

Strengths, Controversies and a Show-Case of Failure in Hungarian Agricultural Restructuring: The Case of the Hollófldje Co-operative*

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As the title suggests, the first aim of this contribution is to highlight the strengths of Hungarian agricultural restructuring and to identify some of the controversial issues raised by the transformation legislation. The question of the pattern of co-operative transformation and the nature of successor companies that emerged from it are addressed in the first part of the paper. In the second part the focus is shifted to a single co-operative: the village co-operative of Hollófldje, a small rural community in South-West Hungary. This co-operative started enthusiastically after successfully separating from a larger mother co-operative in 1993. But success turned to failure, for various reasons, which will become clear as the “tale” unfolds.¹

Strengths and Controversies in Agricultural Restructuring

Hungary's late socialist system of agriculture, which had been characterised by a symbiosis between large-scale and small-scale farming and which, after a long, gradual development, had been penetrated rather deeply by market relations, collapsed in 1990–1992 as the post-socialist economic crisis spread. In addition to paying the crisis-driven ‘transformation price,’ agriculture had an additional burden: socialist large-scale farms were declared politically undesirable and subjected to compulsory transformation. The harsh economic environment, the collapse of the symbiotic system of large-scale and small-scale farms and compulsory transformation all contributed to the sharp drop in agricultural performance and employment,² which was followed by a slow and partial recovery.³

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¹ My regular visits to Hollófldje started in 1985 when a survey on rural community life was conducted there and in the neighbouring villages. Hollófldje was singled out for more detailed research, and I spent half a year in the village in 1989 and then spent two to three weeks there every other year to follow the on-going events. The research was financed by the Centre for Regional Studies, HAS in the 1980s, then by fragments of funds provided for rural research work, and finally, more substantially by the CEU RSS (Project No. 481/1994).

² By 1993, both agricultural output and employment had dropped to 60 percent of their 1990 levels. A slow recovery started in 1994 when a 10 per cent increase of crop production resulted in some 1.5 per cent growth of Gross Agricultural Output (GAO). The process continued in subsequent years (3.2 per cent in 1994, 2.6 per cent in 1995, 4.9 per cent in 1996), thus GAO reached the 72 per cent level of its 1989 value in 1996 (CSO 1997: 24). Full-time employment, however, declined continuously until 1997.

³ While the volume of GDP (at current prices) grew by almost three times in the economy at large between 1990 and 1996, it increased by only one and a half times in agriculture (Kovács, Kovács and Bihari 1998).

1. *The Transformation Legislation and its Outcome*

The intention of the first post-socialist policy-makers was to create a ‘proper market economy with proper market actors,’ with the appropriate institutions of regulation and support to ensure its smooth operation. Looking to western and pre-socialist examples, and relying on the relatively strong small-scale sector which did indeed appear to be an organic pre-condition of the new political and economic reality, *private farmers became the desired social actors*, while the future role of corporate entities remained unclear. Legislators were primarily concerned with establishing control by owners which was provided by a state agency in the case of state farms or in the special form of the ‘corporate ownership’ of owners, in the case of co-operatives. Producing ‘real owners’ of formerly collectively used assets who might then be transformed into ‘real co-operators’ or competitive commercial farmers, however, proved too difficult.

Despite political hostility, in comparison with other post-socialist countries, the transformation legislation of Hungarian policy-makers offered rather liberal solutions for restructuring large-scale farms, which later permitted a relatively smooth progression towards new forms of ownership and organisation. Both the restitution and de-collectivisation laws sought to apply market methods to organisational restructuring by introducing tradable business shares (*üzletrész*), compensation vouchers (*kárpótlási jegy*); and by the use of land auctions (Swain 1996). The restitution process was also softened by its ‘future orientation’ (as much as was possible given the nature of any restitution) and by the establishment of social organisations such as the Land Organising and Land Distribution Committees, which helped restitutees negotiate with the representatives of the users of the assets (Swain 1995b). These institutions and the political rhetoric of the time greatly helped those who wished to secede from the co-operative, to take out their proportionate share in kind⁴ and quit membership.

Indirect decollectivisation via business shares allowed various forms of large-scale farm organisation to develop, such as holding co-operatives, joint-stock companies of various forms, in addition to the most “conservative” form, the more-or-less untouched producer co-operative, which operated very much as before. In the context of these new farm structures, complex patterns of parallel and interconnected ownership emerged between the fixed assets covered by the business shares owned by various groups of individuals⁵ but “administered” by the co-operative, on the one hand, and the capital, either liquid or in the form of farm equipment, buildings and so on, belonging to share-holders in parallel or subsidiary limited liability companies, on the other. These complex interrelations of ownership were often further complicated by leasing arrangements between the co-operatives and their subsidiary companies.

4 The value of the assets that entitled persons could take varied from co-operative to co-operative. It was determined by (i) the principles of re-allocating property rights applied in a certain unit (see footnote 5.), (ii) the indebtedness of a co-operative, and (iii) the way in which debt was handled. We know of co-operatives where secessionists were burdened with the proportionate share of the debts, while in other cases the value of their business shares were reduced accordingly. The most “unfriendly” gesture was when secessionists were obliged to pay the debt relating to their share of the assets in cash (Kovács 1998b, 1998c).

5 Originally those who had something to do with a co-operative such as co-operative members, heirs of deceased members, employees (if members so decided) and those who had contributed to the accumulation of the collective property for the minimum of five years. The principles of property redistribution were partially determined by the Co-operative Transformation Act, but were partly left to the members to decide. However, because shares were tradable, other groups of share holders emerged from 1994 onwards.

