

Nigel Swain, Mihaly Andor and Tibor Kuczi

The Privatization of Hungarian Collective Farms ¹

INTRODUCTION

For reasons of space and familiarity this article will focus on collective farms rather than the whole of the socialist sector. State Farms were never the predominant part of the socialist sector of Hungarian agriculture, farming only some ten per cent of total land area, but employing slightly over 18 per cent of those employed in agriculture; and it is the fate of the collective farms and what replaces them, which will determine the future of Hungarian agriculture. This paper will examine the rather complex procedure used for privatizing agricultural producer cooperatives in Hungary before considering the results of this procedure by means of some concrete examples. For the record, Hungarian State Farms (other than those which the government wanted to keep in state hands) had all been nominally privatized by June 1993, but most had been broken up into small units, the majority purchased by their employees. Their fate is unlikely to be so very different from the picture outlined below.

¹ Centre for Central and Eastern European Studies, University of Liverpool; Institute of Sociology of the Hungarian Academy of Sciences; Department of Sociology, University of Economic Sciences, Budapest. The research on which this paper is based is the result of two research projects: Transitions to family farming in post-socialist Central Europe funded by the British Economic and Social Research Council as part of its East-West Programme, research grant number Y309253037; and Rural Employment and Rural Regeneration in post-socialist Central Europe funded by the European Commission under its COST programme, research grant (CIPA-CT93-3022). Their generosity is gratefully acknowledged.

PECULIARITIES OF HUNGARIAN COLLECTIVE FARMS

It is important to note that what had been created by Central and Eastern European collectivizations were collective farms, or agricultural producer cooperatives, and not state farms. Most of the literature rightly plays down the significance of this difference because it was purely technical: but it was a technicality with considerable legal significance. The legal position of the farms was that farmers had pooled their land and property in order to achieve the benefits of communal production; but that land was still privately owned. This legal title was generally rendered meaningless by administrative measures and the assertion of use rights over ownership rights.

But, in Hungary, things were different. The government opted for the creation of cooperative land, land actually owned by the collective farms rather than the members. The law on land use passed in 1967 created the new category of cooperative land. 'Outside owners', those who were no longer members (because they did not fulfil the minimum work requirements for membership), were obliged to sell their land to the cooperatives. Active members and pensioners were 'encouraged' to sell theirs². Cooperatives also took over state land they had previously been renting.

The fact of cooperative-owned land meant that restitution and privatization was rather more complex in Hungary than elsewhere. The restitution and privatization issues were inextricably tied. Where members had always retained *de jure* title to land, restitution was not an issue. *De jure* title was made *de facto*. But for the majority who had sold their land to the collectives, return of land inevitably became part of the restitution process, as did the cooperative privatization process which entailed converting members into real owners of tangible land and property assets. Collective farm privatization or transformation proper (as understood elsewhere in the region) related to assets only and was achieved by valuing the assets and allocating them to members and former members who had a valid claim to them, a process termed *naming*. Restitution *proper* (excluding land sold under the 1967 law) related to land or assets confiscated from, for example, former *kulaks*. But cooperative transformation in Hungary also required the re-allocation of title to land, and restitution included land taken into cooperative ownership following the 1967 legislation. In Hungary the privatization/restitution task was three-fold. First, those who had ignored the 1967 land law and always retained title to cooperative land had to be permitted to withdraw land of equivalent value freely from communal production. Second, former land owners had to be compensated for land lost, commonly by ceding legal title of their land to the collective farm under the

² 1967 evi IV torveny (Law No. IV of 1967).

1967 legislation (a measure which was now considered always to have been unconstitutional, but unverifiably unconstitutional since Hungary then did not have a constitutional court). Third, collective farms had to become 'genuine cooperatives' and members real owners of tangible assets.

Restitution in Hungary, partly because of the complications outlined above but also because of a decision of principle early on not to compensate fully, can be characterized as partial, uniform and indirect. Restitution was partial in that all restitution claims were scaled down by means of a degression formula (the full name of the Act refers explicitly to partial restitution). Claims of up to 200,000 forints were met in full; the portion between two and three hundred forints at 50 per cent; the portion between three and five hundred forints at 30 per cent; and the portion above five hundred forints at 10 per cent. In addition, there was also a overall maximum ceiling of five million forints, which in terms of land meant an upper limit of 500 hectares at the official valuation price. In the case of former land owners, claims were not for a particular parcel of land, but for the value of the land they had lost expressed in 'golden crown values'. Each 'golden crown value' was given the monetary equivalent of one thousand forints and then converted into vouchers.

