IT				1.49****	0.97
CY				1.18	0.83
LV				3.32****	2.47***
LT				2.11****	1.20
LU				1.25	1.37
HU				0.90	1.00
MT				1.20	0.56
NL				0.76*	0.61***
AT				0.54****	0.58*
PL				2.70****	2.49****
PT				0.89	0.64***
SI				1.03	0.78
SK				1.06	1.00
FI				1.75**	2.12****
SE				0.74*	1.05
Constant	0.53	0.09	0.03	0.03	0.01
Cox & Snell $R^2$ , Nagelkerke $R^2$ , Prediction accuracy, %	0.02 0.03 57.7	0.10 0.14 71.5	0.07 0.13 83.2	0.26 0.36 79.3	0.16 0.26 84.1

*Source: author's calculations based on Flash Eurobarometer 192 (2007) data.*

*Notes:*

*The figures are rounded.*

*Levels of statistical significance: \* 0.05; \*\* 0.01; \*\*\* 0.001; \*\*\*\* 0.0001.*

*Potential entrepreneurs: those desiring to become self-employed within the next five years.*

*Desirability and feasibility of self-employment: those who say becoming self-employed within the next five years is both desirable and feasible.*

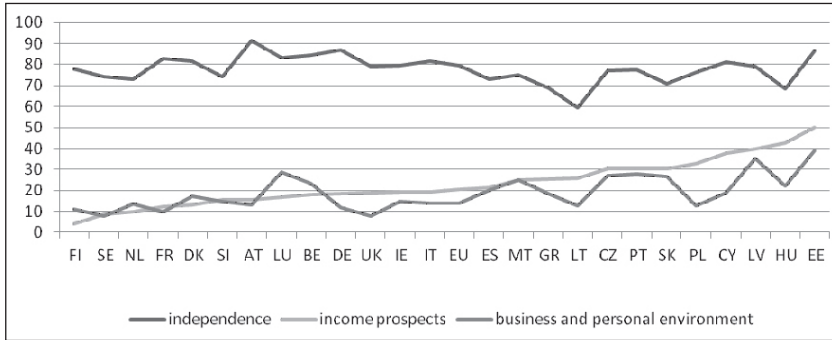
The explanatory power of the model predicting the odds of potential entrepreneurship is naturally substantially increased by the inclusion of the factors of entrepreneurial inclination and country. People who prefer the hypothetical option of self-employment to employee status are about seven times more likely to be favorably disposed to a business career in the near future. If we replace the dichotomous variable of post-socialist versus non-post-socialist country with the individual country variables, the model corroborates the impression created by our tables and figures with respect to both potential entrepreneurs and those considering self-employment as not only desirable but also feasible. Taking as our baseline the potential entrepreneur likelihood value observed for Great Britain (which is close to the EU average), the Latvian, Polish, Lithuanian and Greek values are two to three times higher, while the Austrian, Dutch and Swedish figures are substantially lower. For the smaller group of people considering self-employment to be desirable and feasible, the odds are predicted by the country variable to roughly the same extent, but the direction of the effect is different for some of the countries. Compared to Great Britain, most of the Mediterranean countries show a higher proportion of respondents tempted by the idea of becoming self-employed, but a smaller proportion considering it to be feasible at the same time.

### **PRO: WHY BE AN ENTREPRENEUR RATHER THAN AN EMPLOYEE?**

Respondents offered various spontaneous reasons for their entrepreneurial inclination, including independence, good prospects and the economic environment, the influence of family and friends, the insecurity of being an employee and the poor career prospects offered by employee status. The most frequently cited reasons had to do with two issues. One concerns independence, self-fulfillment and the challenging nature of the task; the other is the consideration that an entrepreneur is free to choose the place and time of working. Since these two arguments are related to each other, they will be treated as one for the purposes of our analysis. The overwhelming majority of respondents – about 80 per cent – mention something to this effect. The next most popular consideration – mentioned about 20 per cent of the time – involves better income prospects. Each of the remaining factors is mentioned by 1–2 per cent of respondents. Some of these – mentioned 7 per cent of the time in combination – are variations on the theme of some kind of outside influence, such as the respondent's business environment or family and friends. (Since a respondent's spontaneous answer may contain more than one element of explanation noted during the interview,

the response items add up to more than 100.) All in all, respondents' spontaneous answers can, therefore, be classified into three categories: an inner drive for independence; income prospects; and external influences. Most of the respondents were driven by an inner desire for independence, freedom and self-fulfillment when they decided on self-employment rather than employee status as the preferred theoretical option.