The ownership and organisational structure of many corporate farms was similar to that of transforming industrial firms which Stark has characterised as ‘recombinant property’ (Stark 1996), but with a further complication related to the fact that the farms were transformed co-operatives. Issuing business shares in a co-operative did increase the sense of ownership of those concerned, but only to a degree, because decision-making continued to be based on co-operative membership and the principle of one member, one vote. This weakness presumably contributed to the marked tendency for production to shift from co-operatives to companies (Kovács and Bihari 1998), which did not exclude the possibility of maintaining control over such companies via cross-ownership or leasing schemes.⁶

The games involved in establishing complicated ownership and organisational structures were primarily the preserve of managers of various sorts. The ‘masses,’ however, were not entirely excluded from similar games, at lower levels: vouchers of one form or another, taken in conjunction with the inclination of entitled persons to capitalise on the limited resources available, allowed many to make ‘little deals’ based on special private sales of their shares, collective secessions and the like.

This room for private manoeuvre, as well as the relatively wide-spread familiarity with financial matters and business practices represented the most important strengths of the Hungarian approach (Swain 1998). But these advantages could not compensate for all the disadvantages that any restitution has to face, namely that its moral considerations can sharply contradict economic rationality, leading to ‘distorted’ property relations, highly fragmented ownership, mainly by pensioners and those not involved in agriculture, and the general separation of owner from user.

Fundamental changes took place in the structure of large-scale farming in the first six years of transformation, between 1990 and 1996, by which time there were some 1,930 co-operatives and 4,000 business entities (191 joint-stock companies and some 3,805 limited companies) operating in Hungarian agriculture, in addition to some 29,000 registered commercial farmers and 3,009 partnerships (without legal identity). In small-scale agriculture, although the numbers did not change much, the content of the activities of the 50,000 full-time farmers, 400,000 ‘part-time farmers’ and one million ‘plot-farmers’ in their gardens, vineyards or little plots did. From being a source of supplementary income, it has become for many, especially in recession-hit areas, the major source of livelihood (Laki 1997, Spéter 1997). It was partly because of the increased importance of small-scale farming to sheer survival that the government was unable to enforce the registration and taxation of this sector in the way that it wanted in 1996. Because of the organised resistance of small-scale producers, it failed to increase taxation (Kovács 1998a, Kovács and Swain 1997), but, by enforcing registration, it did begin to clarify who agricultural producers were and what activities they were engaged in.

Nevertheless, neither the real economic status of most individual and corporate actors, nor their possible future, was clear in 1996–1997. Corporate structures were particularly opaque. The situation with joint stock companies was clear enough; most of them worked as successors to former state farms, and the rest had been converted into this form from already transformed co-operatives in the preceding three years. But in the case of limited liability companies, the situation was more confused. Some 30 per cent of limited companies produced no turnover at all in 1996, and another 30–40 per cent were not fully independent business companies, but subsidiaries of ‘holding co-operatives’ or joint stock com-

⁶ The extent of this control varied, but tended to diminish in the second phase of restructuring from 1994 onwards. See: Bihari, Kovács and Váradi 1996, Kovács 1998c, Váradi 1998.

panies. The clear trend, noted above, of moving production from co-operatives to limited liability companies, had resulted in a situation in which, by 1996, co-operatives and limited liability companies shared roughly equal proportions of land-use and productive assets (Kovács and Bihari 1998).⁷ This shift from co-operatives to companies is a most important characteristic of Hungary's agricultural transformation⁸ which, in sharp contrast to the original intentions of the first democratic legislators, operated in favour of corporate business farms. Market mechanisms and state support and intervention systems alike inevitably favoured larger entities, and this despite the Land Bill, a latter-day product of the first post-socialist government, which prevented all types of corporation purchasing new land.

2. The Phase of Early Accumulation

The reshaping of the ownership of producer co-operatives represented the first, top-down phase of restructuring, and it was completed by 1992. The most exciting phase, that of primarily market-driven transformation, the test of the new organisational and institutional frameworks, with their elastic means of representing ownership, started after the compulsory transformation had ended.

Co-operative business shares were tradable, and their market price usually stabilised at between 10 to 40 per cent of their face value, depending on the economic performance and prospects of the unit concerned. The reasons for the relatively low market price, which diminished further in 1995–1996, were various, but were related to uncertainties about the prospects of large-scale farming in the harsh economic climate. More concretely, the assets that they covered had relatively little value because of the oversupply of machinery, a consequence both of wide-spread sales of large-scale farms due to bankruptcies and the fact that many who left the co-operatives immediately sold the assets that they had brought with them.

The emergence of a market price for business shares presupposes sales, and the sales from the original owners to new ones followed two major paths. First, many transactions were related to changing co-operative structures, when, for example, a 'holding' co-operative set up a subsidiary, or when that subsidiary became totally independent of the co-operative. The related sales of business shares were usually organised by the managers of the new unit, but there were cases when the co-operative centre itself organised such transactions. In the first phase of this process in 1992–1994, employees were generally encouraged to increase their holding of co-operative business shares by buying from other holders, mainly pensioners and outside owners. This was because most of the assets used by the new companies were usually still owned by the co-operative share-holders (and administered by the co-operative board) and leased to the new companies. By encouraging workers as well as managers to buy shares, the companies hoped to gain more control over the assets that they used. But, in the accumulation phase, the ordinary workers could not keep pace with the management and external investors in the purchase of shares, and, in sharp contrast with the former phase, they were no longer encouraged to buy.⁹

Co-operatives themselves also appeared on the demand side of the market when, in 1995, the government introduced a system of state support for co-operatives to buy back their

⁷ Data from tax reports of co-operatives and agricultural companies processed by Zsuzsanna Bihari.

⁸ See also Andor and Kuczai 1997, Harcsa, Kovách and Széleányi 1998, Hantó and Oberschall 1997, Kovács 1998b, Swain 1998, Váradi 1998.