Restitution was also uniform. All vouchers could be used in the same way, regardless of the reason for eligibility. The law specified nine ways in which vouchers could be used: to buy agricultural land, to buy a flat owned by local authorities, to obtain a pension supplement, to participate in the 'reprivatization' of shops and restaurants, to buy shares in the privatization of certain state companies, to participate in 'decentralized privatization', to use as security for certain government credits, to purchase shares in Employee Share Ownership Programmes, and to invest in certain state investment funds. The first three uses for the vouchers were restricted to individuals personally entitled to restitution. Anyone who obtained vouchers, by whatever means, such as purchase on the secondary market, could use them for the other six purposes. Thus, all those entitled to vouchers, regardless of whether they had ever owned land or worked in agriculture, were able to use them to purchase formerly cooperative or state land at auction from the Restitution Land Funds that each collective and state farm was obliged to set up. These land funds had to match in quality and quantity the type of land for which valid claims had been registered.

Finally, restitution was indirect. There was no intention of returning the actual property that was lost, only its equivalent. To complicate matters further, claimants who had lost land were allowed to exercise their right in a number of places — where the confiscated land was located, where claimants then lived, or where they were cooperative members on 1st January 1992; and because cooperative farms had land in many villages, the right was not simply limited to the village where the claimant lived, had his

land, and so on, but to land in any of the villages where land was farmed by the cooperative that also farmed land where the claimants lived, had their confiscated land located, or were a cooperative member. (Those who had not lost land were restricted to claiming in the settlement in which they lived or any villages farmed by a cooperative which had its headquarters in the settlement where they lived). The upshot of this was that huge numbers of valid claims could come not only from people who are outside the cooperative as it was currently constituted, but also from people who were not residents of the village where the restitution land for auction was located. Conflicts of interest between locals and outsiders were inevitable.

LAND AUCTIONS

The central element of the restitution/privatization process for land was the land auction. These are enormously complex affairs that has described at length elsewhere³. Except where, for speculative reasons, there is great interest in land, most is sold *by agreement* without the need for bidding to take place, and in the process of reaching an agreement, locals and outsiders are allotted an agreed share so that everybody gets something. The land auction process had not been completed by October 1994, despite the promise of the in-coming socialist-dominated government to end the process as quickly as possible. Consolidated figures for the period up to 23rd October 1994 are given in Table 1 below. The table does not reveal much beyond the wild fluctuations in price paid which reflect speculation possibilities for land in addition to its agricultural quality. The high proportion of successful bidders within the total number of bidders is indicative of the 'everybody should get something' principle inherent in the fact that there are multiple winners in the auction process.

What emerges from restitution is not large, privately owned, economically viable holdings, but a myriad of small plots. Communal pressures for sale by agreement and the provisions within the land auction procedures which permit multiple buyers at a given price for a given parcel of land promote equity rather than efficiency. Under Hungary's auction solution, those who want to establish a viable farm must outbid the rest and pay over the odds. The procedure is also time consuming and expensive. The original deadline for completing land auctions was 31st March 1993. This was moved forward to the end of December 1993, but auctions were still underway in May 1994 when the second post-socialist elections swept the Hungarian Democratic Forum from power and, as Table 1 reveals, had not been finally completed by the winter of 1994.

³ N. Swain, *Getting Land in Central Europe*, [in:] R. Abrahams (ed.), *After Socialism: Land Reform and Rural Social Change in Eastern Europe*, forthcoming.

