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AGRICULTURE IN TRANSITION

4

Reorienting the cooperative structure in selected Eastern European countries

Case-study on Hungary



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by
János Juhász

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REORIENTING THE COOPERATIVE STRUCTURE IN SELECTED EASTERN EUROPEAN COUNTRIES

CASE-STUDY ON HUNGARY

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INTRODUCTION

In Hungary agriculture plays a very important role, mainly due to the fact that the country's physical conditions for agricultural production are better than average, which is well indicated by the high ratio of agricultural land area to the total area of the country (69.6percent). In practical terms half (50.7 percent) of the total surface is arable land. The favourable conditions are reflected in the contribution of agriculture to the national economy. The share of agriculture in gross output amounts to 17-18 percent, and about 20-21 percent in the national income. Agriculture accounts for 21-22 percent of all exports. It is worth mentioning at this point that the share of agriculture in imports is only 7-8 percent and agricultural investments represent 8-9 percent of the total. This eminent position of agriculture, however, is only partly due to its performance. The relatively low level of output and undeveloped nature of the other sectors, especially industry, are to a considerable extent responsible for it as well.

In 1989, the agricultural sector provided employment to 837 500 people, i.e. 17.4 percent of all active earners. Out of these, 565 3000 (11.7 percent of total active earners) were involved in agricultural production. In other words, 1,849 people of the domestic population were supported by each 100 agricultural active age producers.

The total agricultural land area of the country is 6 484 000 hectares, the composition of which is as follows: (thousand hectares)

Arable land	4 712.7
Garden	338.3
Orchard	94.3
Vineyard	140.3
Meadow	1 197.3

Livestock is composed of 1 598 000 cattle (646 000 cows), 7,660 pigs (701 000 sows), 20 699 000 sheep and 34 190 000 poultry (1989 data). The total value of fixed agricultural assets amounts to HUF 463.2 billion at current prices. (The August 1991 rate of exchange: 1 US\$ = 75 HUF.) Hungarian agriculture uses 201 kg of fertilizer (active agent) per one hectare of agricultural land and 1 588 kW per hectare of hauling power.

The level of performance of Hungarian agriculture is rather good even when compared to international standards. Between 1960 and 1990, the volume of output grew by 80 percent. The country has not only become self-supporting in terms of food, but is one of the largest agricultural net exporters as well. In a number of important branches, e.g. grain and milk production, yields have approached those of the most developed countries. (See Table 1.)

Table 1

Crop yields in Hungary as compared to some Western European countries in percentase of Hungarian averase yields. 1987/1988

<u>Country</u>	<u>Grains</u>	<u>Wheat</u>	<u>Potatoes</u>	<u>Sugarbeet</u>
Denmark	85.0	82.4	155.5	135.1
United Kingdom	95.0	123.9	175.6	108.6
France	115.0	109.5	182.8	158.9
Holland	125.6	130.8	249.1	152.6
West Germany	110.8	125.5	189.2	133.8
Italy	73.2	50.6	123.1	130.3
Spain	61.3	54.7	81.4	119.7
Austria	96.5	83.3	142.8	141.4
Sweden	72.6	98.2	149.0	94.3
Hungary	100.0	100.0	100.0	100.0

Source: Hungarian Agricultural Statistics Yearbook. KSH, 1988.
International Statistics Yearbook, KSH 1989.

The above development was based on an agricultural policy emphasizing quantitative growth. However, the reserves of quantitative development became exhausted by the first half of the 1980s. Food prices on the world market fell below production costs due chiefly to protectionist agricultural policies. Public demand for food started to stagnate and later to decline. Thus income levels in Hungarian agriculture deteriorated and the agrarian structure proved unable to counterbalance this tendency with improvee efficiency. A need for a radical change in agrarian policy therefore became obvious, but the necessary structural changes were delayed and in the second half of the 1980s further problems occurred. The rate of inflation has accelerated and agricultural input prices have increased even at a higher pace. Marketing difficulties have become still more serious on both the domestic and export markets. Over the 3-year period between 1988 and 1990 food sales on the domestia market fell by 20 percent. In the same period, COMECON - and in particular the Soviet-market - collapsed. Parallel with these processes state subsidies to agriculture have been substantially diminished, indeed, the majority of them entirely abolished. A new system of consumption and turnover (value added) taxation was introduced which has put an extra burden on agricultural producers. According to expert estimates, tax increases by themselves resulted in a food price increase of some 8 percent. This, on the other hand, contributed to a further decrease in the demand for food and created growing marketing difficulties.

Agricultural producers have responded to the above problems in two ways. One was the increase of prices as already mentioned. In addition, renewal of production resources has been slow. In an attempt to maintain personal income levels under the conditions of decreasing profitability, agricultural enterprises tend to postpone or refuse the necessary investments, indeed sacrifice their accumulated assets as well.

The number of those employed in agriculture has fallen sharply from 789 000 in 1980, 763 000 in 1985 to 631 000 in 1989. The respective estimate for 1990 is 596 000. The problem of growing unemployment in the whole economy makes these figures even more shocking.

All these processes put agriculture of Hungary in a particular situation. In spite of all difficulties it has to continue its economic stabilization role which will require the maintenance of the present level of domestic food supply, the improvement of export performance and the preservation of a certain level of employment close to the present one. These tasks can only be performed by a competitive, market-oriented structure different from the existing one in a number of ways. However, the transformation is not an easy matter and needs long time and considerable effort on the part of all concerned.

1. Current situation of agricultural cooperative societies

1.1 The structure of agricultural production organizations

The agrarian structure of Hungary was formed by the communist ideology and policy of the post-war period. This ideology emphasized the advantages and the establishment of an agrarian structure based on large-scale units. Large-scale production organizations were meant to serve a dual purpose: they were supposed to carry out a well organized and centrally planned production of agricultural produce at a high technological level. Beyond that they also had to serve as the institutions for changing property relations in agriculture. As part of the overall ideology, private property was to be abolished and replaced by collective (state) property in agriculture as well. In other branches of the national economy this transformation was resolved mainly by several acts of nationalization over a relatively short period of time. However, in agriculture the situation was more complicated particularly because an overall land reform had been carried out right after the end of World War II, during 1945 and 1946. A drastic nationalization would have been very dangerous from the food supply point of view as well.

Taking into consideration the final objectives and the difficulties alike, two ways seemed feasible: the maintenance of the already existing state owned large-scale farms and the introduction of agricultural production (farming) cooperatives as a means of gradually transforming peasant's private property into state property through a phase of group (cooperative) property. This basic approach prevailed in the course of the past forty years, although modifications occurred from time to time. Since the modifications did not touch upon the bases of the system, the structure of production organizations has also remained unchanged in practical terms until the present time. An overall picture of the structure is given below:

Table 2
Agricultural production organizations in Hungary

	1980	1985	1988	1989	1990
State farms	132	128	133	136	171
Joint ventures	-	-	-	26	50
Limited liability companies	-	-	-	90	451
Share-holders companies	-	-	-	2	39
Cooperatives of which:	1 415	1 345	1 333	1 335	1 393
Farming cooperatives	1 338	1 270	1 253	1 246	1 268
Fishery cooperatives	16	15	14	14	14
Specialized agric. cooperatives	61	60	66	62	67
Small cooperatives	-	-	-	13	44
Agric. associations				285	
Small-scale farms ('000 estimated)	1 500	1 442	1 375	1 435	1 445

Source: Hungarian Agricultural Statistics Yearbook, KSH, Budapest.

Clearly, cooperatives dominate agriculture in Hungary. Some additional information on the land use will further indicate this. In 1989, agricultural cooperatives cultivated 70.3 percent of the total area. State farms had a share of 14.8 percent, while small-scale farms used only 14.9 percent of the total. The farms belonged to various other state and municipal enterprises. Two further remarks are to be added to the data above: Although agricultural cooperatives are composed of different types and models, the overwhelming majority of them belong to a single type, the farming (production) cooperative. This makes the agricultural cooperative structure almost uniform, at least in quantitative terms. The other remark concerns the data on small-scale farms. Their number is close to one and a half million, but it should be made clear that most of them are part-time farms, either the household plots of farming cooperative members or so-called auxiliary farms of wage-earners. The number of full-time private farms is very low, and the agricultural land cultivated by them is 1.9 percent of the total.

1.1.1 State farms

State-owned agricultural enterprises are in a way traditional forms of production organization in Hungary. State or royal estates first appeared about 200 years ago. For example, the famous Hungarian horse breeding was, and in some cases has been, carried out on large state owned estates. However, most of the existing state farms were established after World War II in the course of the 1945-1947 land reform. Some of the former feudal estates became nationalized and transformed into state owned large-scale farms. The idea was that they would serve the purposes of technical and technological development by doing breeding and experimental activities and by providing improved seeds and new varieties to commercial agricultural producers. This concept was maintained by the single communist party system as well. Indeed, after 1949 the state farms were meant to provide a model in terms of not only technology but of methods of large-scale production organization as well. In other words, state farms represented the future for farming cooperatives.

The original concept of having state owned and operated enterprises for developmental purposes has proved useful in many respects. Some of the state farms in Hungary succeeded in playing a leading role in technological development, thus contributing to the overall advancement of production methods and technologies. At the same time, a good number of state farms have become ordinary commercial enterprises. This fact *per se* would not create a major problem if they were efficient enough. The problem is that many of them have not come up to expectations in that respect either.

State farms are straightforward state owned large-scale enterprises similar to those in other branches of the economy. They are hierarchically organized and base their activities on the work of employees. The latter are remunerated by monthly wages. In addition to that they are allotted a small plot for individual cultivation as a fringe benefit. This is called the auxiliary plot and is designated annually from the already sown area of the large-scale farm. In some cases only the yield of the auxiliary plot is given to the employees after harvest, either in kind or even in cash.

State farms are the largest production organizations in Hungarian agriculture. The total land area of a state farm amounts to some 7 000 hectares on the average. It has 850 full-time employees out of which 690 are manual workers. The employees perform 134 000 ten-hour work days annually. The average state farm has a livestock of 2 316 cattle (930 cows), 11 213 pigs (731 sows), 1 067 sheep and 24 338 poultry. Its machinery includes 71 tractors, 47 lorries and 10 combine harvesters with a total hauling power of 11 666 kW. The gross value of fixed assets is HUF 769 million per state farm. Finally, the gross production value of a state farm is HUF 837 million. In 1989, state farms produced more loss than profit. The total profit per farm was HUF 51 million while the respective figure for loss came to HUF 88 million.

1.1.2 Farming cooperatives

Farming cooperatives are production - or workers' - cooperatives as far as their type is concerned. As it is well known, the Soviet kolkhoz cooperatives provided the model for the introduction of farming cooperatives in Hungary at the end of the 1940s and the beginning of the 1950s. After several forced organization attempts, the structure of farming cooperatives became dominant and consolidated in the first years of the 1960s. In Hungary, a number of essential modifications have been made of the original kolkhoz model as a result of which a special institution evolved characteristic of only this country.

Farming cooperatives aim at joint farming carried out by their members. For that purpose a common cooperative farm is established. Members are obliged by law to turn over their land to the cooperative for joint cultivation. However, they maintain the individual ownership of land, at least in legal terms. Initially, other means of production were also contributed by the members against symbolic compensation. At present, farming cooperatives own and use a high-value stock of assets that has been accumulated from their production activity in the course of long years.

The basis of membership relations is work in the farming cooperative. Members are obliged to participate in joint work, while the cooperative is also obliged to provide employment for its members. In accordance with this, the income of the cooperative is distributed among the members according to the work performed. In practical terms remuneration takes the form of monthly wages complemented by year-end bonuses. Incomes used for joint developmental - investment - purposes augment cooperative property. Cooperative property is almost entirely indivisible in the farming cooperative model. Therefore no direct property-motivated incentive exists between the cooperative and its members.

The joint farm of farming cooperatives is hierarchically organized, similar to the state farms. Over the past decades a highly professional management has developed that dominates decision making processes at all levels.

Although the original function of the farming cooperatives was to create a uniform structure of large-scale common farming, members' individual small-scale activities have always been present. From the very beginning members were allowed to keep a small plot of their land for family cultivation. The size of this plot was, of course, limited to about half a hectare. Similarly, the size of livestock to be reared individually was also strictly limited in the early years of collectivization. The small land area and the livestock constituted together the so-called household plot of farming cooperative members. The institution of household plots was meant to be a temporary gesture to the private-minded peasantry to facilitate their transition to entirely collective farming. However, the household plots survived. They passed through various periods of political considerations. At the beginning they were considered politically dangerous, carrying "capitalistic ideas". Later economic policies adopted a kind of "neutral" approach towards them, neither their dangers nor their advantages were particularly emphasized. In recent times household plots have become politically supported as important forms of small-scale farming.

Corresponding to the above, the ideal type of farming cooperatives has also taken up special new features different from those of the original model. Instead of exclusive large-scale farming they have come to be considered as production organizations combining large-scale and small-scale activities. The model of farming cooperatives has therefore been composed of two parts, namely, the joint or common farm and a great number of household plots or, to use the better term, household farms. Both are commodity producing organizations and it is the duty of the common farm to "integrate" the activities of the small-scale family-based household farms. Assistance in terms of machine works, (e.g. ploughing, spraying, etc.), transport, provision of production materials, extension, marketing, etc., has been provided for small-scale farmers in many farming cooperatives. Collaboration between the common and household farms took various forms. The general concept prevailed that a particular type of "symbiosis" should and could develop between them. This symbiosis was the basic characteristic of what used to be called the "Hungarian model" agrarian structure. The concept, of course, has been extended to other types of agricultural production organizations to cover the symbiosis of all forms of large-scale and small-scale farming.

The farming cooperatives have grown to become rather large enterprises in all respects, though they are smaller than state farms. Today the land area cultivated by the average farming cooperative amounts to some 4 000 hectares. The number of those who have a full-time job in the cooperative is 377, of which 282 do manual work. Not all of them are members of the cooperative, however. Out of the 377 full-time job holders, 263 are cooperative members and 114 are employees. Clearly, farming cooperatives utilize a significant amount of hired labour. On the other hand, they have a considerable number of retired members who retain their full membership but no longer participate in the joint work. Their relationship to the cooperative in the field of farming is limited to the household farm which remains theirs also after retirement. This link, however, may be quite important from the points of view of both the cooperative and its member. The average farming cooperative has a total membership of 551 people, of which as many as 288 are pensioners and annuitants. All those working in the average cooperative performed 78 000 ten-hour working days in 1989, i.e. 227 working days per capita.