⁹ See Bihari, Kovács and Váradi 1994, 1996, Swain 1998, Váradi 1998.

shares, under which, subject to upper limits of five per cent of the value of the whole stock in a given year and 15 per cent of the market price, 50 per cent of latter was provided by the state.¹⁰ This favourable treatment of co-operatives in 1995, when a social-liberal coalition was in power, was understandable to a certain extent. In the unclear and uncertain conditions created by the transformation, co-operatives still looked to be stable actors that deserved help so as to re-accumulate their fragmented property. It was also true, that most business-share holders were connected to the co-operatives in some way. But many were not, or their links were purely formal. An unbiased approach would have provided similar support to all actors involved in agricultural production, corporate and individual, who wished to participate in the concentration of the property.

The second path for the sales of business shares was related to the income tax relief offered between 1994 and 1996, which is explained more fully in the context of the Hollófoldje case study below. Although the government abolished income tax relief for co-operative business share purchase in 1997, which put an end to purchases aimed exclusively at tax benefits, it continued subsidising purchases by co-operatives.

Many co-operatives and their successors became involved in other capital transactions as well as the market in their business shares, mostly from 1996 onwards. Outside investors were interested in co-operative successor companies, but only when they could establish majority ownership, either within a totally separate company, or within a limited liability subsidiary to the 'holding co-operative.' Many co-operatives were compelled to attract such investors, in deals that were often accompanied by transfers of co-operative business shares as well, because of their high levels of indebtedness, the threat of liquidation and because they had insufficient liquid capital to operate the often extensive assets that, as noted above, they (if they had managed to buy shares) and the various groups of co-operative share holders still owned (Kovács 1998c).

But who sold business shares, and why? Mostly it was ordinary co-operative members, predominantly pensioners and non-member share-holders without voting rights, who no longer felt any interest in the unit's affairs. This is illustrated by the following case study and others (Váradi 1998, Kovács 1998c). They had become generally disillusioned concerning both the future prospects of the co-operative and the value of its shares (Bihari, Kovács and Váradi 1996).

A similar process of accumulation has begun on the land market. Case study (Hamar 1998, Kovács 1998b, Kovács 1998c) and survey data (Harcsa 1996, Harcsa and Kovách 1997) suggest that larger private land users, those registered as entrepreneurs and smaller scale producers who are not required to register, are enlarging their holdings through purchase and rent.

Land use statistics reflect the switch from co-operative to individual usage that this implies. According to these data, some 51 percent of agricultural land was used by natural persons in 1996, with corporate farms (co-operatives and companies) sharing the rest. However, a comparison of the statistical data with the findings of case studies suggests strongly that the statistics overstate the trend by including under individual ownership land where a whole range of machinery work is contracted out, mostly, but not exclusively, to collective farm successor companies (Kovács 1998b). This is, however, a typical intermediate pattern of cultivation when land owners have a variety of possibilities for having their land cultivated (by entrepreneurs or corporate farms), and for how this should be

10 44/1995 (XII. 29.) The order of the Ministry of Agriculture. By setting a maximum state contribution of 7.5 per cent of the face value of the share, this measure introduced a semi-official market price of 15 per cent of face value.

financed. Contracting for cultivation alone relieves the contractor of the burden of financing the whole process of the production. The down side, however, is increased uncertainty with regard to the amount of land available for cultivation. This is one of the most intriguing changes reshaping farming organisations, and signifies a shift from the 'multi-issue' Taylorist co-operative to more specified 'single- or two-issue' farm businesses which might still enjoy 'economies of scale' compared with western farms, but to a considerably reduced extent.

Parallel to the accumulation of shares and liquid capital, the process of early accumulation of land by the managers/owners of corporate farms took on serious proportions in the last four years (Hamar 1998, Kovács 1998b). The short-term goal of land purchases by managers/owners of larger animal sheds, for example, was to secure land on which to grow fodder, but they also might have long-term investment goals. The process of land concentration was hindered, however, by two major factors. One of these was related to policies directed at keeping foreigners and potential large-scale monopolies out of the emerging land market, by preventing corporations and non-Hungarian citizens from buying land. Although these policies could not prevent foreigners making informal deals concerning agricultural land, especially in the western and northern border-areas, they could effectively prevent the rapid concentration of land into the hands of corporate farms. The second factor was not independent of the first: small land owners were not eager to sell their parcels while uncertainty prevailed on the labour market and while demand for rented land remained buoyant. This was also the period when prices of agricultural land were kept low by the restitution land auctions and the low level of purchasing power.

To summarise the strengths and weaknesses of Hungarian agricultural transformation briefly: the major elements of a market economy that had penetrated agriculture in the late-socialist period provided a marked advantage at the beginning of the transformation process. A market-friendly mode of restitution also facilitated the creation of capitalist structures. Co-operative break-up and changes in farm ownership and organisational structures took place extensively in the six years following transformation, resulting in a wide variety of cross-ownership and rental schemes. Concentration of the property also began to a remarkable extent, although its pace was hindered by such regulations as the exclusion of corporate farms from the land market and the biased treatment of co-operatives. The low level of profitability in agriculture also hampered capital flow. Poverty which rooted small owners to their tiny plots, together with the absence of alternative employment possibilities also slowed down the land concentration process. The final stage in Hungary's more or less successful introduction of capitalist structures into agriculture was being hindered by its most conspicuous failure – its failure to solve the problem of rural poverty.

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The following case study is about a co-operative located in a part of the country where entrepreneurship was not well developed during the socialist era. Small-scale farming did not go beyond the symbiotic relationship with the surrounding large-scale farms, and was restricted generally to fattening beef cattle and pigs. But villagers capitalised on all resources that they had access to within these limits and managed to develop a strong small-scale economy in Hollóföldje. They could successfully rely on the peasant attitudes preserved to a relatively large extent in the village because of its geographical position, its ethnic composition and local history. Most of the villagers believed that the shift from socialism to capitalism would reinforce the community by favouring most families. What happened only partially met their expectations, at least by the end of 1996, when the following story ends.