Figure 7: Major motives for entrepreneurial inclination, by country (%)



Source: author's calculations based on Flash Eurobarometer 192 (2007) data.

Looking at the different regions, people in the post-socialist countries are less likely than average to invoke the concept of independence, and are more likely than average to mention good income prospects or the positive influence of their business environment, family and friends. A more detailed analysis reveals that the promise of independence is the most popular argument in all countries, but the populations of Northern, Southern and Eastern Europe are less likely than average to mention it, leaving the narrowly defined Western Europe as the only region where it is mentioned more frequently than the (already very high) average.

External influences are cited more often than average by the populations of both the Mediterranean and the post-socialist countries. What distinguishes the two groups is that, in the latter region, the factor of income prospects plays a substantially greater role.

Turning to individual countries, one notable result is that the inhabitants of the Benelux countries, the British, the Germans and the French appeal to independence as a justification for their decision more frequently than the average European. We also find a higher than average proportion of people citing independence in Estonia, where the allure of a better income is also mentioned with higher than average frequency. A few deviations aside, the country-level analysis, on the whole,

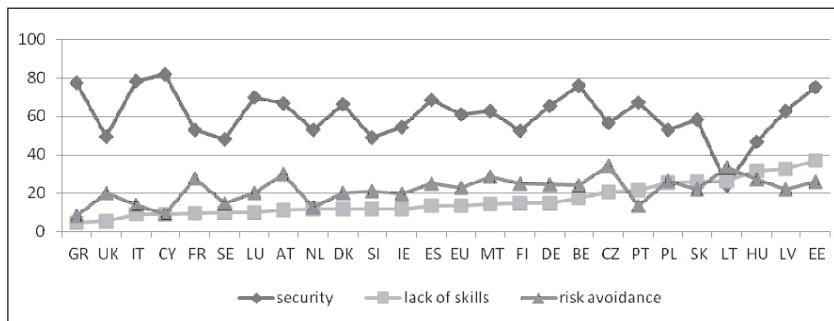
confirms the results of the regional breakdown. The countries of Eastern Europe place far greater than average emphasis on income considerations and on the effects of their environment, while the opposite pattern is observed in the Scandinavian countries, where the level of entrepreneurial inclination is already the lowest.

### CONTRA: RISKS AND CONCERNS

This section looks first at the reasons given by those who, faced with two hypothetical options, would rather choose employee than self-employed status. Next, we discuss the risks listed by respondents during the interview in connection with entrepreneurship.

The most frequent explanation given by those who would prefer to be an employee than self-employed is that employee status means stability, *security*, a regular income and work pattern. Factors of this type are mentioned about 60 per cent of the time. A second set of responses centers around *not having the skills needed for self-employment*. This set includes concerns about not having the necessary business skills, ideas or financial resources, and is mentioned by one respondent in eight. The third group of reasons is closely related to the second: it includes worries about the irreversibility of decisions and about the complexity of business administration, with special emphasis on the deterrent effects of the social and legal consequences of failure. More than 20 per cent of responses contain a *risk-related* element of this sort. (Since an answer may contain more than one element of explanation and the category of “other” answers is not analyzed here, the items do not add up to a hundred.)

Figure 8: Major reasons for rejecting the option of becoming self-employed, by country



Source: author's calculations based on Flash Eurobarometer 192 (2007) data.