Table 1

Land auctions — consolidated data to 30 October, 1994

County	No. announced	No. held	Value of land in gold crowns	No. of bidders	No. successful	No. of prior agreements	Highest price bid (1000 Ft)	Lowest price bid
Baranya	1,621	1,621	1,189,677	27,015	20,306	80	1,300	500
Bacs-Kiskun	1,809	1,737	2,579,824	69,928	37,568	404	201	500
Bekes	1,323	1,317	5,248,627	47,222	38,274	604	81	500
Borsod-A-Z	1,285	1,277	1,626,178	25,068	21,795	257	86	500
Csongrad	1,144	1,136	2,669,086	29,490	23,954	343	100	500
Fejer	799	790	2,368,844	18,851	17,397	149	93	500
Gyor Moson-S	922	905	2,340,358	38,446	32,043	963	1,001	500
Hajdu-Bihar	1,022	1,008	2,838,690	100,184	44,323	1,298	300	500
Heves	607	596	1,086,130	18,689	14,935	86	200	500
Jasz-N-Szolnok	663	663	3,469,072	39,204	27,822	295	111.5	500
Komaron-E	585	581	697,013	10,351	9,765	293	250	500
Nograd	822	822	422,046	12,267	10,424	62	65	500
Pest	785	775	1,622,406	73,039	56,692	1,826	1,500	500
Somogy	1,310	1,305	1,162,314	20,120	15,073	1,182	200	500
Szabolcs-Sz-B	1,140	1,137	1,165,973	34,588	28,162	338	64	500
Tolna	757	748	2,507,373	31,598	18,688	302	65	500
Vas	1,577	1,541	1,644,207	45,071	40,399	1,182	126	500
Veszprem	1,414	1,411	1,205,106	47,563	30,172	668	2,000	500
Zala	1,730	1,704	757,161	40,645	32,643	1,280	150	500
Budapest	31	31	19,047	5,100	3,094	76	100	500
Total	21,346	21,102	36,619,132	734,439	523,529	11,698	2,000	500

Source: *Magyar Mezogazdasag*, 9 November, 1994, p. 22

The land auction was not the only mechanism for getting land. Cooperative members who had always retained title to their land were entitled under legislation introduced in February 1990 to take from the cooperative equivalent land (not the land they actually contributed) if they wished to farm it privately. Certain groups such as those who had rented the same plot from the cooperative for over five years were also given a prior right of purchase over that land before the cooperative established the land funds which formed the basis of both the land restitution and the cooperative privatization processes.

'GENUINE COOPERATIVE' OUT OF KOLKHOZ

Conceptually distinct from these processes, where the focus was on compensating for the past, were the legislative measures associated with creating viable, 'true' cooperatives out of the collective farms, cooperatives in which members owned real, tangible assets. Three specific features of this process when compared with the Central and Eastern European norm should be noted. Firstly, because cooperatives owned land, land too was included in the cooperative transformation legislation. Secondly, a provision in the cooperative transformation legislation allowed certain cooperative members to regain land without having to go to auction. Thirdly, even those who contributed no land to the collective farm could emerge as land owners after the transformation.

The essence of the measures concerning land in the cooperative transformation legislation were as follows. After the prior claims noted at the end of the last section had been met, the remaining cooperative land had to be split into four funds: the state land fund, land farmed by the cooperative but owned by the state; 'proportionate share land', that is to say land owned by members (to a large extent pensioners) and outside owners and not withdrawn under the February 1990 legislation; land for distribution to members and employees who had contributed no land to the farm, which could not be more than 50 per cent of the total golden crown value of the land and had to be calculated on the basis of 30 golden crowns per member and 20 golden crowns per employee (in accordance with paragraph 17 of the Restitution Act); and, finally, land set aside for sale in land auctions under the restitution legislation (see above). The cooperative transformation law also allowed those who had received restitution vouchers because their land had been taken into cooperative property on the basis of the 1967 legislation to convert their restitution vouchers directly into 'proportionate share land' rather than go through the land auction procedure ⁴.

The Cooperative Transformation Law defined those who had a right to participate in the 'naming' of cooperative property as: members as of 1st January 1991 who were still members; those, or the heirs of those, who had been members of the cooperative for five or more years; those whose membership was reinstated for some reason; and those who had lost their membership as a result of the 1967, 1987 and 1990 laws affecting cooperative land ⁵. Shares in the new cooperative were distributed 40 per cent according to length of membership and 20 per cent according to the value

⁴ See 1992 evi II Torvény a szövetkezetekről szóló 1992 evi I törvény hatálybalepeséről és az átmeneti szabályokról, para 13, section 4 (Law No. II on the Implementation of and Transitional Regulations concerning Law I of 1992 on Cooperatives, paragraph 13, section 4).