The Tale of the Hollófoldje Co-operative

*1. Hollófoldje and Keskeny*¹¹

Before beginning with the case study, some further information about the location of the villages is required. These two neighbouring villages are located in south-west Hungary close to the border with the former Yugoslavia. Both are small by Hungarian standards, Hollófoldje with 978 inhabitants and Keskeny with 1198, and they are geographically and economically rather peripheral. A peripheral geographical position does not necessarily indicate backwardness, however: these villages are well equipped in terms of infrastructure; streets are paved, water and gas are available in most villagers' homes as are telephone lines and cable television programs.

Hollófoldje was inhabited almost entirely by a German community until 1945. Although the population of the village was Catholic, in contrast to the Hungarians and the Slavic minorities of the region, they could be characterised as Protestants of a kind. Hard work, reduced consumption, an ever-existing priority given to maintaining family property (the guarantee of the future for the next generation), advanced skills in agricultural work, a devout religious life, wealth accumulated as a consequence of all these factors; such were the most important traits of life in Hollófoldje during the inter-war period.

Following the war, almost half of the families left the village voluntarily in 1945 (the former Volksbund members) or were evicted from their houses and settled in East Germany in 1947. All but one family from the latter group returned within two years, but most of them could find residence only in the vineyard cellars or with relatives. By that time Hungarian settlers occupied their houses: evicted families from Slovak and Romanian territories and spontaneous migrants of the poor. In the 1950s and 1960s, the only group that had become an integral part of the local community was that of evicted Hungarians from Slovakia.

Hollófoldje villagers resisted the top-down administrative centralisation of the 1970s that swept through the country's economy and administration, but they did not succeed, however, in maintaining 'economic independence:' the Kossuth co-operative of Hollófoldje was merged with the Táncsics co-operative of Keskeny, where the centre of the merged co-operative was based. From 1979 the co-operative was headed by a typical representative of the new generation of co-operative leaders: a gifted, young, ambitious, and a highly trained professional. His generation was responsible for the success story of large-scale farming in Hungary. Under his guidance, work in the co-operative was reorganised along Taylorist principles, and the excellent results of the early 1980s seemed to justify his approach. Then, at the end of the decade disturbances occurred, which, supported by the new legislation of the post-socialist government, finally lead to the de-merger of 'his' nicely designed and run co-operative. The case study focuses on the events preceding the de-merger, as well as the most important developments of the first four years of operation of the Hollófoldje co-operative following its independence in 1993.

2. The Pre-Transition Events

The roots of the 'success story' of re-establishing the co-operative on Hollófoldje go back to the late-socialist developments and are linked with the changes in nation-scale, regional and local politics.

¹¹ All names are pseudonyms.

The first steps leading to the de-merger of the co-operative were made by the new chairman¹² of the Hollófoldje local council who had been elected to this office in 1985 when he was 30 years old. He came from a most prestigious local German peasant family. The very fact that he was picked as chairman signalled that fundamental changes were underway in local politics.¹³

Taking his first steps carefully, he raised the issue of the name of the co-operative. He insisted that the unified co-operative was as much the co-operative of Hollófoldje as of Keskeny, and this should be reflected in its name. So he proposed the new designation 'Kossuth co-operative of Keskeny and Hollófoldje' in place of 'Kossuth co-operative of Keskeny'. What is more, he openly and consciously acted as the representative of villagers' interests against the top management of the co-operative. Since half of the co-operative members lived in Hollófoldje, he initiated regular meetings with the chairman of the co-operative to discuss emerging problems, discussions which went less and less smoothly.

The first open quarrel to break out between the two leaders was when, in accordance with the just promulgated new law on co-operatives,¹⁴ the co-operative sought to appropriate and convert into co-operative property some 100 hectares of public land. This was not a local initiative, but rather the local expression of a country-wide campaign. This was in 1989, before the elections, when the strongest political parties had already emerged although their real influence could not yet be assessed. But even in this political climate, hindering the appropriation of public property was not an easy task. Most village councils let 'their' lands be appropriated by co-operatives without any fuss.

Meanwhile, as one of the fruits of the 'erosion phase' of socialism,¹⁵ a new organisation, the Village Association, was established in 1989, of which our mayor and his village, Hollófoldje, became founding members. With the help of this association the council refused to let the co-operative appropriate public land. Some months later the County Council withdrew its former instruction as unconstitutional, itself an indication of the radical changes taking place in national politics.

3. *Going for Separation*

The chairman's rather "*dictatorial*" attitude changed markedly after the first democratic parliamentary elections in 1990. The name of the co-operative was altered as the mayor of Hollófoldje had suggested earlier. Ordinary members, who had never dared express an opinion openly before, made their first attempts to speak up.

Before the 1990 General Assembly – told one member –, when assets were to be divided up¹⁶ I walked up to Jani (*the Christian name of the mayor who was on familiar terms with every villager of his generation*) to ask his advice: what principles of distribution should we adopt? 'Active years,' I was told. I stood up at the General Assembly and I said what we were insisting

¹² I will refer to him as mayor hereafter, since he was re-elected as such in 1990.

¹³ He was the first chairman in the socialist era who was chosen from the wealthy local peasantry of German origin.

¹⁴ Law No. XV. of 1989.

¹⁵ This term was used by Róna-Tas 1994.

¹⁶ The possibility of allocating 50 per cent of the assets (excepting landed property) to members of a co-operative was allowed by the last socialist government in 1989. (Law No. XV. 1989.) Assignees received so-called 'property shares' ('vagyonyjegy') which were converted into 'business shares' in 1992 when a new and full re-allocation of collective assets was implemented as prescribed by the Co-operative Transformation Act. The case referred to corresponds to the former process.

on: the re-allocation of the assets on the basis of active years. I also added that there were too many managers who already received high salaries, and if shares were also based on salary levels, they would use up all the shares available and we would be left with nothing. Boys from the machinery repair shop were applauding behind me. I had tears in my eyes.

