

1 Introduction

Self-employment is a new career that has been created in the course of the reforms in all the former communist countries. It is, indeed, the new way of working that is most symptomatic of the direction in which the countries are changing. This article demonstrates that much can be learnt from the experiences of the self-employed, not just about the current characteristics of the new market economies, but also about their most likely future trajectories.

Our evidence is from surveys conducted in 1996 and 1997 among samples of self-employed young people (aged up to 30) in seven former communist countries: three states of the former Soviet Union, or FSU (Armenia, Georgia and Ukraine), and four East-Central European (ECE) countries (Bulgaria, Hungary, Poland and Slovakia). Contrasts are made, first, between the self-employed in all seven new market economies and their Western counterparts, then between the self-employed in the seven countries themselves.

All former communist countries are commonly described as 'in transition', supposedly becoming Western-type market economies, with most businesses in private ownership and multi-party democracies where Western-type civil rights are respected. This trajectory is attractive to most people in all the countries concerned, but it has also been mapped for these countries by the West. Its acceptance has been a condition of aid, trade and investment. The governments in all the former communist states have concurred that they are in transition, but, needless to say, market economies and democracy can take many different forms. The West may be defined so as to include Sicily and Colombia as well as North Europe and North America.

2 Methods

In all seven countries, similar studies of the young self-employed were conducted during 1996 and

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Young Entrepreneurs in East-Central Europe and the Former Soviet Union¹

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1997. The investigations were by interview with the proprietors of officially registered businesses from a range of manufacturing and service sectors, and sought information about each entrepreneur's social background and employment biography. The samples totalled 50 in each of the FSU, and 100 in each of the ECE countries. In Armenia and Georgia most of the subjects lived and worked in the capital cities, Yerevan and Tbilisi. In all the other countries the samples were from two centres, neither of which was the capital: Donetsk and Lviv in Ukraine, Plovdiv and Velingrad in Bulgaria, Szabolcs and Vas in Hungary, Katowice and Suwalki in Poland, and Galanta and Trencín in Slovakia.

Our findings suggest that rather different kinds of market economies have been developing in the FSU and ECE countries which require different key skills from individuals and groups who establish and try to develop private businesses. However, these differences need to be set in the context of features common to the first generation of small businesses in all former communist countries which, for the time being at any rate, make them rather different from their Western counterparts.

3 General post-communist characteristics

i. New career, new businesses. To begin with, in all the former communist countries self-employment was still quite novel in 1996–97. Under communism it had rarely been possible for 'business' to be publicly recognised as a main occupation. So individuals who had established enterprises in the 1990s were creating a new career and a new business sector in their countries. Up to 1996–97 most of these businesses were still small, micro really, with no employees or very few. None had proved their durability through successive business cycles.

ii. Absence of support services. Few of the young business people in any of the countries were using solicitors, accountants or even banks (Lloyd-Reason *et al.* 1997). They were operating in cash economies. Credit was rarely given or requested; bank credit was simply not available to small businesses in most of the countries and many of the self-employed were not dismayed by this. They explained that they would have been crippled by the interest charges. In all the countries surveyed there were

state programmes and non-governmental organisations (NGOs) with projects intended to assist business starts, but these were reaching very few of those young people who were becoming self-employed. Families and friends had been their main sources of assistance. Start-up capital usually had been either self-generated or raised from family resources. Friends had been the most common source of advice and information about business practices and contacts.

iii. Radicals. Another common characteristic of the post-communist self-employed was that they were overwhelmingly radical and internationalist, rather than conservative and inward-looking. In time they may become nationalist and conservative classes, but the historical specifics of the 1990s cast them in a different socio-political role. Young entrepreneurs were among the most staunchly pro-reform groups in all the countries. They were particularly keen that their countries should develop closer relations with the West. In this respect they were not untypical, but rather extreme representatives of their entire age group (Williams *et al.* 1997).