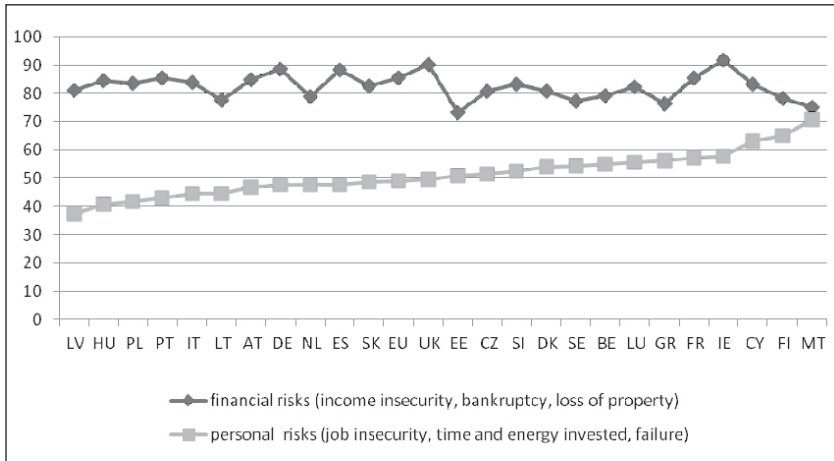
Examining the results by country group, it turns out that people in the post-socialist countries think of security with less than average frequency when they decide on employee status (although this remains the most popular consideration for them). They are, at the same time, more likely than average to mention a lack of entrepreneurial skills and risk avoidance.

If we break the group of non-post-socialist countries down into regions (the Scandinavian, Mediterranean and Western countries), a more detailed pattern emerges. We can now see that it is in the Mediterranean region that those who choose the security of employee status as an explanation for their rejection of the hypothetical option of self-employment are overrepresented. The emphasis on security is, therefore, not a special feature of the group of post-socialist countries, but turns out to be a *leitmotif* throughout Europe, and especially in the Mediterranean region. Concerns about entrepreneurial skills and risk avoidance are, however, special Eastern European attributes: they are mentioned with above-average frequency in this region, but with average or below-average frequency in all other country groups.

The Hungarian figures have two interesting features: first, the appeal of security is far less frequent than average among Hungarian respondents; and second, the lack of necessary abilities is mentioned far more frequently than average. As Figure 7.8 reveals, the Hungarian results match the Eastern European pattern. Such a low proportion of Lithuanians cite the need for security that they are outnumbered by those who refer to risk avoidance or the lack of necessary skills. Among the Estonians, Latvians and Hungarians, reference to a lack of skills or abilities is more frequent than the mention of factors relating to risk avoidance, which is a rare pattern that is otherwise only observed among Portuguese and Slovak respondents. Let us recall that the group of answers focusing on lack of skills draws together such factors as the lack of business ideas, opportunities, financial resources or skills. The country-level analysis also reveals that, in the above countries – and especially in Estonia and Hungary – it is the lack of financial resources that is mentioned with higher than average frequency.

Further investigation of the survey results allows us to assess respondents' attitudes towards the most frequent risks associated with self-employment. The six possible answers can be organized into two thematic groups: one referring to *financial* risks (bankruptcy, loss of property and insecure income) and the other related to *personal* risks (job insecurity, having to invest too much wasted time and energy, and the possibility of personal failure). Six respondents in seven mention one of the financial risks, and half of all respondents are concerned about personal risks.

Figure 9: Risks involved in starting a venture, by country



Source: author's calculations based on Flash Eurobarometer 192 (2007) data.

Fear of risk has its socio-demographic attributes. One of these is that women tend to worry more than men about financial risk, but there is no difference between the genders with respect to personal risk. Another attribute that can be observed is that the fear of financial and personal risks declines with age: the danger of financial and personal risk is mentioned most by the youngest cohort. (We should note, however, that this is primarily due to the high proportion of concern related to the notion of bankruptcy, while the loss of property and income insecurity do not display such marked generational differences.)

If we look at labor market positions, references to financial risk are made with above-average frequency by students, the unemployed and blue-collar workers. Personal risk, by contrast, causes more concern not only to students and the unemployed, but also to managers and graduates of higher education generally.