Implementing a legally faultless transformation of the co-operative into a 'genuine co-operative,' regulated by the Co-operative Transformation Act,¹⁷ was a difficult task. A series of compulsory General Assemblies was convened at which votes were taken. Finally, the chairman even got used to talking to people, to searching out supporters for his plans. He needed to do so, because a 'separation movement' had developed among villagers in Hollófoldje, and it was always gaining in strength.

The next serious steps in this direction were taken as part of the implementation of the Co-operative Transformation Act, when the climate and conditions of political struggle strengthened the position of villagers in Hollófoldje. As the now re-elected mayor had a very good working relationship with the local MP (a former president of the Village Association mentioned above) he was well-informed about the new options that were to be opened up some weeks before the Law was published. Meanwhile, he also qualified as a lawyer. Furthermore, a cable television network started to operate in Hollófoldje. The latter two developments had important impacts on the course of events. His diploma enabled the mayor to engage in public discussions with the image of a professional who wanted and was able to provide effective help to villagers, at a time when the prestige and power of lawyers was increasing considerably (see Hann 1993, Swain 1998), and cable television was one of the vehicles he used effectively in order to achieve his goals.

In an open discussion, before the most important General Assembly of the co-operative,¹⁸ with the hall of the cultural centre full of villagers, he summarised the agenda of the transformation as follows: (i) people were faced with an historical opportunity which would never occur again; (ii) therefore everybody should be aware of their responsibilities and participate in the general assembly and the decision-taking process; (iii) individual and family interests had to be harmonised with those of the village community at large: people who received restitution vouchers were urged to buy land which could then either be cultivated by the re-established, independent village co-operative or farmed privately.

The only rational alternative is: land for Hollófoldje and for villagers of Hollófoldje – he said. Land furnishes an economic basis for individual families as well as for the community. Be sure of one thing: the wonderful fertile fields of Hollófoldje will become precious property that can be sold at a fine price once the land market has developed. Buying land also means making a good investment.

So argued the mayor, while painting an exaggeratedly dark picture of the future if villagers were to miss this last chance. That evening 118 co-operative members, that is everybody present in the hall, decided to 'divorce' from Keskeny. After the General Assembly of 24 April 1992, only the technical details of the re-establishment of the two successor co-operatives had to be elaborated and implemented. This enormous task was successfully accomplished by the deadline of 31 December 1992 set by the Co-operative Transformation Act.

¹⁷ Co-operative Transformation Act. Law No. II.

¹⁸ The discussion was recorded on video-cassette. The above analysis is based on this recording.

4. The Technical Details: Distribution of Member- and Ownership Rights

Since the number of members participating in the struggle for the de-merger of the Hollófoldje village co-operative represented 48 per cent of the entire membership, they had the right to take the same proportion of co-operative assets.¹⁹

Active and retired members of the Hollófoldje co-operative together received 74 per cent of the assets taken from the mother co-operative. Active members received the least in Hollófoldje (22 per cent) while they could gain more in Keskeny (32 per cent). But both figures were well below the country average of 41 per cent. The use of formerly collectively owned land was also shared between the successor co-operatives. This was done along the same principles as that of the assets: some 1,400 hectares of arable land were taken by the Hollófoldje co-operative and 1600 hectares were left to Keskeny, only the forest continued to be managed jointly.

“We started with the good feeling of working in our own co-operative. Indeed, we were happy to be free after so many years of oppression.” – recounted a middle-manager in the Hollófoldje co-operative in 1997. The villagers of Hollófoldje had good reason to be optimistic in 1993. They had gained more shares (in assets) from the unified co-operative than they had initially hoped when the struggle for separation began, and they had managed to take what they wanted when the assets were divided, most importantly the dairy unit. In addition, the machinery repair shop in Hollófoldje was re-equipped, the fulfilment of a long-term desire. However, some 21 per cent debt was imposed both on the assets taken and left.

¹⁹ According to the compromise reached, the re-allocation of the total assets (valued at 281 million forints) approved by the General Assembly in April 1992 were as follows:

- 10 per cent of the assets was divided among the living founders of the co-operative regardless of whether they lived in Hollófoldje or in Keskeny;
- The remaining 90 per cent was divided between three groups on the grounds of the origin of each part. The assets of the pre-merger Hollófoldje and Keskeny co-operatives were separated from one another and from a third group of those bought after unification.
- The pre-merger part of the assets were re-allocated according to the years of membership (50 per cent) and according to earnings (50 per cent). Up till the middle of the sixties members had received their payment according to the “*munkaegység*” system. In other words, they did not receive regular wages. The number of days they or their family members worked for the “common” was registered. After completion of their work they received some very small advance monthly payment and they got the bulk of their earnings at the end of the year. One ‘*munkaegység*’ was valued at 30 forints. The years of membership were also considered: so-called passive years (of retirement) counted less than those spent with active work. (1 active year = 2,5 passive years.)
- In the re-allocation of post-merger assets another principle was employed: year-round income contributed only 35 per cent while active years gave 65 per cent. (We should not forget that the payment-gap favouring co-operative leaders emerged in the Taylorist co-operatives of the 1980s. This phenomenon did not exist earlier partly because the group of leaders did not constitute such a numerous and distinctly hierarchical group in the smaller co-operatives, partly because they did not have higher education. Last, but not least, the profitability of production did not allow such high earnings to be distributed, mainly among leaders, as year-end premiums.)
- A fund was created for covering the 37,000 forint per member membership deposit for those who decided that they would register in the successor co-operatives as founders. Anybody who joined the co-operative afterwards, had to pay this amount of membership-deposit in cash. In contrast, if a co-operative member decided to leave the co-operative s/he was supposed to receive the 37,000 forints back also in cash irrespective of whether, s/he was a founder (who did not pay any deposit) or a member who joined the co-operative after January 1993 and had thus pay the deposit.