iv. Work, work and more work. In none of the ex-communist countries were the young self-employed taking frequent holidays in the West or regularly spending evenings in night clubs. Such conduct was not typical of the groups who were developing small enterprises. The median weekly hours of work were 60 in the ECE countries. Most felt short of time to spend with their friends and families. Many had acquired those possessions that signify financial success virtually everywhere: cars, satellite or cable television, personal computers and mobile phones. The self-employed were generally much better off financially than most of the people among whom they lived; but they were anything but a leisure class with lifestyles characterised by conspicuous consumption. In practice many of the young self-employed were leading quite austere lives. Thirty-seven per cent in ECE had not been to a restaurant or bar during the previous four weeks, and the same percentage had not been away on holiday for a single night during the previous year. Most felt that they had no real option but to dedicate their lives to building up their businesses. Competition was intense; the self-employed could not afford to let up. The rewards of success could be

glittering and achieved more quickly than in mature market economies. Hence the self-employed's adherence to a 'Protestant' ethic, except that in these countries the ethic was not associated with Protestantism.

4 East-Central Europe and the former Soviet Union

The following analysis groups together Bulgaria, Hungary, Poland and Slovakia on the one hand, and Ukraine, Georgia and Armenia on the other, usually ignoring the differences within each group of countries. There were many such differences. Nevertheless, the clearest contrasts were between all the FSU countries on the one hand and the ECE group on the other.

i. Social origins. The young self-employed in ECE were drawn from all social levels. Under Communism most of their parents had been workers in various occupations but always, of course, in state departments or enterprises. The parents had always been affected, usually adversely, by shutdowns or rundowns in their workplaces since the onset of the reforms. The young self-employed in these countries also had a variety of educational backgrounds; in fact their educational levels were quite similar to those of their peers. This was in sharp contrast with the backgrounds of the (at least moderately successful) young self-employed in the FSU countries. These had nearly all received a general (academic) secondary education, typically followed by some type of higher education. Under the old system most of their parents had held intelligentsia, management or professional jobs. The differences in the two groups' social backgrounds were related to the greater need for 'protection' and 'connections' in the ex-Soviet countries in order to succeed in business (see below).

ii. Practising specialities. In ECE most of the young self-employed were practising their specialities – the occupations for which they had been prepared in education. The main exceptions were those who had attended general (academic) secondary schools without proceeding to higher education. The ECE sample were mostly artisans – individuals with specific sets of skills which they were using to work on their own accounts. In the FSU countries, in contrast, the young self-employed were more likely to be generic businessmen. Most

were switching between, and often combining several different kinds of business: cross-border trading, operating a taxi and running a restaurant for example. In the FSU a close connection between an individual's educational background and his or her business activities was the exception rather than the rule.

iii. Stable ambitions. In ECE most of the sample had planned to become self-employed while still at secondary school. They had realised then that the market reforms which were commencing were going to be permanent and that working for oneself was going to become an (attractive) career option. This did not mean that they had gone on to establish, or had ever intended to establish, businesses of their own immediately on leaving school. Such career histories were rare. They had usually obtained some experience with state or private companies. However, while accumulating experience in employment they had mostly intended, before long, to launch their own enterprises. It was different in the FSU countries where, prior to completing their education, most of the young people had anticipated long-term careers in state departments or enterprises. Most explained how they had subsequently been forced into working on their own accounts when their state sector jobs disappeared or never materialised, or when their salaries became nominal or non-existent.

iv. Full-time self-employment. In the FSU countries many of the young self-employed were simultaneously employees, usually in state, but sometimes in other, private, businesses. Some were students in higher education, completing their courses, as well as carrying on a business. Most had started out in business while in another occupation. This was because they had typically been forced to become self-employed when their previous careers disintegrated. At that time many had treated own-account working as a temporary fallback, believing that before long normality would be restored and they would be able to resume their proper careers.