As was mentioned above, every respondent was asked this set of questions. Thus, it is worth finding out whether there are differences between those who display entrepreneurial inclinations and those who prefer the hypothetical option of being an employee. What we see is that the two groups do not differ in terms of how often they mention financial risk, but there is a weakly significant difference in terms of their fear of personal risk: those who prefer employee status are somewhat more likely than average to see personal risk involved in a business career. Potential entrepreneurs – those tempted to become self-employed within the foreseeable future – feel more apprehensive about an entrepreneurial future

than either those unwilling to try self-employment or actual entrepreneurs, on account of both financial and personal risks. A closer look at the data also reveals an interesting divide within the group of people who are attracted to the prospect of self-employment: financial concerns are more likely to be raised by those for whom entrepreneurship may be desirable but seems impracticable. Personal concerns, by contrast, are mentioned with higher than average frequency by those who find self-employment to be both desirable and realizable within the next five years.

People who have recently taken concrete steps to set up a business are more likely than average to mention personal risk. The behavior of those who have tried self-employment but have given it up does not differ appreciably from the average. Actual entrepreneurs display less than the average level of concern about financial risk, and an average level of concern about personal risk.

With respect to the regional breakdown of the data on the risks associated with self-employment, the populations of the post-socialist countries are somewhat less likely than average to perceive financial or personal risks. A closer examination indicates that this is due to the fact that people in the Baltic states are relatively unconcerned about financial risks, while people in the Visegrad countries (the Czech Republic, Hungary, Poland and Slovakia) devote less than average thought to personal risks.

Zooming out again for a cross-regional comparison, the Scandinavian populations mention financial concerns much less frequently than average, but they are substantially more apprehensive than average of personal risks. The low level of fear of personal risks seems to be more or less specific to Eastern Europe: as opposed to the European average value of almost 50 per cent, the frequency with which personal concerns are mentioned is in the region of 40 per cent in Hungary, Poland and Latvia (though it is roughly on a par with the average figure among Czechs, Slovaks and Estonians). There may, therefore, be quite substantial internal divisions lurking behind country-group averages.

## CONCLUSIONS

When presented with a hypothetical choice between self-employment and employee status, almost half (45 per cent) of the European population displayed entrepreneurial inclination in 2007. A smaller share (but still more than a quarter (27 per cent) of respondents showed themselves *potential* entrepreneurs – i.e. people tempted by the idea of becoming self-employed within the next five years. Roughly one respondent in seven (15 per cent) considered it both



desirable and feasible to start a business. The survey results put the proportion of *actual* entrepreneurs among the adult population at about 10 per cent. The level of entrepreneurial inclination and the proportion of potential entrepreneurs is lower than average in the Scandinavian countries and higher than average in the Mediterranean and Eastern European countries. Entrepreneurial inclination is especially overrepresented among young people, students, people with secondary or higher education and the unemployed. In Eastern Europe, homemakers also display a higher than average level of interest in becoming self-employed. Among people who see obstacles in the way of starting a business – those who liked the idea of starting a business but found it impracticable – students and the unemployed are overrepresented across Europe, as are blue-collar workers in Eastern Europe.

When asked why they would like to start a business, the most frequent reason was *independence*. In Western Europe, the concept of independence was brought up with even greater frequency than average. Considerations relating to the business environment or the influence of family and friends were invoked with above-average frequency in the Mediterranean and the post-socialist countries. In the latter group, people were also substantially more likely than average to be interested in better *income prospects*.

Those not interested in entrepreneurship were most likely to reason that employee status offered greater security. In the post-socialist countries, including Hungary, however, a lack of business skills or financial resources and risk avoidance were mentioned with higher than average frequency.

The *financial* and *personal risks* associated with self-employment were perceived to be greater by potential entrepreneurs than by actual entrepreneurs, or by the population on average. Those tempted by the idea of self-employment but discouraged by perceived obstacles found the financial risks involved to be prohibitive. Those both willing and able to start a business were more likely to be afraid of personal failure. Financial and personal risks received less than average emphasis among the inhabitants of the post-socialist countries, even though, among those unwilling to start a venture, the concern of risk avoidance was mentioned with higher than average frequency.

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## NOTES

- 1 Originally published as „Entrepreneurial inclination, potential entrepreneurs and risk avoidance in Europe”, in István György Tóth (ed.) *Tárki European Social Report 2009*, Tárki, Budapest, 2009, pp. 115-132.