Splitting up a Taylorist organisation is a difficult enterprise, since productive assets are generally organically interconnected. Such was the case in the unified co-operative of Keskeny and Hollófoldje. Little wonder that its chairman fought tooth and nail to save the integrity of this carefully designed and rational organisation from the threat of destruction. The central farm buildings, for example, were divided into two: the dairy unit went to Hollófoldje, the crop-dryer and the fodder-mixing complex to Keskeny. Because of the location of the cattle sheds, an agreement on 'the exchange of calves and heifers' was established, according to which calves would be born in Hollófoldje, reared to heifers in Keskeny, and then, after insemination, returned to Hollófoldje again to give birth to their calves and join the dairy herd. It had been planned that these transactions between the co-operatives would take place at current market prices, but this exquisitely designed system failed because of a lack of trust on both sides. Each side accused the other of having violated the 'exchange program.'

In any case, Keskeny management decided in 1994 that a proper cattle farm had to be re-established to replace the one taken by the Hollófoldje co-operative. Another, equally important, consideration influenced this decision: the Keskeny co-operative employed 110 co-operative members, which was more than was necessary for the 1,600 hectares of land available for cultivation through medium-term rental contracts. A new cattle farm was expected to save the jobs of at least ten employees, jobs which would otherwise have been lost.

This decision of Keskeny leaders required investments in both co-operatives but, primarily in Keskeny: heifers had to be bought and, in addition to refurbishing cowsheds, a new milking parlour had to be built. In order to finance this investment, the Keskeny co-operative had to take out bank loans worth some 30 million forints, despite the fact that they already had 25 million forints of debt to service. As a consequence, the co-operative's 20 per cent indebtedness in 1992–1993 increased to 30–35 per cent in 1994–1995, and proved to be too high in the rather harsh economic environment. On top of all of this, a disastrous storm destroyed the harvest in 1995. The crops in Keskeny were under-insured, and the compensation they received was much less than their expected income from sales. The absence of a proper income and the burden of debt servicing resulted in sizeable deficits in the Keskeny co-operative in 1995–1996. Emergency measures were taken: the management decided to close down unprofitable operations, such as the production of feed for sale. For the first time in the post-secession history of the Keskeny co-operative, six employees were laid off.

From 1993 to 1996 the number of the staff had diminished considerably from 110 to 75 employees, but most of those who left the co-operative were old or ill enough to retire as ordinary or disability pensioners; a couple of middle-managers moved to other jobs voluntarily, and a few were sacked for violating work discipline. But nobody had lost their job because of redundancy before 1996.

In retrospect, the chairman of the Keskeny co-operative blamed the secessionists for the economic disgrace of the co-operative. *"I warned them in 1992: 'You will see that we will both go bankrupt. Hollófoldje will be first, followed soon by Keskeny.'"* Excess capacity was to be found on both sides, he claimed, which inevitably rendered production loss-making. He did not admit openly his own responsibility for pushing developments in an unfavourable direction. However, his frequent complaints about the pressures of everyday life, pressures to create new jobs (which was costly) and reduce farm inputs (which decreased yields significantly), indicated a hidden admittance of error on his part.

6. The Free Life of the Hollófoldje Village Co-operative

6.1 Land Ownership among Hollófoldje Members and Land-Use

Many villagers in Hollófoldje followed their mayor's advice concerning land restitution. Four auctions were organised at which about 870 hectares of land was acquired by compensation voucher holders.²⁰ This represented about 60 per cent of all available land in Hollófoldje. Three families ran private farms in the village: one German family cultivated 60 hectares, and two others worked 40 hectares each, one of them from a native village family, the other the heir of a Hungarian settler family. Another 30 families bought 15–30 hectares; with one exception they did not farm the land themselves, preferring to rent it out to the co-operative.²¹ So did the owners of smaller parcels. Thus the co-operative managed to lease 90 percent of the arable fields of the village, 1.300 hectares in medium-term leases.

As a means of assisting the members, the co-operative also established a so-called indivisible field, the purpose of which was to substitute for the members' former auxiliary plots (*háztáji*), which, as in many other places, had, by the 1980s, been commuted into a benefit in kind of 2.5 tonnes of maize per year. Although there were tax advantages to this solution, the down side was that members had to finance cultivation expenses from their own pockets. All administration was done by the co-operative's secretariat free of charge, but members were not sure that the system operated in their interests, especially because yields on this 'indivisible' field were much less than expected.

The system of contracting with the co-operative for cultivation services rather than renting land to it outright was not restricted to the 'indivisible field.' It was not by chance that the mayor, who, for reasons which are discussed more fully below, was satisfied with neither the quality nor the efficiency of the new co-operative leaders' work in 1993, decided in the spring of 1994 not to rent all of his (and his family's) land out to the co-operative. He kept back 16 hectares, leaving options open as to who would farm it for some weeks. Eventually, he decided that the co-operative should cultivate it on a contract basis so that he could monitor the quality and costs of its activity more closely. His example was followed by others: the co-operative lost some 100 hectares of land from its medium-term leases to contract cultivation in each subsequent year.

6.2 Employment and Ownership

The Village Co-operative of Hollófoldje commenced operations with 61 active employees in January, 1993 and was led by a five-member Board of Directors.

Laying off staff, which was much less radical in Hollófoldje than elsewhere, was a consequence of the new Co-operative Law,²² which released co-operatives from their obligation to provide employment of their members. A sizeable group of women employed

20 Although in Hollófoldje there was an average of 1.5 legitimate claims for every hectare of land, because both German and Hungarian former owners were compensated, quite a lot of villages used their compensation vouchers for other purposes than buying land. Some minor conflicts were caused by the fact that Hungarians received their vouchers six months before the Germans and therefore had access to the first round of auctions where the best land was available.