As already explained, in ECE countries attitudes had been different when the market reforms commenced. Individuals who became self-employed had typically developed corresponding ambitions before the event. When they started their own businesses this was nearly always a full-time

commitment (Vecernik 1995). It had been rare for young people to develop businesses while (nominally) full-time students. Moreover, at the time of our interviews only four per cent of the self-employed also had jobs in state, and eight per cent in private companies. In ECE state and private sector employers alike expected employment in their enterprises to be a full-time commitment. Employees were neither expected nor allowed to take time off for other business interests.

v. Trading. In the FSU countries trading was the young self-employed's pivotal business activity. In its most elementary form, trading meant the street sale of personal or household possessions or garden produce. If they had sufficient capital, traders could buy in order to sell. The more adventurous could go on 'shopping tours' to countries where goods were cheaper than at home. The attractions of such trading were that turnover could be fast and profits could be made quickly. With their earnings from trade, individuals would often then branch out into other kinds of business. Trading had been the young people's most common route to self-employment. In ECE, in contrast, it had been far more common for individuals to generate enough capital from their own earnings, or from their families, to embark directly into business as estate agents, building workers, furniture-makers, and so on.

In the FSU countries, a basic skill required for successful self-employment was dealing. In ECE, in contrast, the key skills were specific to particular trades. So in the latter countries there were more varied routes to self-employment, and the emergent small business sectors were broader-based than in the FSU states, where trade was the generator of most other kinds of business.

vi. The second economy. A further difference was the much larger role of the second, shadow, grey or black economies in all the FSU countries. Businesses in all countries try to minimise their tax liabilities. Small businesses often conduct some of their trade off the record, which is usually quite safe and simple when transactions are in cash. So the young entrepreneurs in ECE knew all about the second economy, and they were unanimous in complaining about the onerous charges to which they were subject: taxes on value added, profits, payrolls, and their need to pay registration fees.

Legal tax avoidance occurs worldwide. So does illegal tax evasion, which is necessarily unofficial and 'in the shade'. Some young entrepreneurs in ECE were practising tax evasion but 66 per cent insisted that all their business was in the official economy. The situation in the FSU countries was very different: hardly anyone claimed that all their business was on the record. Most were surprised that anyone should ask.

This difference reflected the more effective regulation of the private-sector economies in ECE. Businesses had to register and file realistic accounts; in Hungary they needed to register with the local Chamber of Commerce. The self-employed complained but usually complied. The countries' spells as part of a Wild East had been short-lived. In the FSU, in contrast, the general view was that no business could remain viable while paying all the charges that the state tried to levy.

A reason why young entrepreneurs in the FSU were determined to keep much of their business in the shade was their need to make under-the-counter payments to a range of officials: registration officers, fire and safety inspectors, customs, tax and police officers. Nearly all the respondents in these countries gave details of their under-the-counter payments. In contrast, in ECE 71 per cent claimed that they had never made such payments.

The lower rate of bribery and the dominance of the official economies in ECE were manifestations of a more general difference: economic life and, indeed, life in general, were more lawful than in the FSU. In ECE crime was less of a daily problem, although everyone was aware that recorded crime had rocketed (quadrupled in Bulgaria) since the reforms commenced (Mantarova 1996). Even so, we encountered no cases in ECE where businesses were paying the police or private agents for protection. Theft was a risk, but a sufficiently low risk to be insurable in most of the ECE countries.

vii. Independence or partnership? In ECE there was a connection between the fact that: most businesses were above-board, the level of corruption among state officials was lower, businesses were operating in generally law-abiding countries, and most of the young self-employed in these places (70 per cent) were sole proprietors. The position in the

FSU countries was almost exactly the reverse: approximately two thirds were operating in partnership with other people, usually from the same neighbourhood, school or family – that is, people who were already known and trusted. In the FSU countries there were advantages in numbers: partners protected each other and enlarged the contacts with officials and state departments to which businesses had access.

viii. Gender. In the FSU countries it was difficult to locate genuinely independent female entrepreneurs. Despite aiming to include significant numbers, none of the research teams achieved more than 18 per cent female representation, and in Armenia the females were just eight per cent of the sample. And these businesswomen often turned out to be operating alongside male partners or protectors, usually a father, husband or boyfriend. It was different in ECE where the researchers had no difficulty in ensuring that females accounted for 30 per cent of the self-employed samples. Most of these women, like the male self-employed, were sole operators. If they had partners, these were quite likely to be other women.