In the same year, an average farming cooperative reared the following livestock: 794 cattle (298 cows), 1 936 pigs (147 sows), 934 sheep and 5 055 poultry. Its machinery included 32 tractors, 19 lorries and 7 combine harvesters with a total hauling power of 5 301 kW. The total gross value of its fixed assets amounted to HUF 230 million, and it produced a gross production value of HUF 239 million. In this sector, too, losses have been more frequent than profit in recent years. In 1989, the per cooperative profit came to HUF 17 million, while the respective figure for losses reached HUF 22 million.

The farming cooperative sector described above has made undeniable achievements and has shown remarkable strengths particularly in certain periods of post-war development. The fact that Hungary had become not only self sufficient but also a net exporter of food is to a great extent the result of the farming cooperatives' operation. They proved an appropriate means for rapid quantitative development carried out in an extensive way between the mid-sixties and mid-seventies. Some of the further strengths of the farming cooperative system are the following:

- the large-scale of operations of the farming cooperatives made it possible to make use of the economies of scale. Several branches of agriculture have become highly cost-effective and competitive on the world market. A good example is the production of cereals, particularly wheat;
- the structure of farming cooperatives facilitated a relatively rapid technological development in agriculture;
- as a response to the demand for professional management in the large-scale cooperative farms a new, highly trained group of agrarian intelligentsia has developed;
- throughout the centrally planned system of economy the cooperative system succeeded in gaining and maintaining a relative and increasing autonomy and freedom in decision making concerning the pattern of activities, income distribution and investments. By doing so it also maintained the highest possible level of economic democracy under the conditions of a non-market oriented system;
- unlike in other centrally planned countries, the members of the farming cooperatives in Hungary have been able to keep the private ownership of their lands in legal terms. This contributed to the cooperatives' autonomy and to a more flexible cooperative-member relationship;
- cooperative farming allowed for a rather rapid increase of farmers' incomes. As a result, peasants' incomes have reached the national average in Hungary. It should be noted however, that this required a considerable amount of overwork, mainly performed on the household farm;
- farming cooperatives have played a very important role in creating employment possibilities in rural Hungary. In addition to primary agricultural production they have always been autonomous enough to diversify their activities. Food processing has formed a natural part of their activities but beyond that a broad scale of off-farm (non-) lines have been taken up as well. These include commercial, service and industrial production activities alike;
- in the field of social security the farming cooperative system performed a significant task as well. Based on self-help principles farming cooperatives have provided various social services (e.g. kindergartens) and financial aid to their members. Old age annuities have been given from their own resources before the state pension scheme was extended to peasants as well. It is also the result of the farming cooperatives' contribution that the same uniform retirement age has been applied in agriculture and in other sectors alike (60 years for men and 55 years for women).

In spite of all the achievements and strengths of the cooperative farming system it has become obvious by now that the large-scale collective farms have exhausted their development reserves and in their present form are not suitable for the requirements of a market economy:

- the farming cooperatives were not designed to be profit oriented. Their chief economic role was to meet the requirements of central planning and act as local units of a nation-wide mechanism;
- property rights are not clear in the farming cooperatives. The common cooperative property controlled by professional managers is out of reach for the disposal of ordinary cooperative members. Since there exists no return on capital, members basically have short-term interests. In other words, they are more interested in immediate personal incomes than in making investments. Even personal incomes are not always closely linked to performance and this has a negative impact on incentives and, in the final analysis, on efficiency;
- farming cooperatives have become too large operations. Their development has not been a natural one. It was determined by political objectives favouring organizational concentration. The centrally initiated concentration process created a whole structure of oversized cooperative farms. As a consequence, farming cooperatives are slow-moving and rigid and cannot respond quickly to the challenges of the market;
- in addition to being generally too big, the farming cooperatives constitute a uniform system in the agriculture of Hungary. Almost exclusively large-scale enterprises of more or less the same size operate. Medium and independent small-scale farms are in practical terms missing from the structure. This is because only the farming cooperative model used to be considered viable for quite a long time;
- the development of professional management not only facilitated technological development but contributed to the spread of a technocratic approach as well;
- in some branches of production farming cooperatives have not proved able to match the expected level of efficiency. Generally speaking, most livestock breeding is not cost effective enough and therefore is not competitive on the export market;
- because of a combination of circumstances, such as too big sizes, dominance of professional management, unclear property rights, shortcomings of the system of incentives, lack of genuine cooperative functioning, etc., farming cooperative members have developed a wage-worker attitude towards their cooperative instead of an owner's attitude;
- parallel with performing their socio-political and social security functions farming cooperatives created hidden unemployment as well.

1.1.3 Specialized agricultural cooperatives

The specialized agricultural cooperatives are different from both the classical promotion cooperatives and the production cooperatives. Specialized agricultural cooperatives represent a kind of intermediate type between the two. They came into being in the course of the second overall collectivization drive between 1959 and 1961. In some particular wine and fruit growing regions of the country it seemed rather dangerous to force the establishment of farming cooperatives and therefore the introduction of so-called "simpler" types of cooperatives was allowed. One of the simpler types was the specialized agricultural cooperative which became rather popular among wine and fruit growers. It was considered specialized for two reasons. On the one hand, it focused on some special crop, most often grapes. On the other hand, its membership relations were also special. These cooperatives basically maintained not only private ownership but family cultivation of the land as well. Only a minor part of the members' land was pooled to create large-scale joint plantations. Primary production was carried out individually by the members and the main function of the cooperative was to process and market jointly its members' produce. Accordingly, members were not obliged to participate in the cultivation of the common plots, though specialized cooperatives aimed at creating a gradually increasing joint farm. Indeed, the long term economic political objective concerning specialized agricultural cooperatives was to transform them into farming cooperatives. This process started as early as the mid-sixties and by the mid-seventies it reached quite an advanced state. The highest ever number of specialized agricultural cooperatives was 238 in 1969 which fell to 60 by 1985.

However, the model of specialized agricultural cooperatives has survived and it may be viable under the new conditions in the future, too. At present there are 67 specialized agricultural cooperatives. These are much smaller enterprises than the farming cooperatives. The average land area of a cooperative is about 1 100 hectares. The number of members is 582 in the average specialized agricultural cooperative. It has 208 full-time employees, some of whom are also members. The number of manual workers is 167 and the total work time performed in 1989 amounted to 46 000 ten-hour working days, which means 221 working days per capita. Since specialized agricultural cooperatives are involved in special crop production their animal husbandry is of less significance. In 1988, they had 129 cattle (44 cows), 99 pigs (7 sows), 1 566 sheep and 1 810 poultry on the average. As to their machinery, the average number of tractors was 13, lorries 12 and combine harvesters 3 in 1989. These together represented a 2 196 kW hauling power. All these figures refer, of course, to the common farm of the specialized agricultural cooperatives.

The model of specialized cooperatives is closer to a genuine cooperative than that of farming cooperatives. This is one of its greatest strengths. The other one is its economic performance. Specialized agricultural cooperatives have always been more profit oriented. That is why they did not really fit into the system of socialist redistribution. Membership relations are clear in the specialized cooperatives, at least those of the members who do not participate in the joint work. However, these cooperatives also have some weaknesses. Their joint farms have become very similar to the joint farms of the farming cooperatives. Therefore their problems are similar, too. Property rights, hierarchic work organization, technocratic management, the system of interests and incentives all need fundamental transformation.

1.1.4 Agricultural associations

The third important cooperative model existing in Hungarian agriculture is that of the agricultural associations. Although they are not independent legal entities, they represent an autonomous model of agricultural cooperatives. Agricultural associations came into being as a special line of activity of consumer cooperatives. They operate within the organizational framework of the latter even today. The original objective of the establishment of agricultural associations by consumer cooperatives was to promote the agricultural production of part-time producers. Many of the rural wage-earners have small part-time farms. These are basically hobby farms of subsistence character. However, they do produce surplus for sale. Consumer cooperatives have traditionally purchased agricultural products. In the period of central planning and after the consolidation of the farming cooperative system in particular, their purchases gradually became limited to the produce of part-time farms. In order to have more commodities of good quality they established special agricultural associations.

Agricultural associations have been organized mainly for commodities. Most of them deal with animal husbandry specializing in a single line. Thus the majority of the agricultural associations are involved in pig breeding, but there are many poultry breeding and crop producing associations, too. Among the latter, the fruit and vegetable producing ones are of significance also on the national level. It is a very specific feature of the agricultural associations that small animal rearing is done almost exclusively within their framework. They dominate the production of such small animals like pigeons or rabbits of which remarkable quantities go to export markets. The basic data of the agricultural associations are given in Table 3.

Table 3

Main data of agricultural associations operating within the framework of consumer cooperatives (1987)

	No. of associations	No. of members	Value of joint sales (million HUF)
	Animal Husbandry		
Pig breeding	234	45 274	2 381
Rabbit farming	722	29 784	613
Poultry and egg production	65	2 129	634
Goose fattening	28	2 446	630
Pigeon breeding	52	2 469	11
Other small animal rearing	64	3 847	187
Bee keeping	438	17 750	610
Total animal husbandry	1 603	102 750	5 066

	No. of associations	No. of members	Value of joint sales (million HUF)
	Horticulture		
Wine, fruit and vegetable production	180	22 340	263
Other	572	47 583	1 131
TOTAL	2 255	172 622	6 460

The agricultural associations assist their member in production. In addition to purchasing members' products they provide production materials, seeds, pesticides, fertilizers, etc. Of course they have no common land area, but do have joint property in the form of machinery, equipment and buildings. Various services, mainly machine works, are provided to members against compensation but at favourable rates.

It is very important to note that the concept of agricultural associations has been extended since the beginning in more than one respect. Associations belonging to consumer cooperatives do not limit their membership any more to those who are not full-time farmers. Farming cooperative members also may and do join them in their capacity as household farmers, i.e. with their part-time farms. (It is a quite unusual feature of the agrarian structure that a special group of people, the farming cooperative members, are both full-time and part-time farmers at the same time.) On the other hand, agricultural associations have been established by farming cooperatives, indeed by state farms, too. For example, it is very common for wine-growing state farms to organize associations of their employees for the establishment and cultivation of new plantations. In such cases the members of the associations also contribute capital, mostly in the form of loans. The same solution occurs in both farming cooperatives and specialized agricultural cooperatives. The membership of the associations is not restricted to the members or employees of the mother organizations. As a result, agricultural associations nowadays operate within the framework of all large-scale farms and the consumer cooperatives with an entirely mixed membership. It is also worth mentioning that a good part of the agricultural associations' production would appear in the official statistics as large-scale performance. The reason, beyond the technical difficulties of precise registration, is the fact that large-scale enterprises look upon agricultural associations as special forms of work organization.

1.1.5 Small-scale farms

As mentioned above small-scale farming in Hungary includes several types of farms: the household farms of farming cooperative members, the so-called members' farms of the members of specialized agricultural cooperative, the auxiliary farms of the state farm employees, and other wage-earners, including hobby-farms and private farms. The overwhelming majority are part-time farms and at present only a few full-time private farms exist. All these together are considered and statistically registered as small-scale farms. The output of small-scale farms is much higher than one would expect from the size of land cultivated by them. This is because a particular division of labour has been developed between the large-scale farms and the small-scale farms on the national level. (This does not necessarily mean the same division of labour at the level of each single enterprise.) In general, capital intensive production is concentrated in the large-scale farms and the labour-intensive production is carried out by small-scale farms. In other words, the production of cereals, animal feed, and industrial crops is done at a large scale, while small-scale farms are mainly involved in the production of vegetables (above all greenhouse vegetables), flowers and livestock produce.

Small-scale farms contribute more than one-third of the total output of agriculture. In a number of branches their contribution is much higher than that. The share of small-scale producers in vegetable growing exceeds 90 percent for celery, radish, garlic, lettuce, cucumber, red cabbage, savory, kohlrabi, cauliflower, red beet, green onions and green paprika. As regards fruit production the small-scale producers' share exceeds 80 percent for pears, cherry, plum, red current, raspberry, almond (100 percent), walnut (97.6 percent). Concerning the production of animals for slaughter and animal products the contribution by small-scale producers of pig, horse, goose, goat, milk, egg, honey and down is some 50 percent.

The dynamic growth in the output of small- and large-scale farms has been largely in favour of small-scale producers in the past two decades or so. The growth rate for large-scale production was 27.3 percent between 1980 and 1987, while small-scale producers recorded a 47.5 percent growth in the same period.

The function of small-scale farming has changed to a great extent by today. At the time of the collectivization of agriculture it was meant to have a subsistence function. In our days, small-scale farming is definitely commodity producing. As a result of a diversification process the majority of the small-scale farms, particularly household farms, have become market oriented small enterprises. Indeed, many of them are engaged in specialized production concentrating on a single commodity. Parallel with this on the other end of the scale, a number of small-scale farms have ceased to exist, while there are a few that keep going at subsistence level.

In practical terms all small-scale farms have some kind of link to some cooperative form. Farming cooperatives, specialized agricultural cooperatives and agricultural associations alike are involved in the promotion of small-scale farming. The so-called integration function of the farming cooperatives is estimated to be of the highest value. Without doubt, farming cooperatives have done a lot for the household production of their members. However, they have done it from a monopolistic position and in a situation in which small-scale producers had no other option but to accept the "integration" of the superior large-scale farms.

1.1.6 New forms of production organizations

The production organizations discussed so far are the "traditional" agricultural institutions of the centrally planned economy. As the data show, these organizations, above all the farming cooperatives, prevail in Hungary today, after the change of the political system. The transformation of the agrarian structure has been put on the agenda but it is going to be a long and complicated process. (This issue will be dealt with later on in this study.) However, some new organizations have already appeared although their number is not very high as yet and most of them should be considered as isolated experiments.

The establishment of so-called "small cooperatives" started in 1987, i.e. before the change of the political system. The term was introduced by the latest amendment to the cooperative law of 1971. According to that modification small cooperatives are those in which the number of members does not exceed 100 people. As compared to the traditional "large" cooperatives, the small ones enjoy a number of advantages. Their bookkeeping and auditing are simpler and have tax benefits as well. In fact the purpose of their introduction was to facilitate the transformation of the old cooperatives into genuine ones. In order to pursue that aim the law allowed the separation of groups of cooperative members of 15 to 100 people from their cooperative to establish a new "small" cooperative. In such cases, the property was also divided proportionately with the approval of the general assembly of the "large" cooperative. Small cooperatives have become widespread in the industrial cooperative sector but not so much in agriculture. (There have been some 4 000 small cooperatives organized in industry over a period of two years.) Nevertheless, a few of them have appeared in agriculture as well. Partly they are newly established cooperatives of small farmers with entrepreneurial endeavours and partly they are separated from farming cooperatives. Not much information is available so far regarding their operations and viability.