⁵ See footnote 4.

of the property contributed to the farm ⁶. Crucially, anyone with a valid claim over cooperative land or assets was also eligible to take it out of common ownership, either singly or as part of a new joint venture. Where those assets added up to 10 per cent or more of cooperative assets, decisions concerning property division were made by a General Meeting of the cooperative, otherwise assets were sold by closed auction to members and outside owners, unless a judge could be persuaded to oblige the cooperative to hold a General Meeting. In addition, 10 per cent of total property could be set aside for business shares (*uzletresz*) for former members, cooperative employees and others. Once the assets had been valued and apportioned to real owners, who wanted them, the farm was obliged to hold a Transformation General Meeting to reconstitute itself either as a cooperative under the new cooperative legislation or an any other legitimate form of business organization such as a the limited company. Initially, most farms retained the cooperative form, although many adopted a 'holding company' structure with the cooperative as a property centre controlling a large number of subsidiary limited companies.

CONSEQUENCES

Preliminary figures from the Hungarian Ministry of Agriculture suggest that the bulk of collective farm land and property went to people not immediately involved in the collective farm. If the collective farm membership is split between *active members* (working members and employees) and *passive members* (pensioners and former members and their heirs), then 29 per cent of the land and 42 per cent of the assets went to the *active members*, while *passive members* received 71 per cent of the land and 58 per cent of the assets ⁷. If the figures are examined on a per capita basis, the picture is slightly different. *Active members* received assets worth on average 232,593 forints and land worth 42.75 golden crowns, compared with average assets of 187,006 forints and average land allocations worth 41.51 golden crowns in the case of *passive members* ⁸. Because there were so many fewer *active members*, their individual shares of the farm were larger and they did not lose out by quite so much as some commentators had feared ⁹.

⁶ Law VI of February 1992.

⁷ K. Kovacs, *Political Storms and Changing Modes of Land Ownership*, *Etudes Rurales*, forthcoming.

⁸ *Ibid.*

⁹ P. Juhasz and K. Mohacsi, *Az elemiszer-gazdasag atalakitasanak ellentmondasai*, (*Contradictions in the Transformation of the Food Industry*), *Kozgazdasagi Szemle*, 1993, No. 7-8, pp. 614-24.

These aggregate data suggest injustices and inequalities in outcomes, but they conceal more than they reveal. In the remains of this paper, case study evidence will be used to flesh out the picture behind the statistics.

In seven Hungarian villages for which we currently have data, we have examples of cooperatives winding themselves up, declaring themselves bankrupt, remaining in place, being declared bankrupt, and 'saving their property' by converting into a limited company. But despite the differentiated fate of the cooperatives, the emerging pattern of farming is remarkably consistent. Most people are not interested in farming and rent their land to whomever will cultivate it. A large number use their land for subsistence farming, and a much larger number for supplementary income. One to ten families per village have farms which cover more than subsistence, and three to four families at most per village are embarking on large-scale commercial farming. These individuals tend to be either former collective farm managers or individuals who were successful household plot producers in Hungary's 'second economy'. In addition to these family farms, where the cooperative no longer exists, successor companies to the cooperatives have been established which farm roughly the same acreage of land, and look after roughly the same quantity of livestock, but with far fewer staff. The motivating forces behind these successor companies are often former cooperative middle management. In all these developments, the crucial factor is access to machinery. Everyone has land, but it is the few who can get access to the collective's machinery park, who are in a position to begin private farming.

In the village of K. in western Hungary the cooperative which employed 117 people in agriculture in 1990 was dissolved rather than transformed under the cooperative transformation legislation. Although the individuals concerned deny it, it appears that this was an initiative of the cooperative farm management, who certainly benefited from the break-up of the farm. The dairying activities of the farm which were not very significant have been taken over by a small limited liability company employing only four people. The much more significant cropping activities have been taken over a limited liability company headed the collective farm manager formerly in charge of crop growing. In addition to crop growing the company is involved in buying, selling and subcontracting production, commercial activities it was involved in as a collective farm and for which the head of the new company used to be responsible. The company, which employs only 12 people, rents a total of 700 ha from 161 individuals in the village and acquired all the machinery it needed at the time the cooperative was broken up.