21 These holdings are based on parents' property and not yet consolidated.

22 Co-operative Act. Law No I. of 1992.

in the sewing workshop including some on maternity leave, were the first victims of this law when the workshop was closed down and the women were made redundant. Then, up till December 1996, when 16 male non-member employees were fired, here, as in Keskeny, fluctuations in manpower were based on voluntarily movements: skilled and ambitious people either found better jobs elsewhere, or they escaped the mess that was increasingly visibly emerging in the Hollófoldje co-operative from the end of 1994 onwards. As the table below indicates, only slightly over half of the active members had maintained their membership till 1996, while more than half of the pensioners fled the co-operative within a three year period.

Table 1. Members' Paths of Escape

	Active members	Paths of escape till the end of 1996				Retired member	Paths of escape till the end of 1996		
	In 1993	Left	Retired	Deceased	Total	In 1993	Left	Deceased	Total
Males	19	7	4	3	33	28	17	12	57
Females	10	10	3	–	23	38	66	15	119
Total	29	17	7	3	56	66	83	27	176

Source: Documents of the *Hollófoldje* co-operative

As a weak counterbalancing tendency, one or two new members, all newly hired middle-managers, took out membership between 1993 and 1995; and in 1996, a numerous group of new members joined the co-operative, but for a completely different reason. Most of these eleven new members wanted to buy business shares in the co-operative in order to become eligible for income-tax relief allowable against such shares, for which co-operative membership was a primary condition. Nevertheless, these new members could not counterbalance the process of co-operative flight indicated in the following table.

Table 2. Changes in Membership in the Hollófoldje Co-operative in 1993–1996

Members' Groups	1993	1994	1995	1996
Active members total	35	34	29	26
Active of which new members registered in the calendar year	1	2	1	11
Members in active age working elsewhere	16	15	13	11
Retired members	173	167	122	77
Members total	228	217	166	126
Actives quitting membership	1	5	7	–
Pensioners quitting membership	15	10	46	51

Source: Documents of the *Hollófoldje* co-operative

How can such significant changes of membership in and ownership of the co-operative be explained. Why did people quit, usually taking out their membership deposit in cash and selling their business shares, after so enthusiastically re-establishing their own village co-operative? In brief, (i) general distrust increased as the first signs of improper leadership became apparent in 1994; (ii) while they had no material interest in staying in the

co-operative any more, they had a material interest in leaving it. As the saying went in the village: *'The only thing we had to lose was the black flag over the gate of the co-operative when we die.'*²³

As elderly members lost their trust in the co-operative and felt that they could not rely on it any more, they decided to make money out of their membership. Younger family members, who derived their income either from the co-operative or elsewhere, 'bought' their parents,' uncles,' aunts' and even neighbours' business shares in order to become eligible for income tax relief. Within the family or close community, nobody cared if money for the business shares actually changed hands or not, it was the receipt proving the sale which mattered,²⁴ and allowed them to make quick profit. Thus the business shares shifted to the younger generation in a manner which brought a bonus, whereas waiting to inherit the shares would have brought nothing extra. Small wonder that Parliament acted to stop this practice in 1997.

One fifth of the business shares shifted to new hands in Hollófoldje (worth 26 million forints out of a total value of 124 million forints), of which 72 per cent remained in the property of close relatives. 28 per cent was sold to non-relatives, neighbours or just fellow-villagers. Some 76 per cent of the proportion sold outside the family was bought by four co-operative members, two (both members of the Board of Directors) worked outside the co-operative, two were members of the co-operative's top management. Their relatively high salaries and high potential income tax liabilities explain their demand for the shares.

6.3 Improper Leaders of Improper Members?

As noted several times above, the Hollófoldje co-operative did not meet the expectations of most founders. The two top-managers (the head of the dairy unit, also the chairman of the Board of Directors, and the chief agronomist, also a member of the Board of Directors) proved incapable of coping with economic difficulties and living up to the responsibility they had undertaken as elected leaders. Both became heavy drinkers. Indiscipline prevailed. The stories people told about the mess that prevailed in 1995 and 1996 are hard to believe. Combine harvesters crashed into one another in the middle of a field; a drunken tractor driver forgot which station the tractor he drove belonged to, so, three years after the split of the two co-operatives he drove the tractor back to Keskeny instead of Hollófoldje. There was no administration, nor any periodic stock control. Even sober middle-managers lost control amidst such confusion. One of them, the head of the dairy unit, just wrote off the twenty heifers which 'happened to be lost' (which is to say had been stolen) when, after a year-long gap, he finally counted the stock.

"This was able to happen because the flock was left without its shepherd! They (the chairman and the agronomist) did take notice of anyone else." said a middle-manager. Indeed, the former mayor of the village, who had engineered the de-merger and organised restitution and had subsequently worked as part-time co-operative lawyer and had been both a member of the Board of Directors and chair of the Control Commission, left local politics in 1995 and kept only his residence in the village. Immediately after the second post-socialist local elections in the December of 1994, when he was again re-elected as mayor,

23 The co-operative had the custom of raising a black flag when members died.

24 If the 'buyers' of business shares did pay something to their relatives, it was rarely more than the market price, that is to say eight to ten percent of the face value of the shares. On the receipt for the sale of the shares, of course, the full face value appeared, 30 per cent of which could be written off against tax. Thus an investment of at most 10 per cent of the value of the shares was realised as a 30 per cent tax write-off within three to five months.

he was nominated and elected vice-president of the county council. As a consequence, he gave up both his position on the Hollófoldje council and his posts in the co-operative.

In this situation of chaos, production declined sharply: a co-operative farming the best land in the country reported huge deficits each year (5,7 million in 1994, 30,4 million in 1995, 21 million in 1996). The co-operative's access to land leases dropped from 1.366 hectares of land in 1993 to 1.134 hectares by 1996. Comparing the 1988–1989 average yields of the three main types of crop with the 1993–1995 figures, we can see that corn and wheat yields dropped by 30 per cent, and barley by 10 per cent. The number of cows had dropped to 172 by 1996 from 215 in 1993, although 37 expensive Dutch heifers were bought in 1994 after the full separation from Keskeny (balanced by the 20 heifers stolen the following year). No wonder milk production dropped from 1,31 million litres in 1993 to 0,75 million litres in 1995.