Various associations and joint ventures established among or between agricultural cooperatives and state farms have long existed. Most recently international capital has shown an increasing interest in certain activities in Hungary. New joint ventures are established with the participation of Hungarian large-scale farm and foreign investors.

The really new forms of enterprises are joint stock companies in Hungarian agriculture. Both limited liability companies and share-holding companies appeared only in 1989. The legal basis for their establishment is provided by the company law. Although both are non-cooperative organizations, the establishment of one or the other follows different processes and has a different impact on the cooperative structure. Limited liability companies come into being in two ways. The general assembly of a cooperative may decide to transform one or more of its units of work organization (workshops, brigades, etc.) into an independent limited company. Most often this is done with the capital contribution of individual members. The cooperative will contribute the assets used by the unit. In some cases one-person limited companies are established in which only the cooperative takes part as a legal entity. The other way of establishing such companies is the traditional one when an entirely new enterprise is created with the capital input of the cooperative and other legal and/or natural persons. The important feature of this process is that, regardless of the way of establishment, the newly created limited liability company does not abolish the existence of the cooperative as a whole. It may decrease its size of operation but does not aim at changing the institutional form of the entire cooperative. In practice the units of off-farm activities, e.g. repair shops, industrial workshops, etc., are most frequently transformed into limited liability companies in agricultural cooperatives.

The aim of the establishment of share-holding companies is usually different. Some cooperatives, or to be more precise, some cooperative managers feel the future of the cooperative and also their own future safer in some other organizational form. Legal regulations make it possible for the general assemblies of cooperatives to transform their cooperative into a joint stock company. In a few recent experiments the form of shareholding company has been selected for that purpose. Based on the general assembly's decision, a larger part of the cooperative property has been distributed among the members and employees in the form of fully negotiable shares. For the purposes of social security and social assistance a foundation has been established by setting aside the smaller part of the cooperative property. This solution is fully legitimate according to present legislation. It may, however, clash with the new cooperative law being drafted.

1.2 Membership relations in the existing agricultural cooperatives

The role of members with regard to cooperative principles has always been problematic in the Hungarian agricultural cooperatives. In the course of the communist era, collectivization of agriculture through cooperatives was given the highest priority. Therefore the establishment of an overall cooperative structure became one of the basic objectives of government (party) policy. In other words, cooperative organization had been brought to the level of official state policy. This fact resulted in a number of particular consequences for the application of cooperative principles and cooperative practice.

In theory and in political declarations Hungary committed itself to the internationally accepted cooperative principles. Indeed, cooperatives were considered "friendly" organizations capable of advancing the general economic and political objectives of the socialist (communist) state. However, they themselves were not "socialist" institutions particularly in the early period of so-called "socialist construction". This classification changed in the course of time. First they became institutions of "not consistently socialist character". In recent years cooperatives were considered fully socialist organizations. Throughout the whole period they had to meet two requirements. In order to be able to fit, and to make the whole system fit society, they had to observe international cooperative principles. But they had to fit socialist society as well and had to observe a set of special "socialist" cooperative principles elaborated in the Soviet Union, based on various statements on cooperatives by V.I. Lenin. This set of principles were known as Lenin's cooperative principles or Lenin's cooperative plan. As a result of this dual requirement a combination of the international and Lenin's principles was elaborated and declared as "socialist cooperative principles".

The socialist cooperative principles included all important international principles, such as voluntary and open membership, one member one vote, democratic control, self-management, autonomy, etc. However, in addition they also included such principles as state support to cooperatives, the principle of graduality, harmony between individual, cooperative and social interests, etc. As a matter of fact, the latter ones were rather the reflections of the cooperative practice in the Soviet Union than those of Lenin's theoretical works. In this sense they were closer to Stalin's cooperative principles serving the total collectivization of agriculture. From this point of view some of the socialist principles are of particular significance. For example, the principle of graduality provided a basis for the classification of cooperatives according to their socialist character. The traditional promotion cooperatives, like consumer cooperatives or supply and marketing cooperatives were considered less advanced while the production (workers') cooperatives, the kolkhoz in particular, were considered more developed. The principle of graduality allowed for the organization of less developed, "simpler" types of cooperatives. However, these were to gradually develop into more advanced production cooperatives carrying out the highest possible level of collective activity.

The principle of state support was also very purposefully applied. On the one hand, cooperatives were given subsidies, especially at the time of establishment. On the other hand, state support provided a good excuse for the political power to interfere with the internal affairs of the cooperatives. The requirement for harmony between individual, cooperative and social interests set a hierarchy of interests. Within that hierarchy individual interests were ranked lowest and the interest of the whole society - in practical terms, those of the state - highest. Cooperative interests were placed in between, corresponding to their "less socialist" and transitional character.

1.2.1 Cooperative principles and organization practices

The socialist cooperative principles themselves could be a subject of theoretical dispute. However, the most problematic aspect of the cooperative principles in the Hungarian context has been the gap between the declared principles and actual cooperative practice. This is particularly true for the agricultural cooperatives.

As is well known, the cooperativization of Hungarian agriculture was a centrally initiated and controlled process carried out in two phases. There were relatively brief and aggressive organization drives. The first and unsuccessful one in the early 1950s and the second successful one between 1959-1961. Obviously both of those campaigns violated the most important traditional cooperative principles. Under the conditions of strong political, economic and even physical pressure one cannot speak of voluntary membership and democratic control is also totally out of question.

Cooperative autonomy is also one of the areas which existed only on paper for quite a long time. In the early period of the dictatorship, the state gave direct orders, called "compulsory plan indicators", to the cooperatives. The regional and national cooperative federations themselves played a so-called transmission role between the state (the party-state) and the cooperatives. Unfortunately, the transmission worked only top-down.

Paradoxically enough, while the principles of cooperative democracy had a very limited scope of validity, formally the cooperatives in Hungary have always maintained all the institutions of cooperative democracy and self-management. Cooperative chairmen were always elected and an elected board of directors, supervisory committees and various other committees were established. The general assembly was always the highest decision making body of agricultural cooperatives.

The establishment and functioning of these institutions has been supported by legislation as well. Indeed, as of 1967 an independent agricultural cooperative act passed by Parliament has been in force. The cooperative character of the collective farms was meant to be strengthened by the Uniform Cooperate Act of 1971, too.

Due to the prevailing ideological concept and to the totalitarian character of the power structure the democratic cooperative institutions could not function properly. Formal and informal, open and hidden interference kept disturbing democratic processes in the agricultural cooperatives. In spite of the relatively favourable legislation the lack of autonomy of agricultural cooperatives was a characteristic feature of the entire period of communist rule. However, the means and methods of controlling cooperatives changed in the course of time. As the dictatorship became "softer", cooperative autonomy increased. There were attempts to restore a complete autonomy in the agricultural cooperatives. The very first such attempt was, of course, made during the 1956 revolution which resulted in the rapid growth of a great variety of agricultural promotion cooperatives assisting private farmers between 1957 and 1959. They were genuine autonomous people's organizations. But as a consequence of the new collectivization drive launched in 1959, virtually the whole agriculture of the country became dominated by the kolkhoz-type of agricultural production cooperatives.

The other very significant attempt to rehabilitate cooperative principles was made in 1968 as part and parcel of the first overall economic reform known as the New Economic Mechanism. Although it was a straightforward and thorough reform, it did not aim at changing the entire political and economic paradigm. Thus the cooperative reform could not be successful either. After some initial positive results, the whole reform process was frozen and a process of overall "retreat" started.

It should be emphasized that in spite of all the obstacles agricultural cooperatives have had democratic experiences as well. Annual production plans have had to be submitted to the general assemblies for approval and the same applies to the annual reports. The mere fact that the leaders of the cooperatives had to be elected made a difference between them and other types of enterprises. Although there was a dominating party influence, because of the formal observance of the democratic rules it could be exerted only informally and mainly in the phase of nominations. Not very often, but it did happen that the general assembly refused the election of persons who were supported by the party. Similarly, more flexible and more market oriented methods and solutions could be introduced in the fields of work organization (e.g. complex brigades, household farming, etc.), income distribution (share cropping), and the pattern of activities (e.g. off-farm branches). One of the greatest merits of the agricultural cooperatives is that they have been able to preserve a minimum level of economic democracy.

Agricultural cooperatives therefore have played a particular dual role in the Hungarian economy. On the one hand, they served the establishment and functioning of a totalitarian economic and political system based on communist ideology. On the other hand, they continued to fight for their autonomy and economic democracy. As a result agricultural cooperatives have not remained unchanged over the post-war period. Indeed, even cooperative concepts and policies have gone through various stages of development. The changes have always reflected the state of affairs in the power structure. But they themselves played a kind of "catalytic" role influencing the overall economic and social policy of the country. In a way agricultural cooperatives in Hungary have been in a state of permanent reform with smaller or larger failures and successes since the end of World War II. The general trend of that process is definitely positive, moving from a totalitarian through a "liberal" dictatorship towards real democracy. In terms of cooperative principles it goes from total ignorance through a limited application towards a genuine organic development. However, the reform process was slow, with each positive step enforced by economic difficulties, and was taken subsequently and experienced as a "retreat" by the ruling bureaucracy and until 1990 it was not aimed at a fundamental change of the prevailing system.

1.2.2 Members and principles today

The developments described above created a special cooperative structure in the agriculture of Hungary. As to the membership relations and the validity of basic cooperative principles this structure is characterized by the following:

The principle of open and voluntary membership is entirely observed by all types of agricultural cooperatives. There exists no discrimination of any form and no one is forced any more to join a cooperative. This positive statement needs, however, some further elaboration. Since practically the whole agriculture of the country became collectivized in the early 1960s, the establishment of new agricultural cooperatives is almost entirely an academic issue. The very few private farmers are happy not to be forced to join farming cooperatives. They are members of agricultural associations and since 1988 they have had the chance to organize so-called small agricultural cooperatives. This, as we have seen above, seldom happens.

Voluntary membership does have a significance in the opposite sense in our days in that the question arises whether the members of the agricultural cooperatives are free to leave their cooperative. In practical terms this is the precondition for the establishment of any new agricultural cooperative in today's Hungary. The theoretical answer is affirmative. Any cooperative member has the right to resign his or her membership. In practice, however, the problem is not so simple. Until mid-1990 land could not be withdrawn from the cooperatives. This fact made the chance of resignation entirely unrealistic. The latest changes of both the land law and the agricultural cooperative law make it possible for cooperative members to withdraw their land without limitation. This is a positive step from the point of view of voluntary membership. However, the rest of the cooperative property is indivisible. (This problem will be dealt with later.) Taking into consideration the fact that members are existentially linked to the farming cooperative and as a consequence there is no accumulated private capital in agriculture, resignation remains only a theoretical possibility for the majority of the farming cooperative members.

One further option is to be mentioned in this context, namely, separation. Also the latest amendment to the agricultural cooperative act makes it possible for a minimum of 15 members to separate from the cooperative in order to establish a new cooperative or join an existing one. In such cases the property share of the departing members will be taken with them. This possibility may also contribute to increasing the validity of the principle of voluntary membership and may help restructure the existing agricultural cooperative system.

All institutions of democratic control exist in the agricultural cooperatives. The principle of one-member one-vote prevails and both general legislation and cooperative statutes provide for the functioning of cooperative democracy. However, members' democratic control is far from perfect. In addition to the structure of cooperative self-government, the agricultural cooperatives have established a hierarchic structure of work organization and business management. In certain areas the two operate in a combined, or rather a mixed, manner. A good example of this is the status of the cooperative chairman. Chairmen have a dual position in the agricultural cooperatives. They are elected leaders but at the same time they are full-time professional managers employed by the cooperatives. Furthermore, in practice other professionals also tend to be on various elected boards. But apart from such overlapping the professional management of the agricultural cooperatives dominates the cooperatives' elected leadership. This results in a technocratic type of management.

Some additional factors contribute to weakening members' democratic control in the agricultural cooperatives. First of all, the magnitude of the operation should be mentioned in this context. The agricultural cooperatives are not only large-scale enterprises but carry out many-sided and, in terms of technology, highly complicated activities, as well. This makes members' access to the necessary information difficult and makes the whole business impossible to survey for the ordinary member.

The number of members is also rather large in the typical agricultural cooperative. The general assembly of all members cannot be convened and the system of representative democracy does not function properly either. In an attempt to improve members' control, cooperative legislation introduced the institution of so-called partial general assemblies. It means that according to the cooperative act general assemblies may be held in parts. For example, an agricultural cooperative that covers several villages (many do) may have partial general assemblies in each village. Partial general assemblies have the authority of the full general assembly. While this solution makes possible the participation of every single member in decision making, it is obvious that it provides plenty of room for manipulation, too.

The existing system of incentives is also responsible for the shortcomings of democratic control of the agricultural cooperative members. However, a definite improvement has occurred in this field in recent times. Incentives are more linked to performance than hitherto and are also more flexible in terms of the forms and methods of remuneration/income distribution. The latest experiments aim at creating a system of incentives which provides a return on the members' share in the cooperative property. In other words, a kind of return on capital is going to be introduced in addition to the remuneration of the work performed in the cooperative. The whole idea is meant to change members' wage-worker attitude into a genuine cooperative farmer attitude. If this attempt was successful it obviously would increase members' interests in their cooperatives' affairs and thereby improve democratic control in an indirect way.

In the context of self-management, the problem of autonomy is worth mentioning once more. Agricultural cooperatives have been permanently fighting for their autonomy for the last 30 years. By now they have become autonomous organizations. Due to the problems of members' democratic control however, autonomy basically means that of the cooperative managers.

Agricultural cooperatives are now entirely self-financing enterprises. The principle of state support does not apply any more. Indeed, the whole agricultural sector has gradually been deprived of almost all forms of state subsidies. This, of course, creates a lot of difficulties and may result in the bankruptcy of many cooperatives. This is a particularly sensitive issue of the ongoing cooperative reform. Nevertheless, it will have a significant impact on the cooperatives' membership relations as well. So far the agricultural cooperatives have been obliged by both the agricultural cooperative act and their statutes to provide employment to their members. In fact this is the basic aim of a workers' cooperative. However, the Hungarian agricultural cooperatives have been able to perform this task only with the assistance of the state. Subsidies were given basically to the agricultural sector, but sometimes special arrangements were provided for the cooperatives. Although the balance of subsidies and curtailments was negative from the agricultural point of view, the system survived and in practical terms no cooperative could go bankrupt. In exchange, agricultural cooperatives took over certain social and socio-political tasks from the state. Among other things, they created full employment in rural Hungary.