The special obstacle to women doing business in all the FSU countries was not the macho culture, though this was a factor in the Caucasian countries. The specifically ex-Soviet barriers had arisen alongside the extreme deregulation of the private sector economies. In all the ex-communist countries women had lost ground in employment (and faced the higher rates of unemployment) as the state measures which had assisted their progress under communism (formal equal access to all jobs, nurseries, kindergartens and maternity leave, for example) became less effective. Males had always dominated in the lead roles in economic life, and in this, and other respects, the post-communist economies became more extreme versions of their former selves. ECE was different in that business remained, or rapidly became, a basically lawful activity, whereas in the FSU countries private business was regulated by sub-legal networks of entrepreneurs, protectors, state officials and politicians. These were male networks; in practice women were not admitted. When women were running businesses, apparently independently, they invariably turned out to be well-connected to powerful males.

ix. Enterprise development. The absence of businesses families was going to change in all the countries surveyed, if our respondents had their way. Most of these (relatively successful) young entrepreneurs intended to remain self-employed, although some were surviving rather than thriving and were prepared to give up their enterprises if offered good jobs (i.e. regular work paying US\$1,000, US\$500 or even less per month). However, in ECE 73 per cent expected to be still self-employed in 10 years' time and the situation was virtually identical in the FSU; likewise with the 82 per cent in ECE who hoped that their children would become self-employed. These young people had learnt from personal experience that self-employment could be much more rewarding than paid employment in terms of interesting day-to-day workloads, overall job satisfaction, and the financial returns.

The contrast between ECE and the FSU was evident in the ways in which the young entrepreneurs were trying to develop their businesses. In ECE most of the sample were planning gradual, step-by-step development. Some of the sample in the FSU countries were acting similarly, especially the minority who had used profits from trade to create businesses corresponding to their specialities. However, most of the businesspeople in these countries were looking for the big strike – the deal that would make them rich quickly. The feeling was prevalent that they needed to succeed rapidly. Few were confident that the market conditions within which they were operating would last indefinitely. As they saw their situation, a window of opportunity had opened in their countries, but at any time it could be slammed shut again.

5 Discussion

These differences can be explained with reference to a combination of historical and contemporary influences in the different world regions. In the Soviet Union, communism lasted longer than in ECE; most of the Soviet Union modernised and industrialised only under communism, and the legacy is therefore likely to be longer-lasting than in those regions where, in the 21st century, communism could be regarded as just an interruption in the countries' modern histories. It is also relevant that in most of the Soviet Union, communism collapsed without elites circulating: the changes were

instigated from above, the old politicians simply changed their party labels and state apparatuses continued to operate as before. In some ECE countries the downfall of communism was not managed by the existing elites: the pressure came from below and therefore brought more radical shake-outs in the political and administrative classes. In addition, Russian influence remains strong in most of the ex-Soviet countries. Russia remains the most powerful neighbour of Armenia, Georgia and Ukraine. Russian remains the language of business in much of the former USSR, and the influence of Russian culture is correspondingly pervasive. In ECE, in contrast, the most powerful pull in the 1990s has been from the European Union, now the main source of trade, investment and visitors.

An implication of our evidence from the world of small businesses in the mid-1990s is that the ECE economies need only to grow in order to become more thoroughly Westernised. Some of their current micro-businesses will in time become medium-sized enterprises. Commercial, state and other support services will be brought into existence by manifest demand. Business classes will develop with interests and representation distinct from political parties, state bureaucracies and organised labour. Foreign agencies wishing to assist these processes will normally succeed simply by injecting orders, investment and other forms of aid.

The situation in the FSU is rather different. Scattergun assistance is most likely to be drawn into existing structures, fuelling a mafia-style capitalism controlled by networks of businessmen, state officials and politicians (Eberwein and Tholen 1997; Hanson 1997; Kovaleva 1997; Varese 1994). The development of normal business, in a Western sense, will need to be preceded or accompanied by a reform of politics and state administration in these countries. In the meantime, foreign projects, whether managed by governments or NGOs, need to operate circumspectly, as agents of change: a dangerous game, insofar as their intention is to draw the ex-Soviet Union into the mainstream international economic and political systems.

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