Fewer and fewer members participated in General Assemblies and those who did said nothing when managers tried to find excuses for the poor results. And it was not just a question of things being in a state of chaos. The chaos also killed some of the heavy drinkers. Three men, active members in their early fifties, died directly or indirectly from alcoholism in 1995–1996. People explained their failure to react in various ways: Their explanations, however, reflected their fears of losing their job and also the small space for manoeuvres in such a small village society and economy like the one in Hollófoldje.

I told Pisti what was spreading around in the village (One can set the clock by you turning up in pubs' – as four small pubs had opened, and people saw that they turned up at nine in the morning in one, then at eleven in the other.) – then, because I commented on it, I was forgotten when the next salary increase was being considered – said one middle-manager. Why should we, little (wo)men have done anything? We could have easily found ourselves in the street, jobless. We are not the members of the Board. They should be questioned about this? suggested the three female administrators at the secretariat unanimously with hurt in their voices. I don't know, maybe I felt embarrassed because we had always played together; maybe their four children made me unable to say, Pisti stop it, go and see a doctor! Or maybe I could not warn him because I felt awful when I thought I was the only person who could 'sentence' him. I am not a judge, I am not used to that sort of thing. I hoped we would somehow manage until his term expired in December 1996. I know I was wrong – admitted the former mayor in an interview in 1997.

A collective paralysis of this kind was, however, understandable as both pensioners and middle-aged active employees had never experienced that a leader could be brought down from below. They feared and hated the previous co-operative chairman, but, at the same time, respected him. The new management was neither hated nor respected, but the fear of anybody sitting in the top seat, somehow survived.

At this point they also missed their former mayor, who stood as much above them as their previous co-operative chairman, but whose style was different. When he pushed villagers to mobilise for change, people did not have to think and act autonomously, they just had to follow his advice. Subsequent developments proved that, without having somebody to follow, Hollófoldje people did not know where to go.

This tendency to inertia is a function of both socialisation within an autocratic political system and socialisation at workplace. The latter relates to the tendency of all Taylorist organisations to fix people onto a single partial task, depriving them of an understanding of, and responsibility for, the whole labour process and the larger organisation, so subordinating them to the leaders' control (see Lampland 1995, Swain 1985). One aspect of the influence of Taylorist organisations on peoples' behaviour at work was revealed repeatedly in interviews:

We've got a most hardworking man in the (machinery) workshop, close to retirement. He works well here and he has a small show-piece pig farm at home. He turns up first in the morning and is the last to go home at night. The other day, when we were putting up fences

around the workshop, he was asked to set the fence posts into concrete. Having completed the task, he came up to me and asked, 'Józsi, come and check if the posts are straight!' I told him, 'Ádám, old friend, if you were putting up a fence around your yard at home, would you ask me to check if it was done properly? Then he was ashamed and left. Maybe the next generation will behave differently.

The co-operative managers' terms of office expired in December, 1996. Because there could be no doubt about the failure of the first four years of independent operation, the chairman of the Board of Directors was not nominated again to his post. The former mayor and the chairman of the Election Committee both begged the only agricultural engineer, who had been a member of the Board between 1993–1996 but had always refused to stand for chairman, to stand now. In the end, he gave up resisting. He accepted the post, but as a second job, the risk of failure being too high for him to give up his position as deputy chairman in a successful neighbouring co-operative. In the absence of a better alternative, the co-operative members elected him in December, 1996.

* * *

What does the Hollófoldje tale tell us?

The foregoing description gives readers a better understanding of the fruits of the erosion phase of the so-called 'smart' Hungarian version of socialism. It also exemplifies the importance of power relations inside and outside certain communities, and the peculiarities of local history. The role of individual citizens and the influence of leaders in pushing local history in a particular direction are clearly highlighted, as are the limits of their power.

This Hollófoldje case shows that neither a Taylorist organisation nor its staff can be fundamentally changed from one day to the next, irrespective of the fact that it cannot be split without major damage to the organisation of production and labour. The failure of the first post-socialist management in Hollófoldje was imminent in the structure of the "mother co-operative" and the style of leadership there. The same applied to the attitudes of new-old members at work. Unlike in some other regions in Hungary, the duality typical of late socialist period survived the system-change here: villagers practised their 'peasant attitudes' of a kind on their home small-scale farms and behaved as workers in their 'genuine co-operatives,' as they used to during socialism. The Hollófoldje co-operative was not alone in manifesting this survival, nor the fact that most of the older membership – instead of exercising strong collective control over management based on their ownership rights – backed out of the co-operative.

There is further element which is visible in the story of the Hollófoldje co-operative, although in other cases it received greater emphasis (Hamar 1998, Váradi 1998, Kovács 1998c), and which can be considered characteristic of the Hungarian transformation as a whole. This is the fact that it provided space for little pieces of clever dealing, such as establishing family and other coalitions for buying and selling shares, which, in the final analysis, softened the blows inflicted by the evolution of capitalist structures.

Finally, the Hollófoldje case demonstrates that post-socialist legislation which aimed at re-furbishing peasants and their heirs with ownership rights failed because the new laws were not able to revitalise to the desired degree a sense of ownership in the transformed co-operatives. The controversies immanent in the mode of decollectivising co-operatives (business shares which did not accord proportionate influence over decision-making) left the management in this successor co-operative, and in many others, subject to no controls. In many co-operatives, managers could live up to this unexpected opportunity, in Hollófoldje

the first post-socialist management could not. The tale is not yet over, however, it has just been interrupted. How the new management copes will be the subject of later chapters.

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