Nowadays, as economic difficulties become more and more serious and efficiency and other requirements of the market economy are increasingly emphasized, the whole system of state subsidies has gradually been discontinued. This obviously makes cooperatives independent in financial terms but for a great number of them may create very hard conditions and, indeed, this may lead to liquidation. The whole process may result in such a response on the part of the cooperatives that they give up the employment requirement and thereby contribute to increasing rural unemployment. However, the negative effects of state support have also been considerable and the transformation of the system is vital. The long term solution to the problem lies in the creation of both an efficient agrarian structure and a social security system.

2. The present agrarian structure

No overall agrarian reform has been carried out since the transformation of the political system in 1990. There is a general consensus, however, on the need for fundamental reform in agriculture. But the process is rather slow, basic legislative preconditions are missing, and there exist a considerable number of related issues to be settled. As it is indicated in the chapter dealing with the characteristics of the agricultural production organizations the present agrarian structure is basically the same as that developed at the time of the first free elections after World War II in the spring of 1990.

2.1 Land tenure patterns and property rights

The overwhelming majority of the agricultural land is cultivated by large-scale enterprises, i.e. state farm or agricultural cooperatives. Until mid-1990 a land use monopoly of large-scale farms prevailed. In practical terms large-scale farms cultivate 85 percent of the agricultural area even today, though their legally supported monopoly does not exist any more.

The typical land tenure pattern is that of the farming cooperatives. Most of the land used by the cooperative is cultivated jointly by the members and employees. Large-scale fields have been formed in which mechanized farming is undertaken. Both the machinery and work organization are adjusted to the requirements of large-scale farming. It is a very characteristic feature of this land tenure pattern that the joint (or collective) large-scale farm is surrounded by a number of small household plots. Roughly 93.5 percent of the total land area of the typical farming cooperative is covered by joint farming and some 6.5 percent is occupied by the household plots.

The land tenure pattern of the state farms is very similar to the above. Here the small-scale farms are called auxiliary plots. A different land tenure pattern is represented by the specialized agricultural cooperatives. Their basic institutions are the so-called members' farms which are cultivated individually by the farm families and are assisted by the cooperative. The specialized agricultural cooperatives also have joint farms but these occupy only about half of the total land area belonging to the specialized agricultural cooperatives.

Due to the provisions of former legal regulations real land rent is almost entirely missing from the Hungarian land tenure system. Indeed, there exists no land market either. In previous times private land ownership was limited, and the agricultural cooperatives neither sold nor bought land. They might have exchanged fields with other cooperatives purely out of convenience. Although cooperative members maintained the legal ownership of their land under joint cultivation, it was not negotiable because it could not be withdrawn from the cooperative. The land was inheritable but the non-farmer heir was obliged by law to "offer the land for purchase" by the cooperative. This situation, of course, resulted in unrealistically low compensation prices. Another consequence was a gradual but steady increase of the land area owned by the cooperative as a legal entity.

Today the larger part of the land cultivated by the agricultural cooperatives is private property. The share of land owned cooperatively is 59 percent out of the total. A further 37 percent is still the members' individual property while the rest is state property. For the latter, no rent of any kind is paid by the cooperatives, but they pay a small rent to the members. It is important to stress the symbolic value of this rent. The lack of a land market and the low amount of rent paid to the cooperative members indicate that agricultural land has no market value in present day Hungary. In other words, the value of land would not appear among the costs of production hence not in food prices either. This situation, which is the consequence of a particular land tenure system, does not facilitate the implementation of any agrarian reform.

2.2 Production structure

Due to the relatively high share of agricultural land within the total area of the country, crop production and animal husbandry are of similar significance in agricultural production. In 1990, crop production contributed 47.4 percent of gross output while the share of animal husbandry was 52.6 percent. The production of the main crops is given below:

Table 4Production of the main crops in 1990
(thousand tons)

Cereals	12 560
Wheat	6 170
Maize	4 560
Sugarbeet	4 674
Sunflower	671
Soybeans	53
Potatoes	1 264
Vegetables	1 995
Fruit	1 444
Grapes	863

Crop production is dominated by arable land cultivation. Cereals play the most significant role both in quantitative terms and in terms of yields. It can be stated that the average yields of cereals have reached international standards and this fact makes the branch competitive and profitable on the external market, too. Vegetable oil crops have become the second most important line of arable land production. It is primarily based on sunflower, the yield of which is rather satisfactory and has quite good export marketing possibilities although it should face considerable price fluctuations. The production of soybeans has provoked debates in the course of recent years. It seems that soybean production is not profitable if international trade works properly.

The low yield of herbage and pasture is one of the weak points of crop production in Hungary. This is only partly due to unfavourable natural conditions and obviously the lack of appropriate interest is also responsible for it. Horticulture, i.e. vegetable, fruit and wine production altogether cover a significant area of the agricultural land and provide full-time or part-time employment to many people. There was a strong, campaign-like quantitative development of horticultural production in the 1960s which resulted in a steady but not extremely high quality export performance in the 1970s. In the 1980s, however, first a stagnation and in most recent years a crisis situation occurred caused by the unexpected collapse of external markets. Nevertheless, horticulture remains one of the areas that provides a good opportunity for the utilization of the country's comparative advantages in terms of both physical conditions and manpower.

The most critical field of the agricultural production structure is animal husbandry. This holds true in spite of the fact that animal husbandry had increased at a higher pace than crop production for some decades. The internal structure of livestock breeding has adjusted to the good production level of cereals focusing on the use of fodder. Fodder was relatively cheap, but as a result of a forced and subsidized increase of meat export "protein" became expensive. The state strongly subsidized beef production in spite of the fact that it was not competitive. Parallel with that it neglected the development of sheep farming although this sector has had almost unlimited export possibilities.

However, within the cattle sector a successful dairy development programme was carried out. In the same time, the so-called "beef programme" failed almost entirely. Pork production is very important in Hungary, particularly from the point of view of domestic consumption. Its weak point is quality which again finds its origins in the unsatisfactory standards and in the system of incentives. There is a similar problem in poultry raising as well, where an additional difficulty is posed by the backwardness of the genetic base. In sheep farming development strategies gave preference to meat and wool production alike but this "mixed" approach proved unsatisfactory.

It is obvious that the structure of the food industry has been adjusted to primary production, hence it has similar features. A significant additional disadvantage of the food industry lies in the difference between the technical and technological base of the two sectors. While primary production approached the technological level of Western Europe in the 1970s, that of the food industry has gradually fallen behind, particularly in terms of labour productivity and hygiene standards. Similarly, the backwardness of packaging techniques causes serious marketing difficulties. These problems indicate the need for a rather rapid development in the field of food processing to enable the country to bring more value added produce to the market. In other words, the Hungarian food sector is expected to produce a more diversified selection of products that meets the demands of the external market and is based more or less on the traditional structure of raw materials.

3. Present agricultural policy

As part of the overall economic stabilization and development programme, the government has elaborated and issued its agricultural policy and programme in April 1991.

The starting point and basic approach of the programme is that both the international and domestic circumstances provide a rather narrow margin of action for agricultural policy. Hungarian agricultural export has been undervalued on the changing international markets and in quantitative terms it cannot be expanded. Hungary cannot cope with the very strong protectionism either. In addition there is a need for a rapid restructuring of agriculture which may cause serious social tension. All these obstacles can only be overcome if a fundamental conceptual and practical breakthrough is made to transform the entire food sector of Hungary.

The main objective of the government's agricultural policy is to create an internationally competitive and efficient food economy that is based on private ownership and market economy and capable of significant export performance without considerable financial support. Within this general objective domestic food supply continues to play an unimportant role. Nevertheless, agriculture is expected to increase the export of high quality commodities and to produce a positive export-import balance.

According to the development programme the agricultural sector will have to contribute to rural development and should provide a basis for the increase of the standard of living of farmers. However, because of stricter efficiency requirements the sector is expected to be able to support only a smaller part of the population than before. Agricultural production should develop in harmony with the natural environment and should aim at maintaining the country's ecological potential. This requires the introduction of a regional approach to development and no centralization attempt of any kind is supported. Agricultural policy should be complemented by a consistent rural development policy as well.

The establishment of a competitive food sector requires fundamental changes. Privatization, market oriented production, and a lower level of employment are considered unavoidable. However, all these changes cannot be carried out overnight. Transformation requires a transition period and compromises alike. The sector should be protected from the huge pressure and uncertainties of the international food market. Hence neither production nor export can be left with no support whatsoever. The transformation process itself should also be promoted by financial means.

3.1 Transformation of property rights

One of the most important preconditions for competitive agriculture is the transformation of the prevailing large-scale structures and property rights. Community property should be changed into private property. The means for this is seen in a thorough privatization. However, privatization in this sector is a much more complicated task than in other sectors of the national economy. It is very important to carry out the process in such a way that no serious production disturbances occur. Privatization should be accomplished also in food processing and trade parallel with that in primary agricultural production.

A special issue in privatization is the resettlement of land ownership relations. Taking into consideration the total agricultural area of the country, the share of state owned land is 27 percent, cooperative common property 42 percent, the individual property of cooperative members makes up 24 percent and 7 percent is owned by private and auxiliary (part-time) farmers. The government's guidelines on agrarian policy set out the basic principles of land privatization as follows: it should be acceptable to society and should contribute to improving the competitiveness of production. The settlement of property rights provide a chance to obtain landed property or farming lease for all those who make their living by agriculture. Land privatization should be in harmony with the settlement of other property rights. The new land tenure structure must not weaken the country's comparative advantages in the field of agricultural production.

It is expected that some 70-80 percent of the agricultural area will be converted into private property in the near future. However, a considerable amount of legislative work is to be done to that end. The transformation of land ownership relations will be affected by the compensation law, the cooperative law, the law on the privatization of state property and, last but not least, the new land law. Nevertheless, it is quite probable that landed property and land use will to a large extent be separated. In order to maintain production, the government intends to protect tenants risking their capital vis-a-vis owners. It is hoped that the resettlement of landed property rights will create the necessary conditions for a real land market with the appropriate institutions such as mortgage on landed property and a new mortgage bank.

According to the endeavour of the government, the bulk of agricultural output will be provided by relatively large-scale private, cooperative and other enterprises also after the transformation of landed property rights. Therefore, it is against the partition of farms and promotes the development of farms of competitive size.

3.2 Transformation of the agricultural cooperative sector

In the government's evaluation the agricultural production cooperatives that dominate production were not established to serve the development of their members' private property. They were meant to cover the whole farming process and have been operating as large-scale agricultural enterprises bearing only formal cooperative features. For that reason the fundamental conversion of this cooperative form is necessary.

The basic concept is that new cooperatives can only be established based on private property. To that end 100 percent of the common property of existing cooperatives has to be made divisible and fully negotiable. Employment obligations and other social responsibilities should be abolished. Furthermore, the members' rights and responsibilities should be made clear to include members' financial responsibility in terms of property as well.

A new uniform cooperative act is needed that would provide for the new operation principles. The transformation of agricultural cooperatives is foreseen as a gradual process based on social consensus. Any kind of campaign-like drive is to be avoided. The process should include the establishment of family farms, new types and forms of cooperatives and joint stock companies alike. The main function of the new cooperatives is the promotion of their members' farming by supply and marketing activities.

The cooperative transformation process will obviously entail a certain degree of decentralization, too. The too large cooperative farms will most likely separate to form smaller enterprises linked more to settlements. Some units of work organization of the large-scale farming cooperatives are also expected to become independent or convert into other company forms. Such processes are also promoted by the agricultural policy.

As to the transformation of other existing production organizations, government policy puts emphasis on privatization and on the establishment of company forms. State farms will not be maintained with the exception of a few selected ones that are of great importance from the development point of view. In food processing, the privatization of the existing large enterprises with internal capital would take too much time. Therefore, the participation of foreign capital is supported. Priority is going to be given to those foreign investors who can guarantee market expansion, profitable production of higher value added produce and import up-to-date technologies.

3.3 Marketing policy

In this field a dual task appears: the institutional structure, hiding a considerable number of monopolistic organizations should be demolished and a new, flexible system of institutions established. The latter should be able to adjust to the changing conditions of both external and internal markets.

Some 30 percent of the country's agricultural output is sold on external markets. Being an export oriented country, Hungary supports the concept of liberal agricultural trade. Limits on *subsidies and interventions* are expected to exert an advantageous *effect on export* possibilities and a more liberal international trade and competition would develop the country's internal trade as well. In accordance with the traditional structure of foreign trade, Hungary's agricultural export will focus on the European market in the future, too, of which the main markets are the European Community and the EFTA countries. The maintenance of the Eastern European countries' 25 percent share continues to be an important objective of the government's external food marketing policy. As to overseas markets, the main focus is laid on North America and the Near East, but the countries of the Far East also form a target area.

The programme aims at maintaining a broad selection of export commodities because it has a stabilizing effect. At the same time, there is a need for a definite move from the previous quantitative approach to a more qualitative one. In this context increasing the export of special Hungarian food items should be the subject of a purposeful export strategy.

Domestic consumption is supplied by 70 percent of the agricultural produce. An average Hungarian family spends more than 40 percent of its income on food. Thus the internal agricultural market is by no means negligible. In this field, too, the improvement of the quality of food and services is a vital requirement. Internal food marketing also lacks the functioning of the most important institutions. The complete structure of stock markets, wholesale organizations and outlets and auction markets is to be established with government support.

Fluctuations in both agricultural production and food markets make it necessary to create and operate a state market regulation system. The system is to be developed gradually through the following steps: guaranteed minimum purchase prices should be introduced for the most important agricultural products like cereals, pork, milk, etc.. The financial and legal conditions for state intervention at the guaranteed prices should also be established. However, there may be a need for the application of production quotas in exceptional cases and of temporary character. The government supports the establishment of so-called commodity councils in every important line of production. The commodity councils are supposed to have an influence on both production and marketing without functioning as cartels and without being anti-competitive. In order to be able to prevent serious market disturbances, a central intervention fund and system is needed. In addition to that the establishment of voluntary intervention funds of both producers and traders is promoted. Agricultural market regulation should be supported also by an efficient market information and prognostic system.

3.4, Development policy

One of the main objectives of the new agrarian policy of the government is to find harmony between production and the protection of natural resources. Among the latter, soil is to be given priority. Soil conditions and fertility should not only be maintained but improved as well by using appropriate techniques and technologies. Energy saving, integrated and organic farming is expected to be promoted by the new property rights and institutional structure as well.

The renewal of the agricultural sector and the transformation of its structure emphasize the importance of the technical and technological development and of scientific research alike. In this context it should be taken into consideration that Hungarian agriculture goes in for a new path of development and starts a new investment cycle. Corresponding to that, the main focuses of research and development strategies are the following: biotechnologies, new production technologies, more value added produce, use of environmentally friendly chemicals and cold storage.