The former collective farm president left the farm only after he had acquired enough land, equipment and buildings for his own farm. He has managed to obtain 72–73 ha in all, around 50 ha bought from the propor-

tionate share land of 15 other members, and the rest his own proportionate share and land bought with restitution vouchers. He plans to run the farm with his son. Another successful private farmer came up the alternative career path. He used to work as a restaurateur full time and run a relatively successful dairy farm with a bottling plant (employing 4 in 1988). Now, in addition to building his own hotel in the nearby county town, he is developing the dairy business further. He bought compensation vouchers for 70 per cent of face value to buy more land for the dairy farm and is renting other land from neighbours to make the 50–60 ha he needs for fodder for the cows.

In all, (including these two large private farmers) there are 9 villagers who have bought an acreage of land that exceeds subsistence requirements. In September 1993, 130 villagers were on unemployment benefit and 49 on income support (because entitlement to unemployment benefit had ended).

In the village of P. in South-western Hungary, the cooperative went into voluntary liquidation. Discounting the farm's non-agricultural plant, three successor companies were established which bought the assets they needed from the bankrupt cooperative. Since cheap credits were available for new companies to obtain such assets, this effectively meant that expensive credits were swapped for cheap credits in order to pay off the cooperative's debts. Because this was a more controlled process than that in the village of K., the successor companies (a cropping company, a livestock company and an accountancy and administration company) initially planned to employ the majority of the former cooperative staff, although jobs were not found for 18 of the 70 active members in 1992. The cropping company is run by the former collective farm manager in charge of crop protection who started renting land from the cooperative as early as 1990. He had 100 ha of his own in 1993 and had more than tripled that by 1994. The company rents a total 1000 ha of land and 400 ha of forest. Initially it had 21 employees, but by 1994 they had fallen by a half to 10. Here too, the former collective farm president did not do badly. He personally bought buildings from the bankrupt farm, acquired 120 ha of land, and rents further 200 ha. He is one of only two private farmers with significant holdings, the other is also a former cooperative manager, but farms with his father who had never accepted the collective farm system and had been active in the second economy. There are in the village 2–3 other families with 15–20 ha, some 30 families who farm 1–2 ha as form of supplementary income. Some 20 per cent of economically active villagers are unemployed, 94 on unemployment benefit, and 32 on income supplement.

In the village of S. in Western Hungary, the cooperative remains in place, although transformed according to the 1992 law. It plays a powerful role still in village life, disciplining by expulsion those who do not rent their 'proportionate share land' back to the cooperative. Nevertheless

its future is not certain. Job losses will be inevitable, and some managers who have acquired significant holdings and rent them back to the cooperative are seriously contemplating turning to private farming. Here private farmers have emerged from the second economy. A chicken farmer with a long tradition of livestock farming as a subsidiary activity, expanded his holding to 38 ha by means of his restitution vouchers, his proportionate share land, and proportionate share land bought from others. He rents a further 15 ha. Another private farmer with only 25 ha was a tractor driver in the cooperative, but always engaged in extensive supplementary private farming (fruit, asparagus and, while his father was still alive, pigs). The third agricultural entrepreneur in the village is a former lathe operator in the collective farm machine shop who began to acquire agricultural machinery in 1991 and began a second job as an agricultural contractor. This has become his main business, although he supplements it with an income from fattening pigs and growing cucumbers. They own 13 ha and rent a further 14 ha.

In the village of T. in North-eastern Hungary, in the Tokaj wine region, the collective farm went bankrupt and three businesses emerged to take its place: a small business run by the former collective farm president and his associates (he already has a variety of businesses in various peoples' names and is head of a discernible business group in the village), a business run by two former tractor drivers on the collective farm who jointly rent and farm some 70 ha; and a limited liability company created by the agronomist and other managers and administrative workers of the cooperative. Because the farm was bankrupt, the latter group, the biggest of the three, could not acquire machinery in the form of a property share on leaving but had to buy it from the bankrupt collective. On the other hand, they benefited from the contacts that one of their number (the agronomist's wife) had with the bank. Originally they planned to employ 56 people in the company, virtually all those employed in the equivalent branch of the collective. This work force was gradually reduced to 21, then 13, and finally 8. Although the soil on the plain in the village of T. is not very good and there is little interest in private farming, everyone has a little vineyard to provide wine for the family and small amounts for sale. There was very little interest in land auctions (3 participants at first, 3 at second, and 5 at third) and although there was no sales by agreement, land was sold very cheaply.