The agricultural development programme relies on the assistance of the international community, primarily that of the 24 most developed countries. International development programmes have been initiated in several areas.

The OECD countries provide assistance to design and implement agricultural development projects. This is done partly in the framework of the PHARE programme of the European Community and partly on bilateral bases. These projects focus mainly on the transformation of market infrastructure and property rights. The following fields are included:

- modernisation of the system of land evaluation;
- development of an agricultural extension system;
- modernisation of the quality control network;
- agricultural management development;
- establishment of an agricultural market information system;
- design of a rural development programme, including the systems of financial institutions and agricultural marketing;
- feasibility studies on privatization and foreign investments;
- preparation for and adaptation to the post-1992 European standards, regulations and quality requirements;
- modern accounting and auditing systems for private farmers.

So far there have been five development programmes funded by the World Bank. Among these the projects on agro-industrial modernisation and integrated agricultural export are already in the implementation phase. It is expected that an additional project on agricultural marketing will be prepared before long.

FAO assistance will also be provided for the development of the agricultural sector in Hungary. Although no projects have been implemented as yet, preparatory works are going on in more than one area, such as remote sensing, food control and standardization and veterinary hygiene.

As part of its agricultural development policy the government promotes all types of new enterprises and intends to accelerate entrepreneurial development. One of the most important means to do this is the establishment of a favourable credit system. A rural banking network, including a new mortgage bank, a new system of guarantees, including an insurance structure, are to be developed. As a set of transitional support arrangements, the government promotes the introduction of appropriate long-term credit, preferential interest rates and central guarantees.

3.5. Financial and fiscal policy

In forming financial conditions for agricultural production the government wishes to take into consideration the relatively high risk and the slow return of capital in agriculture. Preferences are going to be provided in terms of taxation, subsidies and other financial conditions in order to make agriculture competitive with other sectors of the economy.

In the field of taxation an easing of the tax burden is planned. Profit tax will be reduced to a considerable extent, indeed, may be totally abolished, similar to the system of developed market economies. There are some other forms of taxes (e.g. tax levied on wages, an outdated land tax) that will also be abolished as early as the beginning of 1992. The missing tax revenue of the state will at the same time be compensated by the introduction of a limited value added tax imposed on food.

The old system of state subsidies to agriculture has been demolished for a couple of years. However, a new system has not been developed yet. The government has decided to establish a system that meets the requirements of market economy and is basically normative, i.e. provides equal conditions for all sub-sectors and enterprises of agriculture. It will support not only production but related activities and areas as well. Thus the development of production infrastructure, such as melioration, construction of access roads, electrification, drainage, etc., will also be subject to state subsidies. Similarly, investments in environmental protection will be supported. Since there is going to be a need for cultivating agricultural land the quality of which is below average, particular emphasis will be put on supporting enterprises working in unfavourable agricultural areas. Finally, subsidies will be given for special purposes, e.g. forestation.

3.6. Education, training and extension

The transformation of the entire system of agricultural education and training is considered crucial by the government policy. The final objective in this context is that education and knowledge become preconditions for obtaining production resources. Vocational training continues to be the task of the state. At the same time, the government promotes the emergence and development of entrepreneurial training institutions in further education and in management training in particular. Special emphasis is laid on the establishment and operation of model farms, both large- and small-scale, attached to agricultural universities. Furthermore, an interactive relationship should be maintained between education and research.

The extension activity is almost completely missing from Hungarian agriculture. Since no private farming can be developed without an independent extension system, the government supports the establishment of both public and private extension institutions.

3.7 Employment, rural development

The supporting capacity of rural Hungary has been weakened in recent times. Yet there is hidden unemployment in the villages which takes the form of over-employment. It is probable that the hidden unemployment will turn overt as market conditions develop. Part of the superfluous manpower may be employed in the so far quite backward rural service sector. However, migration from rural areas, particularly that of young people, seems unavoidable. The situation will become even more difficult by the fact that the food processing sector will also release labour force.

The sector alone cannot manage all the problems of rural employment. It is an overall governmental task to be carried out through a consistent set of actions and institutions including unemployment allowances, special programmes for unfavourable agricultural regions and for employment development, special credit on favourable terms, further education and retraining programmes. However, it is the special task of the agricultural policy to ensure satisfactory labour income and return on capital for those who make their living by either full- or part-time farming. In this respect, particular attention will be paid to unfavoured and thus underdeveloped areas. This, of course, requires financial support from the state, too. The general objective of the agricultural development programme is to maintain the supporting capacity of rural settlements to the largest possible extent.

Implementation of the entire agrarian policy requires, of course, a large amount of legislative work and the performance of public proceedings. In addition, permanent communication and the harmonization of interests are needed between the government authorities and the organizations representing various interest groups, first of all the cooperatives.

4. Cooperative supporting system

One of the most characteristic features of the entire cooperative movement in Hungary is that it was organized top down. This holds true for the pre-war and post-war periods alike. In conformity with this, cooperative supporting organizations were also created centrally, indeed, in some cases national institutions came into being first, subsequently building up their local and regional cooperative networks.

The central influence was even more evident in post-war development. After 1948, the organization of cooperatives was entirely in the hands of government authorities. All kinds of supporting activities were supposed to be performed by the Cooperative Department of the Ministry of Agriculture. No secondary or tertiary cooperatives were established. This structure, of course, corresponded to the ideological concept of the centrally planned and managed economy of that period. The ministry gave compulsory orders to the cooperatives, in many cases in a most direct way.

In fact, the situation was not better for those cooperative branches that had their own federations. Among them the National Federation of Farmers' Cooperatives is of significance from the point of view of this study. The name of the federation may be misleading. It came into being before the introduction of the communist concept on the reorganization of agriculture. In the period between 1945 and 1948, the agricultural policy supported the establishment of so-called farmers' cooperatives of a supply and marketing type. They were meant to become general rural cooperatives in the long run. However, this did not happen because of the new policy on agricultural cooperatives introduced in 1948. From that date on the kolkhoz-type agricultural production cooperatives were given top priority. At the same time, the farmers' cooperatives, although they maintained their names until the end of the 1960s, gradually converted into rural consumer cooperatives. As it has been already referred to, the promotion of part-time farming remained their strongest link to agriculture.

The National Federation of Farmers' Cooperatives functioned as a substitute for government authority. Its main function was to play a "transmission" role between the state and the farmers' cooperatives. In other words, it basically "forwarded" state commands for almost all details of their activities. The idea of compulsory association prevailed and hence all farmers' cooperative were members of the Federation by definition. This system, of course, put very strict limits on small-scale farming, too, in particular on their size.

The National Federation of Farmers' Cooperatives made some important contributions to the development of agriculture as well and the agricultural production associations, i.e. the pre-cooperative associations of part-time producers, established with the assistance of the Federation and within the organizational framework of farmers' cooperatives. Furthermore, in the course of the second collectivization drive between 1959-1961, this Federation promoted the development of specialized agricultural cooperatives. The latter were associated with the Federation until 1967.

4.1 The National Council of Agricultural Cooperatives (TOT)

Returning to the agricultural production cooperatives, the system of direct command by the Ministry of Agriculture remained until 1967. In that year the first supporting system of the agricultural production cooperatives was established. The system included the National Council of Agricultural Production Cooperatives and 51 regional, "territorial", federations. The whole system represented a completely new approach to cooperative interest organizations. As part of the economic reform introduced in 1968, cooperatives were supposed to gain greater independence and full autonomy. In the field of the supporting system this meant an independent structure of regional and national organizations.

The structure was created by the First Congress of Agricultural Cooperatives held in 1967. The Congress created the National Council of Agricultural Cooperatives (TOT) and expressed its support for the establishment of territorial federations by the agricultural cooperatives. Territorial federations were defined as the social organizations of agricultural cooperatives representing their interest. The most important new feature of the territorial federations was that they had no authority of any kind over the cooperatives. Membership was voluntary and the main emphasis was put on services provided for member cooperatives. The objectives of the establishment of territorial federations were to serve as fora for their members to discuss the problems and harmonize their actions in connection with the operation and safeguarding of the cooperatives' interests. In accordance with this, activities of the federations included, among others, the provision of legal services, auditing, organization of professional workshops and training courses, promotion of the so-called socialist work competition and brigade movement, establishment of joint services such as data processing, and joint social and cultural institutions. However, territorial federations were not allowed to carry out economic activities, except the possibility to establish mutual assistance funds with the voluntary participation of the member cooperatives.

The territorial federations of agricultural cooperatives created, of course, their organs of self-government. Each member cooperative had the right to send one delegate to the delegates' meeting of the federation. The delegates' meeting, as the highest governing body, elected a board of directors (called "presidency"), various officers - among them a full-time secretary - and a supervisory (control) committee. As a normal routine, cooperative chairmen represented member cooperatives in the territorial federations. Although membership was voluntary, in actual practice all agricultural cooperatives joined territorial federations.

The National Council of Agricultural Cooperatives (TOT) was defined as the national organization to safeguard the interests of agricultural production cooperatives, fishery cooperatives, specialized agricultural cooperatives, their associations and memberships. The Council was also a voluntary organization, and had no authority over its member cooperatives. No compulsory commands were given by TOT. It issued only so-called guidelines and recommendations. The National Council was elected by the national congresses of agricultural cooperatives for a period of 5 years. The number of the members of the National Council was 125. According to its statutes it had at least two meetings annually. Between the meetings the functions of the council were performed by the 21-member presidency elected by and from among the National Council. The highest office bearers of the Council were the president and the secretary general. Both were elected, but the secretary general, as chief executive of the organization, was a full-time employee. Of course, the National Council elected a supervisory committee as well from among its members.

TOT carried out all the activities of representation and safeguarding of interests of agricultural cooperatives at the national level. It was authorized by law to initiate and comment on government legislation affecting agricultural cooperatives. It also had the right of veto, i.e. no legal regulation could be issued for the agricultural cooperatives without the agreement of the Council. However, TOT was supervised by the government. Therefore its "right to veto" was rather limited and in practical terms took the form of routine coordination.

In 1968, as a newly formed cooperative organization, the National Council of Agricultural Cooperatives played a kind of "avantgarde" role. Other existing cooperative federations were still deeply involved in "directing" cooperatives as substitutes for ministries. In the course of the economic reform, TOT served as a model for their reorganization. The process progressed significantly, both the National Council of Consumer Cooperatives and the National Council of Industrial Cooperatives restructured their activities and started to operate according to the new concept. However, as the whole reform process was halted in the early 1970s, the cooperative supporting system, including TOT, experienced a "retreat" and continued to play its "transmission" role.

4.2 The National Federation of Agricultural Cooperatives and Producers (MOSZ)

TOT came into being as the national organization of large-scale cooperative farms. When it became obvious that the latter would not be able to avoid fundamental reforms, the Council also felt it necessary to adapt to changing requirements. In December 1989, an extraordinary congress of agricultural cooperatives was convened with the main objective of renewing the entire federative structure of agricultural cooperatives.

As a demonstrative action the congress created a new national organization called the National Federation of Agricultural Cooperatives and Producers (the Hungarian acronym is MOSZ). The inclusion of "producers" in the name of the federation indicates the intention of extending the scope of interest to private farmers. Although the latter's number is rather low for the time being, it is expected to increase considerably as a consequence of the change in the political system.

According to its statutes, the Federation operates as the "federation of federations". Its members are the regional or professional federations of all types of agricultural cooperatives and other associations and organizations of small-scale farmers. Its actual membership, however, is composed of the territorial federations of agricultural cooperatives and of the National Federation of Fishery Cooperatives.

The main objectives of the Federation are the following:

- i) to assist the cooperatives and other agricultural producers belonging to its member organizations in:
 - carrying out profitable farming that provides satisfactory income;
 - safe marketing of their produce;
 - obtaining high quality means and production materials for their farming;
 - getting government recognition and social support for farming;
 - developing their social, social security rights and cultural situation, living and working conditions;
- ii) to promote and disseminate the cooperative idea, to develop cooperative property and to support cooperation serving members' interests;
- iii) to promote association of agricultural producers;
- iv) to assist and coordinate its members' activities in the field of interest representation and safeguarding.

In order to achieve the above objectives, the Federation considers its duty, among other things, to:

- protect and safeguard the interests of its members vis-a-vis state authorities (Parliament and local governments), the government, and governmental organizations, business and other organizations;

- promote economic and legal equality;
- represent and protect agricultural production in order to develop an adequate price, credit, support and marketing system;
- promote the establishment of economic integration organizations;
- give priority to assisting agricultural producers in unfavourable regions;
- develop cooperative autonomy, self-government and self-help, and their institutions;
- represent and protect the rights of agricultural cooperative members as owners and workers. Protect members' social and social security rights and interests;
- contribute to the development of rural settlements;
- assist members by providing economic, legal, commercial, supervisory, tax, fiscal, auditing, and other consulting services to facilitate economic decision making;
- organize the utilization of international cooperative, business and other experiences.

The Federation may carry out economic activities as well. It may establish, on its own or in association with its member organizations, business and service companies. Finally, the Federation participates as a member in the activities of appropriate international organizations.

The means and methods by which the Federation fulfils its duties and functions vary greatly and include the nomination of candidates for various posts of state authorities; recommendations for legislative actions; negotiation with the government and governmental authorities, financial institutions, purchase, supply and processing organizations; organization of demonstrations and boycotts; operation of mutual assistance funds; legal representation and assistance; publication and use of the media, etc.

Member organizations participate in the management and the supervision of the Federation through their elected or delegated representatives. The Federation has established its organization which includes the following institutions: the congress, the national council, the presidency (board of directors), the management, the supervisory committee, the national professional committees and the executive staff.

The congress is convened every five years with the participation of the delegates of cooperatives and other farmers' organizations belonging to the Federation's member organizations. The congress defines the programme and strategies of the Federation and elects the president, three vice-presidents, the secretary general and the chairman of the supervisory committee.

The highest corporate body of the Federation is the national council that directs and coordinates the work of the Federation between two congresses. It will be convened at least twice a year, but 30 percent of its members may initiate its meeting to discuss any relevant question. The members of the national council will be elected by the Federation's member organizations in proportion of the number of cooperatives and cooperative members belonging to them, taking into consideration their financial contribution to the Federation. The national council will convene the congress, define the scope of activity of the various professional committees, modify the statutes of the Federation and decide on admission and exclusion of members. Its decisions are made by simple majority in open ballot, with the exception of the modification of statutes which requires a two-third majority.

The Federation's operative body is the presidency. Its members are the president, the vice-presidents, the secretary general and other officers delegated by the member organizations and professional committees. The presidency's authority includes all those issues which are not rendered under the authority of the national council by the statutes of the Federation. The management will carry out the Federation's affairs between sessions of the presidency. The members of the latter are the president, the vice-presidents and the secretary general. The management is directly responsible to the presidency.

The supervisory committee has the same function as the corresponding institutions in any cooperative organization. Its chairman is elected by the congress, while its members are delegated by the Federation's member organizations. The Federation has various professional committees as well. These assist the functioning of the Federation by doing preparatory work and providing professional assistance for various decisions.

The Federation is supported by the cooperatives and other agricultural producers belonging to its member organizations. Contributions are collected and forwarded to the Federation by its members. The actual amount of the contributions will be defined by the national council of the Federation but they must not exceed 0.0015 percent of the gross income (i.e. wages + profit) of the cooperatives.

The National Council of the Federation has 138 members at present. The overwhelming majority (87.7 percent) are chairmen of agricultural production cooperatives. Among the rest are several cooperative chief executives (comptrollers, engineers, agronomists) and directors of cooperative joint ventures.

4.3 MOSZ and the agricultural policy

The Federation of Agricultural Cooperatives and Producers (MOSZ) makes its voice heard in all questions relating to agriculture and to agricultural cooperatives in particular. Due to the fact that the structure of agricultural cooperatives has not been transformed yet, as is reflected by the composition of the National Council of MOSZ, the Federation tends to represent the interest of large-scale cooperative farms or, to be more precise, that of the managers of the agricultural production cooperatives. However, in many cases it plays the role of a "counterbalance" by expressing professionally sound views.

The agricultural policy of the government is strongly criticized by the Federation. The main points of debate and the main arguments are the following:

The agricultural policy and programmes are not complex enough and concentrate mainly on long-term development. As a consequence, they lose sight of the transition period. Their main focus is on overall economic development of the country. While the latter is important, more emphasis should be laid on the particular situation and interests of the agrarian population. This is significant from the point of view of the entire society. Agriculture has been a reliable source of income for the majority of the rural population in the course of the past decades. If this source is lost and hundreds of thousands of rural people become unemployed, as is predicted in the programme, the government will have to face very serious economic and social tensions.

The Federation is of the opinion that it is of vital importance for Hungary to make use of its comparative advantages in agriculture. Political interests, uncertainties and tensions must not jeopardize the country's relatively favourable position in this respect.

The government's strategy towards developing an efficient agrarian sector based on market economy and private property is supported by the Federation. Indeed, agricultural cooperatives have been among the first ones to start reforms and introduce elements of market economy. What is needed and what the Federation expects is that agricultural cooperatives be given an equal chance to participate in market competition.

It is foreseen by the agricultural policy that production, employment and income earning capability alike will gradually decrease in the agricultural sector. In spite of this, agriculture is expected to make its present contribution to the balance of payments of the economy. In this respect a further shortcoming of the policy and programme is that it lacks reliable economic analyses and therefore is not professionally sound. For example, the programme predicts a considerable tax increase and reduction in subsidies in a period when agricultural production will have to be carried out in a more hostile environment. This in practical terms means the drastic reduction of the entire agricultural sector. Therefore, there is an urgent need to elaborate a new system of agricultural subsidies and a new tax policy stimulating savings and investments in the sector and thereby maintaining the viability of agriculture.

According to the opinion of the Federation agricultural enterprises and entrepreneurs are in an unfavourable position as compared to other sectors. This situation requires urgent solution. The government should ensure the protection of domestic producers and should define an offensive export marketing policy in relation to both the Eastern and the Western European countries. In this context particular attention is to be paid to the countries of the European Community.

An up-to-date system of financing agriculture is of utmost importance, the establishment of which is the duty of the government. The financial system should take into consideration the special features of agriculture, as is the case in all countries with developed agrarian sectors. Independent legislation is needed to regulate agricultural production. Both the economic management and legal regulation should influence producers' decisions in a normative way regardless of the type and size of the enterprise. Furthermore, any disadvantaged position of agricultural producers should be avoided in the course of the privatization process.

At present, the agricultural sector is in a deep crisis, more serious than admitted by the government. Furthermore, there are increasing failures in the industrial, commercial and service sectors that effect agriculture, too. Very grave problems beset the unfavourable agricultural areas. All these require an immediate governmental crisis management programme in order to avoid the development of large crisis zones in the country.

The Federation is convinced that the future agricultural structure should be based on the existing one and should build upon the existing institutions and be developed gradually. All extreme solutions should be avoided. The large-scale agricultural production cooperatives must not be forced to change into other types of institutions without the necessary preconditions.

5. Transformation of the present agricultural cooperative system

As already mentioned, the reorientation of the existing agricultural cooperative structure is a necessity. There is a unanimous agreement of all concerned on this need. But perhaps this is the only issue regarding cooperatives where a consensus exists. All the rest, i.e. the ways and means of transformation, the pace of changes, starting points and the main direction of the reorientation processes are the subject of intensive professional and sharp political debates. Views and approaches sometimes are very far apart and it seems that the whole transformation is going to be more complicated and take much more time than expected at the time of changing the political system.

5.1 Cooperative promotion policies

The fact is that no cooperative promotion programmes exist in the country. Several factors would explain this. Above all, cooperatives have a rather bad image in Hungary just as in the other Eastern European countries. Their bad image is the result of at least two factors. Cooperatives are considered by the general public as a means of forced communist collectivization. This view, of course, is very simplified and focuses on one single type of cooperative, neglecting both the promotion cooperatives in Hungary and the achievements of the international cooperative movement at large. It also shows the low level of knowledge of cooperatives outside the cooperative sector.

There is, however, another factor which contributes to the unfavourable image of cooperatives. A direct business mentality has been developing that hopes for a remedy to all economic problems from the market economy to be introduced within the shortest possible period of time and to the fullest possible extent. The market is considered an "omnipotent" power capable of overcoming all difficulties of the economy and society alike. Within this approach there is no room for the concept of cooperation nor for those cooperative values which emphasize more than just business efficiency.

This is not meant to say there is an oppressive climate for cooperatives. No political course would declare an anti-cooperative policy. In present day Hungary this applies to both the ruling and opposition political parties. All have in one way or another declared their appreciation of a genuine cooperative movement. Cooperatives are considered a necessary sector of the economy and enjoy full moral support. However, they are looked upon first of all as business organizations and are expected to be economically viable and profitable. Equal chances and equal conditions are promised them but no special treatment. Therefore no particular incentives and no special promotion programmes are to be introduced. Cooperatives, at least according to the present state of affairs, are not going to have extra subsidies or tax exemptions or even reduction. This may be considered partly a counter-effect or rather aftermath of a policy which upgraded cooperation to the level of state policy and failed. Partly it is an indication of a pointedly normative and neutral approach to various forms of economic actors.

This is not a definite situation of course. Intensive lobbying mainly on the part of cooperative managers and cooperative federations has already succeeded in easing a minor part of scheduled provisions. For example, the first draft of the banking law contained the same minimum capitalization requirement for both business banks and savings and credit cooperatives. This has been reduced to half for cooperatives in the present draft. Similar examples however, cannot be given for agricultural cooperatives as yet.

5.2 Attempts to restructure agricultural cooperatives

Two extreme opinions exist regarding the establishment of a new agricultural structure in the country. In addition, there are, of course, various other views according to political stand and according to the holders' relationship to the existing structure of agricultural cooperative farms.

One of the most extreme views is represented by the Independent Smallholders' Party, which stands to the right of centre. The party is of the opinion that the whole system of collective farms is the result of an unjust action of the communist dictatorship. Cooperatives are seen as inefficient with neither valuable achievements nor positive elements. Consequently, the whole structure should be demolished and the pre-collectivization situation restored. Land should be re-allocated to the original owners or their heirs. An overall reprivatization is to be carried out as a result of which large-scale farms would completely be replaced by a structure of small- and medium-scale private farms.

The operation of such a structure would be rather problematic. However, its creation seems even more difficult and from a number of points of view unrealistic. Agriculture is of very low profitability in Hungary today and this hinders the starting of entrepreneurship in the sector. Investment in agricultural production is not attractive and made even more risky by the high rate of inflation and by a traditionally deep gap between agricultural input and output prices. Furthermore, most of the agricultural population has no professional expertise and entrepreneurial attitude due to the policies and farming practice of the past 40 years. For the same reason accumulated private capital is almost entirely missing from agriculture. All these factors make very unlikely, if not impossible, the development of a structure entirely based on independent, mainly small-scale private farms.

According to the other extreme view the agricultural cooperatives still function properly and the structure is fundamentally viable. The system must not be abolished because it may cause food supply problems due to a fall-back of agricultural production and would lead to unmanageable social tensions. The holders of this view admit the need for changes within the structure, at least in political rhetoric. Their basic approach, however, is that the problems of the agricultural cooperatives can be resolved with a so-called "internal transformation" within the model. This does not exclude the withdrawal of individual members or the separation of members' groups from the cooperatives. Indeed, it supports the reform of property rights as well in a particular form. (This will be dealt with later). The representatives of this approach are chiefly the managers/leaders of the existing large-scale cooperative farms.

Between the above extreme views, there are others that have different views, mainly on the problems of privatization-reprivatization, compensation, forms of compensation, private and collective farming and the way of transformation. The official government view tries to attain a compromise among those variable options. As to the question of privatization, no reprivatization in kind is foreseen. However, there is a compensation programme which may give an opportunity for reprivatization processes as well. Since land is included, too, there will be a possibility for the old owners to get back, i.e. reprivatize their lands. The methods and procedures are going to be quite complicated and there are still a lot of preconditions missing. First of all, legislation is lagging for two reasons. One, because Parliament is overloaded as in fact every single area of the social life requires new legislation. Two, because there are a lot of politics involved when such issues as landed property rights are discussed. Therefore, progress is slow and part of the disputes are motivated by political interests.

5.3 Cooperative and related legislation

In the field of legislation first of all a new cooperative law is needed to start a real transformation of agricultural cooperatives. However, this alone is not enough. There are a number of related areas that need new legislation. An independent law on privatization is needed and is under preparation but not submitted to Parliament as yet. The issue of recompensation requires legal solution. The compensation act has just been passed by the Parliament and signed by the President of the Republic. No implementation has started as yet, but without doubt compensation is going to be a major issue. Furthermore, there may be a need for a modified land law as well, depending mainly on what final shape the cooperative law will take.

5.3.1 The Compensation Act

The act was passed by Parliament on 26 June 1991 and published on 11 July. It is worth quoting the full title of the act because it indicates its contents as well, i.e. Act XXV/1991 on the Partial Compensation for Damages Caused Unjustly by the State in the Property of Citizens in Order to Settle Property Rights. Compensation will be given by the act to natural persons exclusively. In terms of time the act goes back as far as 1939. Compensation is due on the score of damages caused by legal measures. These legal measures include the anti-Jewish laws, population resettlement laws, laws on nationalization, land reform, expropriation, collectivization, citizenship, etc..

The Compensation Act does not provide for full compensation. Its upper limit is set in HUF 5 million. A digressive scale is to be used for the calculation of compensation. However, the assessment is not based on present market values. The scale is based on the value of damage suffered. Up to HUF 200 000 the compensation will be full (100 percent). From HUF 200 000 to 300 000 the compensation is HUF 200 000 plus 50 percent of the portion above a damage value of HUF 200 000. Between HUF 300 000 and 500 000 of damage value the degree of compensation is 30 percent. Above HUF 500 000 only 10 percent of the value of damage will be compensated, keeping also the maximum limit of HUF 5 million.

Compensation will be made by so-called "compensation coupons". The compensation coupon is a state security payable to the bearer and negotiable. It represents a claim of its nominal value against the state. The state pays an interest on the compensation coupons in the course of a 3-year period. The interest rate will be 75 percent of the interest rate of the central bank. The nominal value of the compensation coupon will be increased by the amount of interest credited.

Compensation coupons cannot be cashed. However, they will be used for the purchase of property and property shares in the course of the privatization of state property and they will also be used to obtain agricultural land. As a further option compensation coupons can be used for the purchase of state-owned apartments if sold. When a loan is taken from a special fund called Existence Credit, compensation coupons will be taken into consideration as equity. Finally, according to the provisions of a separate law, a life-annuity may also be payable against compensation coupons.

Compensation is not going to be automatic. All those entitled are supposed to submit an application to the competent authority within a period of 90 days starting the day the Compensation Act enters into force. If this deadline is missed, entitlement will be lost.

The Act devotes a separate chapter to special regulations concerning agricultural land. This is the most delicate issue of the entire compensation concept and has, of course, the most direct impact on the existing agricultural cooperatives. The basis of the compensation procedure is the so-called Golden Crown value of the agricultural land (Golden Crown /GC/ is a traditional unit of measure of the quality of land. At the tune of its introduction the number of Golden Crowns corresponded to the net profit of a land area of one yoke, i.e. 0.56 hectare.) For the purposes of compensation one GC equals HUF 1 000. The amount of compensation will be calculated accordingly. If there was any payment given to the former owner of the land its amount will be deducted from the sum of compensation.

Agricultural cooperatives are obliged by the act to make preparations for compensation in kind, i.e. in terms of agricultural land. The responsible state authorities will inform the cooperatives of the total value of GC claims against them. Parallel with this the cooperative should assign an area corresponding to that coming under the validity of the Compensation Act. The assigned area may be purchased by those who are entitled to be compensated. The land will be sold by auction but only to those who are entitled. They are the following:

- people whose former landed property is at present owned or cultivated by the cooperative;
- those who were members of the cooperative in question on 1 January 1991 and are still members of the same cooperative;

- those whose permanent residence on 1 June 1991 was in the settlement where the land of the cooperative in question lies.

Auctions will be held under the following conditions: the participants of the auction bid for the front value of a Golden Crown. Put-up price is set by law in the amount of HUF 3 000 per Golden Crown. If no bid occurs at that price or above, the put-up price will gradually be decreased to a minimum of HUF 500/GC. The piece of land purchased by the auction will be chosen from the area assigned in advance for this purpose by the cooperative. Purchase of any land is made possible only for those who assume the obligation of agricultural utilization of the area and that of not withdrawing the land from agricultural production within a period of 5 years. If this obligation is violated the land will be expropriated by the state without compensation.

In an attempt to promote agricultural entrepreneurship the act provides for a special subsidy for those who register with the tax office as new agricultural entrepreneurs within 30 days after the auction. They will be eligible for the difference between the value of damage suffered and the compensation to be used to purchase additional land. The techniques of this additional purchase are similar to those of the compensation, i.e. it is going to be made by special coupons. For a period of 5 years a state mortgage will be registered and a restraint on alienation imposed on the land purchased that way. If the owner fails to cultivate the land, the subsidy would be converted into a loan with immediate maturity. It is an important provision of the act, furthermore, that all the above procedures are exempt of any levy, but the costs of allocation and registration of the area will be born by the purchaser.