The cooperative still remains in the village of H. in Eastern Hungary, although members of 4-5 families opted to leave, mainly from the layers of middle management, taking the best machinery and equipment with them. Three of four of these are wealthy enough to pay more in rental than the cooperative; some 7-8 farmers have relatively large holdings; there are 20-25 whose farming covers more than subsistence, and some 70-80 subsistence farmers. There was a lot of interest in land auctions, partly because there

were more claimants than land to go round, and partly because before the war the village had a population of mainly middle and small peasants. Those who had significantly developed tobacco production on their household plots were especially interested in getting more land. Unemployment in the village is officially 23 per cent (272 individuals, 26 on income supplement), but the local authority puts the true figure at 40 per cent because many have invented an injury and gone onto disablement benefit.

The cooperative still remains in the village of Z. in eastern Hungary as well, but not for its members. The village suffered because the collective farm centre was in a neighbouring village and when the transformation legislation was implemented, the neighbouring villagers took all the best assets for themselves. The villagers of Z were left with the choice of keeping worthless pieces of paper (their property shares), converting them into scrap iron (because no decent machinery was left) or selling their shares. The population of the neighbouring village, including the president and chief agronomist of the collective farm, obligingly bought up the shares of the villagers of Z at 40 per cent of their face value to invest in their new ventures. Partly as a result of this, but partly also because this was formerly a village of landless estate workers with no tradition of independent farming, there is only one private farmer of any substance. Household plot farming in the village had only developed when the collective farm organized it on the members' behalf. When the collective stopped doing this, even part-time supplementary agriculture went into decline. Nevertheless, around 150 people (from all walks of life) get some sort of supplementary income from farming. Of the 500 villagers of working age, 170 are unemployed and 40 on income support.

Finally, the cooperative in the village of N. near Lake Balaton 'rescued its property', as the management see it, by converting the whole cooperative into a limited company, or rather by creating a limited company alongside the cooperative. Because it was a managed transformation, the continuity between collective and successor companies was much clearer, but the resulting structure was little different from cases where the cooperative disappeared; and the impact on land ownership was minimal because the limited company took assets only and left all land in the cooperative. Here, rather than take out cooperative assets to create relatively small private businesses, the core of the collective management resolved to keep themselves and the assets together (but in a private company format) and use them to generate a commercial company with a national presence. In this they succeeded in that the company is listed on the Hungarian stock exchange. The new company has a holding company structure. Cropping was transferred to a subsidiary company which rents land from the myriad of new land owners in the village and beyond, owned by the holding company and the former managers of the cropping branch of the collective.

Dairy farming (the only significant livestock activity) was passed to a different subsidiary company, which was then divested from the group because it saw no profit in dairy farming. The business was bought outright by its management. The former collective farm top management has no interest in private farming, indeed in any kind of farming. But the mayor has quietly amassed a significant holding and is one of the handful of large-scale private farmers in the region.

In place of a conclusion, it is interesting to note that, although everything is still in flux, the case study evidence presented above is in line with the findings of a quantitative survey of Hungarian farmers carried out in December 1992. The latter revealed the following: that only a tiny percentage (1.5 per cent) of those involved in agriculture had a farm that could count as a viable commercial farm; that the latter tended to be young, in possession of a qualification (not necessarily agricultural) gained during the socialist period and not primarily from a family that had a larger farm before the socialist era; and that they were more likely to have started private agriculture on a more or less commercial basis in the 1980s than to have run a supplementary plot from the 1970s and before ¹⁰. These are quite accurate social statistical descriptions of former collective farm managers and successful household plot farm entrepreneurs.

¹⁰ Istvan Harcsa, *Paraszti Gazdasagok, Mezogazdasagi Vallalkozok (Peasant Farms and Agricultural Entrepreneurs)*, Tarsadalomstatistikai Fuzetek 3, Central Statistical Office, Budapest, 1994.