There is a further interesting provision of the act worth mentioning. The agricultural cooperatives are obliged by the act to set aside a special land area for the purpose of allotting land to their members and employees. This area cannot be sold in the compensation process. The size of this "land fund" (reserve) will be determined in such a way that an amount of 30 Golden Crowns is calculated for each member and 20 Golden Crowns for each employee. However, the total GC value of this "land fund" must not exceed 50 percent of the total value of all land owned by the cooperative. It should be noted that the same provision prevails for the state farms as well. In their case, of course, there are only employees and the land is state property.

The enacting clauses of the Compensation Act have not been issued yet. No experiences have yet been gained regarding the magnitude of the whole problem, the number of claims, administrative difficulties and the pace of procedures involved. Similarly, no information is available on how compensation would change the present structure of land ownership and land tenure system. It can be expected, however, that an intensive activity will start rather soon.

5.3.2 Cooperative legislation

At present there is a great number of laws and regulations which control the operation of cooperatives. The basic law is Act No. III of 1971 on Cooperatives, out of which special regulations for the various cooperative types and branches are issued. In addition, cooperatives' business activities are regulated by a number of relevant regulations. The whole cooperative sector is in fact "over-regulated". The rules and regulations, of course, reflect the approach to cooperatives of the old socialist (communist) regime. Indeed, there are certain legal provisions which place the cooperatives in an unfavourable position. All these apply to agricultural cooperatives as well.

The introduction of a new cooperative legislation is therefore supported by all parties concerned and is considered a precondition for the change of social and economic paradigm. The new legislation should narrow the jurisdiction of the state and completely eliminate the possibility of it interfering in the internal affairs of cooperatives. At the same time, legislation should broaden the sphere of authority of cooperative self-government.

Preparatory work has been done in two areas, i.e. the drafts of both the uniform cooperative act and the transition act have been finalized and are waiting for submission to Parliament. The two drafts deserve a closer look.

5.3.2.1 The Unified Cooperative Act

Preparatory activities to draft the act were carried out by the Ministry of Justice on behalf of the government. However, the Ministry relied to a great extent on the contribution of the cooperative movement itself. It requested the National Cooperative Council to set up a special drafting committee composed of the representatives of various cooperative branches, cooperative federations and cooperative researchers. Each version of the unified cooperative act was discussed and commented by the drafting committee of the National Cooperative Council. As a matter of fact, the Ministry of Justice did take into consideration the comments of the committee and incorporated them in the draft text of the act. The new unified legislation for cooperatives has in practical terms therefore been prepared with the very active involvement of the existing cooperative structures. With some exaggeration it can be stated that the draft law has been prepared by the cooperative movement itself. Whatever is included has the support and agreement of at least the leaders of the movement,

The government - and the drafting committee - has taken a characteristic approach to the new legislation which has been followed throughout the preparatory procedure and is reflected in the proposed text of the law. This approach also includes the requirement of noninterference of the state and the full-authority of cooperative self-government. In addition, it endeavours some further points. It wants to provide a broad possibility for the establishment of various entrepreneurial and working contracts and agreements between the cooperatives and their members. Cooperatives are looked upon as joint enterprises based on the private property of members and as such they should be, by legislation, made similar to other economic associations to the largest possible extent. Thereby the Hungarian cooperative legislation would be closer to European standards.

The basic features of the draft law can be summarized as follows:

The draft law defines cooperatives as societies established in accordance with the principles of free cooperation and self-help, carrying out entrepreneurial and other activities that serve the interest of the members and are utilizing the property and personal contribution of members within the framework of democratic self-government. Cooperatives are independent legal entities. One of the new provisions of the draft law is that, although it states that the members of cooperatives are natural persons, it allows for the membership of legal entities as well. The rights and duties of the legal-person members are equal to those of natural persons except for some special provisions such as personal contribution. The reason given for this possibility is that the membership of legal persons may be needed and useful for the cooperative's operation in various respects, first of all from the point of view of capital formation. The involvement of legal persons must not change the basic nature of the cooperatives as associations of natural persons.

A cooperative can be established by a minimum of 5 people. Only the establishment of school cooperatives and credit cooperatives requires at least 15 members. As a new feature of the draft law the cooperative will be represented not only by its chairman or the designated member of the board of directors but by the "managing chairman" and managing director as well. Legal supervision of cooperatives will be carried out by the Court of Registration just as in the case of other economic associations.

The law lays great emphasis on the autonomy and self-government of cooperatives. In accordance with the principle of self-government the cooperative membership will decide on:

- all questions of operation, business and any other activities serving the members' interests;
- the establishment, through elections, of its corporate bodies;
- the creation of its own statutes and rules;
- the supervision of the operation of its organs, and of the activities of its office bearers and employed managers.

It is an important provision that any dispositions concerning cooperatives, their membership relations and property rights in particular can be made by legislation only.

The draft law abolishes the institution of the previously described partial general assembly and increases the importance and authority of delegates' meetings. While the general assembly remains the highest organ of self-government of the cooperative, all decisions belonging to its sphere of authority can be relegated to the delegates' meeting by statute. The only exception in this respect is the decision on merger, separation, transformation and cessation.

In the field of membership relations the draft provides for the application of the principle of open and voluntary membership. No discrimination is allowed by race, colour, gender, language, religion, political or other opinion, ethnic or social background, property or other position. It is worth mentioning that, among the rights of the members, the law lists the sharing of the income of the cooperative by the members according to their property contribution as well and not only according to personal contribution. However, all the organizational and personal rights of members are independent of the size of contribution in terms of property.

An independent chapter of the law is devoted to the provisions on the property relations between the members and the cooperative. Their major form will be the business share. In addition to that the draft act maintains the institution of cooperative shares as well. Members joining the cooperative will be obliged by the law to buy at least one cooperative share. The maximum number and value of cooperative shares will be determined by the statutes. The shares are of the same value, and are not negotiable. A dividend is due to the members on their cooperative shares, which is payable from the net profit of the cooperative.

The business share is different from the cooperative share. It is not purchased by the members but allotted to them from the proceeds of the cooperative's business activity. The general assembly would decide annually on the distribution of net surplus (profit) of the cooperative for dividends, reserve fund and business share capital. The amount allocated for the augmentation of the business share capital should be distributed among the members in the form of business shares. Members are to be provided with a security of their business shares made out in their names. In case the business share capital is used to cover losses the nominal value of the shares will be decreased proportionately. It is a very special provision of the draft law that the business shares of cooperative members are not only inheritable but fully negotiable as well. In addition, a dividend is paid on them but no interest is payable. If the business share is to be sold to a non-member, the cooperative and its members will have the right of option. Furthermore, in case the new owner of the share is not a member of the cooperative, he/she will only have the right of discussion and proposition at the general assembly. If the membership relation ceases, the member or his/her heir will be eligible to receive the value of his cooperative shares only, provided that the cooperative's share capital was not used to cover loss. The business share existing in the form of securities can be sold only either to the cooperative or to outsiders.

The draft retains the possibility for the cooperative to provide financial support to its old, disabled, sick, etc. members. Conditions for this are to be defined in the statutes of the cooperative. It is a new provision that new enterprises started by members may be supported by the cooperative by granting them the right to use real estate and/or means of production under certain conditions.

As to the economic activities of cooperatives, any kind of business may be carried out with the exception of those that are relegated to the exclusive sphere of activity of other organizations or institutions. Cooperatives are otherwise entirely free to do their business and have full independence to use their net profit, i.e. the surplus after meeting their tax obligations. However, for safety reasons the law makes it compulsory for them to establish a reserve fund. At least 10 percent of net profits should be allocated for this purpose until the reserves reach the amount fixed by the statutes in terms of certain proportion of the cooperative share capital.

There are new provisions regarding the work relations of the members and the cooperative. Above all, the obligatory employment requirement of the cooperative has been abolished. Since a unified act is going to be made this provision applies to workers' cooperatives, and among them to the agricultural production cooperatives, too. However, the draft specifies two different working relations for the cooperative members. One of them is the so-called entrepreneurial type of work which in practical terms means a contractual relationship between individual members or groups of members and the cooperative. The other one is the wage worker relationship which is known from past experience and from the experience of other forms of enterprises. Both require a written agreement between the cooperative and the members concerned.

The cooperative is liable for its debts with its property composed of the cooperative share capital, the business share capital, the reserves and the free assets. Cooperative members' liability does not extend over their private property and salaries, i.e. it is restricted to their cooperative and business shares. Liabilities for damages between the cooperative and its members is basically regulated by the Civil Code. An exception may be the case of wage worker relationship which may mean a more limited liability of the working members.

Finally, the draft law confirms the right of cooperatives to establish secondary organizations on regional or professional grounds and national organizations to safeguard their interests. Cooperatives have the right of merger, separation, transformation and cessation as well. A precondition for the transformation into another form of company is the total division of the cooperative's property among its members in the form of securities. In the case of cessation, the property should be divided after settlement of the cooperative's accounts.

5.3.2.2 The Transition Law

The transition law is at least as important as the unified cooperative act. About 7 000 existing cooperatives should be re-established in accordance with the provisions of the unified act. This, on the one hand, takes time and requires special rules for the period of transformation. The draft transition law allows for a 9-month transition period. Over that period each cooperative is supposed to submit its new statutes to the Court of Registration. Those who fail to do this will be liquidated by force of law and deregistered.

In the course of the transition period four important tasks are to be accomplished: (i) personification of the property, (ii) organizational transformation, (iii) voting of new (or modified) statutes; and (iv) election of leaders and office bearers. All these areas are regulated by the transition law.

The term "personification" of property has been created in connection with the transformation of the existing cooperatives, particularly the agricultural cooperatives. It is meant to serve the aim of converting the joint cooperative property into the private property of members. In other words, it represents the means and method of privatization in the cooperative sector, the major purpose of which is to make cooperatives joint enterprises based on the private property of their members. According to the concept of the transition law, this requires the return of property to those who contributed to its accumulation. Distribution of property should be done in the form of business shares. The whole process of dividing the property of the "old", i.e. existing cooperatives, is called property personification.

As a general rule, the transition law provides for the personification of 100 percent of the cooperative's property. However, the general assembly may set a different ratio. All those who were members of the cooperative in question on 1 January 1991 and are members on the day when the transition law comes into force are eligible for personified property. In this context, the general assembly may decide to provide business shares to its employees, former members and their heirs and to those family members who participate in the work of agricultural cooperatives on a regular basis. The quantities, the special measures of personification, will be decided upon by the general assembly or otherwise the property will be distributed on an equal basis. In practice it is usually the time spent in the cooperative and the position in the work organization (salary) which are taken into consideration.

The rules of property personification do not apply to agricultural land. The problem of land privatization is much more complicated and requires different solutions for different groups of people. The solutions, of course, should be in harmony with the compensation law, too.

The first category concerns land which is owned by the cooperative members but in the common use of the cooperatives. This is considered full private property and should be surrendered to the members if requested. The second case concerns those who are entitled to purchase land on the basis of the provisions of the compensation law. This land should also be delivered physically to the new owner at his/her request. However, in both cases the owners have the free choice to maintain the common use of the land, to cultivate it privately or to join the cooperative as members and utilize the cooperative's services. Both cases are regulated by the compensation law, therefore the cooperative transition law only refers to them.

The third type of land is represented by the cooperative's landed property which is also in the common use of the cooperative. This land definitely comes under the transition law. This land, after having met all compensation claims, should be distributed among the members of the cooperative. The members' share in terms of proportion and Golden Crown value is to be entered in the cadastral land register. The land allotted this way should be surrendered to the member leaving the cooperative. During the maintenance of membership rent is due to the member if the land is under cooperative farming.

The transition law aims at making an organizational transformation of the existing cooperative structure. It wants to give an opportunity to the cooperative members to revise and correct all those organizational developments which were unnecessary and occurred without the support of the members or even against their will. This process is meant to be facilitated by easing the conditions of merger, separation, transformation and cessation for the transition period. During that time all the listed motions can be decided upon by a simple majority of votes of the members present at the general assembly. Of course, after the transition period, when the organizational set up of the cooperatives will have been resettled, the rule provided for by the unified cooperative act will become effective again, i.e. all the above decisions will need two-thirds of the votes of all members.

The transition law also makes it possible for a relatively small group of people to separate from the cooperative. This measure is of a temporary character, too. In the course of the transition period a minimum of five members may separate from the cooperative with the aim of establishing a new cooperative, entering another cooperative, establishing another type of economic association or entering another economic association. There is an important restriction, however, for agricultural production cooperatives. Separation is allowed only for those who work in the same unit of work organization of the parent cooperative or do the same kind of work. No approval of the general assembly is required for separation. Rights and liabilities will be transferred proportionately to the new cooperative or company.

The legislation intends also to settle the problem of the agricultural associations by the transition law. Agricultural - and other - associations are considered unsuccessful from the point of view of their legal construction. The fact that they are not independent legal entities has created a lot of legal problems and allowed for corruption. Therefore, this form of cooperative associations will cease to exist by the end of the transitional period. The draft transition law offers two options for the existing associations. They may merge with the mother cooperative as one of the latter's semi-independent organizational units, provided the parent cooperative supports this solution. In this case the members of the association become members of the cooperative.

Another option is that, after having settled the accounts, the association is liquidated and its members establish an independent cooperative. This cooperative may join the parent cooperative as a member. Finally, associations have the option to convert into some form of company through the phase of liquidation. If the members' conference of the association does not decide on any of the above options until the end of the transition period it will be liquidated by force of law.

In order to facilitate transformation the law deals in depth with the rules of procedure. Among other things it makes it possible to hold more than one general assembly in the course of the transformation process specifying the issues to be dealt with by each of them.

In the context of procedures, one of the most important provisions is that the assignment of present cooperative office bearers will cease at the time when the general assembly approves the new statutes of the cooperative. The new officers are to be elected by the same general assembly. This motion is needed because the new unified cooperative law introduces a different set of management positions and the office bearers' liability is changing, too. It is reasonable therefore to give the members a chance to elect new leaders and to give the managers the choice of taking or refusing responsibility under the new conditions as well.

5.3.3 Requirements and dilemmas of legislation

The proposed cooperative legislation reviewed above will obviously have a decisive influence on both the transformation process and the features of a new agrarian structure, including agricultural cooperatives. Such a legal framework should therefore meet certain basic requirements which ensure a just and possibly smooth transition and the development of a viable and efficient agricultural structure.

Without doubt the most important requirement is the settlement of property rights. In this connection it should be emphasized that there is a need for real owners and real property for efficient agricultural production. This means that property should take a natural, physical form as much as possible. Furthermore, the rights of landed and other properties should be settled at the same time. Landed property alone is not enough to launch or even to continue private or joint farming.

Another basic requirement is to enable all those concerned to make a free decision on their future. A precondition for this is that the settlement of property rights is made without any political, legal, economic or social constraint or pressure. However, certain principles and perhaps an order of priority should be followed when dividing the property of agricultural cooperatives. Priority should be given to those who make their living from agriculture. Also those who contributed to the accumulation of the cooperative's property have a just claim. Property shares should finally go to those who were deprived of their private property in order to create the large-scale cooperative farms.

A part of the cooperative's property had, however, been accumulated by people who are no longer present in the cooperative. Many of them have already died. The question arises whether this part of the property should or should not be distributed among the members who happen to be in the cooperative at present. There is a strong view according to which this property, estimated to amount to about 25-30 percent of the total, should be kept together as common cooperative property and used for cooperative purposes only (e.g. to support old members or to establish new cooperatives).

The maintenance of large-scale monopolistic organizations would preserve the present deformed agrarian structure and is therefore not desirable. However, there are certain means of production, machinery, technologies, etc., which can be operated efficiently only on a large-scale basis. These should stay and be operated together but not necessarily in cooperative organizations exclusively.

Legislation should provide equal chances for the members and groups of members in the division and distribution of property. On the other hand, it should also provide the possibility of establishing genuine cooperatives which differ from other economic associations, above all from joint stock companies. Cooperatives should be established based on the identity of members' interests. In case cooperative characteristics cannot be accommodated in the organization which is to be established, there should be a straightforward possibility to transform it into a joint stock company.

It seems that the range of cooperative types and forms is so broad that no single law can regulate all of them. There is a need for an overall cooperative law but in addition to that the necessity of special legal regulations may also occur. Finally, it is also a fundamental requirement that the transition from the existing structure to the new one should not be too rapid and should not create a definite and closed system. The possibility of a gradual and flexible change should be left open.

In the light of the above requirements there are some dilemmas regarding the draft unified cooperative act and the transition law. Both are based on the same concept concerning the transformation of property rights in the cooperatives. Property is going to be divided and distributed among the members in the form of negotiable securities. In practical terms, this solution stabilizes the cooperative property in its present physical form which may stabilize the present organization and the present power structure as well. As part of the concept, the scheduled legislation treats landed and other property in different ways. Land can be withdrawn from the cooperative while other property cannot. This situation separates these two elements from each other thereby making the use of land very difficult. Land is not cultivable without assets.

The business shares to be distributed among the members will most likely not bring high dividends. The bulk of members is not used to having securities and lack the necessary skills and information to be able to estimate the real value of their property shares. For these reasons the market value of business shares is going to be very low. This would provide the opportunity for the wealthier groups of the population to purchase a considerable amount of property at a very low price. As a consequence, a significant concentration of cooperative property in private hands might occur.

The dilemma in connection with the possibility of distributing 100 percent of the cooperative property has already been mentioned. In the agricultural production cooperatives a further problem may be caused by the abrogation of the employment requirement of the cooperative which may and most likely will result in a wave of dismissals of cooperative members and in increasing rural unemployment. Obviously, this situation would strengthen the dependency of members on the cooperative managers.

The regulations contained in both draft laws is pointedly permissive, rather general and loose. This provides a good chance for losing the cooperative characteristics themselves. In fact, cooperatives and other economic associations alike could be established based on the provisions of the unified cooperative act. Taking into consideration the possibility of the concentration of private property mentioned above some dangers seem probable. The immediate danger is that the newly established organizations will be cooperatives only in name. In the long run, however, under the proposed legislation the cooperatives could be converted into joint stock companies in formal terms as well. It would, therefore, be a better solution if the transition law provided a straightforward opportunity for the members to chose between cooperative or company forms or even private farming. Parallel with this, the unified cooperative law should define the "*differentia specifica*" of cooperatives in very precise terms.

5.4 Options for agricultural cooperatives

It is very difficult to foresee the changes in the structure of large-scale cooperative farms before final legislation is made. Nevertheless, there are certain initial experiments and tendencies that indicate the options of the agricultural cooperative reform. Without doubt the influence of various political forces will also have an impact on the directions and pace of change. Finally, the environment to be developed by the market economy will motivate cooperative transformation as well.

Two hundred agricultural production cooperatives and specialized agricultural cooperatives will most likely continue to operate more or less in the same organizational form. They will obviously resettle their internal relations and organizational set-up, but fundamentally they will maintain their previous character as workers' cooperatives. This group may consist of those cooperatives that have been performing well, are profitable and provide a safe and satisfactory income for their members. They could make a positive contribution to the reorientation of the agricultural structure. There is a significant amount of capital and expertise accumulated in these cooperatives which would help them adjust to the changing marketing and other conditions. This group of the "surviving" agricultural cooperatives could perhaps reduce rural unemployment to some extent, too, and thereby ease social tensions. Their survival, of course, does not mean that they remain unchanged. Most likely many members or whole groups of members will leave, the cooperative itself may divide into two or more or merge with some other "surviving" cooperative, etc.

A number of agricultural production cooperatives plan to continue as cooperatives but opt for another cooperative form. Some production cooperatives will gradually convert into specialized agricultural cooperatives. They increase the private - former household - plots of their members and offer an increasing number of services to the private farms. The services are extended to those who withdraw their land from the cooperative and start independent private farming.

Another tendency is that more and more individual, family-based or group entrepreneurial links are established within the cooperative. These small-scale entrepreneurs are no longer wage earners and their relationship to the centre of the cooperative is based exclusively on mutual interests. It seems quite probable that the abolition of employment obligation of the cooperative, as is suggested in the draft cooperative act, will further increase the number of this kind of cooperative/member relations.

Many agricultural production cooperatives cover more than one village and sometimes 4-5 settlements belong to the same cooperative. In such cooperatives the individual villages or parts of settlements strive to gain independence by dividing or separating from the cooperative. They endeavour to establish an independent cooperative in order to utilize their share of property for the benefit of their own village. These separations, however, are rendered rather difficult by the "uneven" distribution and physical indivisibility of the property.

Not very many cooperative members have left the cooperatives so far. Those who did, belonged to the category of land-owning cooperative members. In other words, some of those members who had their landed property in common use have withdrawn it and started private farming. Their number is expected to increase, but the extent and pace of this movement will be influenced by not only the legislation under preparation, but by the technical, financial and infrastructural conditions of private farming as well.

There is a strong tendency in the agricultural production cooperatives to become involved in the establishment of non-cooperative economic associations. Particularly management endeavours to operate the property of the cooperatives in the framework of some kind of company. In this respect, too, various options occur. The cooperative may be transformed into a holding-like trustee organization. In this case, the centre of the cooperative will operate as trustee. Its former branches and units will become independent enterprises which are part of the property. Member-owners may invest their property shares in those independent enterprises. The indivisible part of the property will be managed by the trustee. It can also make investments in the small enterprises. In addition, it is the duty of the trustee to coordinate and assist the operation of the enterprises belonging to it. Obviously, this is not a pure cooperative association. Members are definitely interested in having the highest possible return on their property. Indeed, within the enterprises the voting power of members will be determined by their property shares. Both the centre (trustee) and the enterprises may employ members and wage labour alike. Consequently, there will be two types of interests in these holding-like organizations. Employees will receive only a salary, while the member-owners will have and expect - a dividend on their property shares. This may come directly by from their investments in one or more of the enterprises or indirectly through the centre of the holding (trustee). The latter's income will be composed of two parts. One is the dividend on invested property and the other is the income received from the services provided to the small enterprises.

A further option, of course, is that the agricultural cooperatives will be transformed into joint stock companies. As already mentioned, this process has started, though on an experimental basis only. The company law and the act on transformation of economic organizations make it possible. The new cooperative law and the cooperative transition law may accelerate this kind of transformation. Most likely, limited liability companies will be established in greater number by the cooperatives and within the cooperatives alike. Various organizational units, branches or workshops of the agricultural cooperatives may gain full independence in this way - and lose their cooperative character. This form of company is particularly recommended by economists in modernizing the off-farm branches of agricultural cooperatives. Many cooperatives establish "one-member" limited liability companies in which the cooperative as a legal entity is the sole owner of the company. After the personification of cooperative property is attained, individual members will most likely participate in the establishment of such companies in a greater number.

The same applies to share-holding companies as well. At present, the transformation of a cooperative into a share-holding company is definitely made possible by the company law and the transformation act. However, it may be considered as not an entirely legitimate move because it changes the status of cooperative property to be settled later by the cooperative legislation. Thereby any such transformation creates a situation which may contradict the provisions of the new cooperative law. Nevertheless, the personification of cooperative property will obviously facilitate the establishment of share-holding companies in Hungarian agriculture.

Finally, one more option is worth mentioning. Most state farms, at present representing a significant form of production organization in Hungarian agriculture, will also be privatized. The managers and employees of several state farms consider the option of taking over the property of their state farm and run it as a cooperative in the future. Obviously this would be a workers' cooperative, and would not be the only possible way of privatizing state farms. However, it should be taken into consideration as a potential solution.

5.5 The new agrarian structure and the cooperatives

It seems that the main feature of the new agrarian structure of Hungary is going to be diversity. Diversity is to be expected in terms of types and organizational forms, sizes and ownership relations of agricultural enterprises. It can also be expected that no pure forms of association will come into being, at least in the beginning of the transformation period. This applies to cooperatives as well. Under the umbrella of the present agricultural production cooperatives various private and group enterprises, workers' and promotion cooperatives and pure joint stock companies may operate.

A mixture of large- and small-scale farms will develop and the large-scale cooperative farms will lose their institutional and land use monopolies. However, it would be illusory to expect that small-scale private farms will replace the entire structure of agricultural production cooperatives. Such a development would be neither possible nor desirable because it would result in an inefficient structure. There will be a need for large-scale farms in the future, too, and there are good chances of having them. The surviving agricultural production cooperatives will obviously carry out large-scale farming. Although the specialized agricultural cooperatives promote family farming, they are also involved in large-scale production. The model itself has been rather successful and is unlikely to lose significance. Indeed, recently there has been an increase in the number of specialized agricultural cooperatives and even more production cooperatives can be expected to convert into that form.

The already existing joint stock companies also aim at large-scale production. Their number will probably increase. From the cooperative point of view, this development is going to be a loss since part of the joint stock companies will replace cooperatives, but not all of them. The establishment of joint stock companies, particularly of share-holding companies may be expected to be used as the main way for the privatization of state farms. Not the only way though as state farms may also be transformed into cooperatives. Whichever way is selected, successors of the state farms will basically go for large-scale farming.

Without doubt, small-scale farming will gain much larger significance in the new agrarian structure than it had in the old one. The overall transformation of the political and economic system, the compensation and the new cooperative legislation will give an impetus to the development of private agriculture. Among the private farms there will be traditional small-scale farms with a diversified pattern of production. In this context, the major danger is that these farms will be too small in size and therefore will not be viable. In addition to them, new entrepreneurial small- and medium-size farms will develop. Many of them will specialize in the production of one or several products, e.g. animal feed, livestock products, wine, fruit, vegetables, flowers, etc. These activities may and will be carried out both on full- and part-time farms. The small- and medium-scale private farms are very flexible, able to adjust to the changes of the market. However, their economic strength is small and that makes them vulnerable under the hardening conditions. They are particularly weak vis-a-vis large, sometimes even monopolistic enterprises, commercial organizations, banks, service and insurance companies. The small-scale farms cannot therefore afford to miss the advantages of cooperation. They need and will develop a new cooperative structure different from the agricultural production cooperatives. This is, in fact, a vital precondition for the successful transformation of the agrarian structure. The new cooperatives should assist private farmers in the fields of supply of production materials, marketing of their produce and provision of financial services, including loans and credit and insurance products alike.

Clearly, the new agricultural entrepreneurs will face very serious difficulties in launching and consolidating their farms. Their financial situation will not make it possible for them to create the whole structure of the necessary support services. Therefore, in addition to cooperative self-help, there is also a need for the assistance of the state by creating a favourable social and political environment and the basic infrastructure.

In Hungary, there is a strong tradition of part-time subsistence farming. This type of small-scale, in many cases "hobby", farming serves basically for auto-consumption and has a marginal character. However, at the national level, the amount produced by these small farms is not negligible. This kind of farming will obviously continue, indeed, its significance may increase as a consequence of the ever hardening economic conditions and growing unemployment. These small and mini farms will also need to cooperate as they have done so far. Their cooperative organizations, the agricultural associations are going to be abolished by the new cooperative legislation. This may cause some temporary confusion among these part-time farmers. Nevertheless, most of them can be expected to maintain their cooperative membership either in the successor of their former agricultural association or in some of the newly established cooperatives.

Finally, the new agrarian structure - and the new conditions at large - will create a new environment for the activities of cooperative federations. Representation and safeguarding of the interest of agricultural cooperatives will become more important than ever. Parallel with the diversification of cooperative forms and activities, there will be a need for the diversification of the set-up and operation of their federations as well. The only representative organization of the agricultural cooperatives, the National Federation of Agricultural Cooperatives and Producers, may not be able to *satisfy the needs of all the* various kinds of cooperatives and cooperative members. Therefore, changes may occur in at least two fields: new secondary cooperatives and national associations come into being that specify certain functions, e.g. supply, marketing of a specific produce, etc. The new federations will function not only as ideological and political centres, but will be involved in economic (business) activities, as well.

6. Future training and education needs

Education and training will be of crucial importance in the transformation and future development of agriculture in Hungary. This is true in spite of the fact that there is a rather well trained agrarian intelligentsia in the country. It consists of some 60 000 people and includes basically the management elite of large-scale farms and food industry and the professional staff of agricultural state administration. The agricultural intelligentsia is particularly well educated in technical and technological skills. In this respect the general standard is high and there are places and technical fields in which outstanding results are recorded. However, the level of business management is lower, due to the lack of real market conditions in the course of the whole post-war period. Although there was definite development in this field, too, the internal economic system of the country and that of the entire communist block did not confront agricultural managers with true market conditions and did not require real business behaviour from them.

6.1 Target groups and fields of training

Changes in both the outside conditions for and internal structure of agriculture require new skills and knowledge from all concerned. Therefore, training and education needs appear at different levels and in various areas. From the cooperative point of view it will be very important to influence and mobilize public opinion in favour of cooperative action in agriculture. This is not a direct education issue, but is by all means a learning process in which trainers, educational institutions, national and international organizations have an important role to play. The bad image of the cooperative movement referred to in this study has to be improved and the confidence of people in straightforward cooperation restored. This applies first of all to those who have had experience with agricultural production cooperatives. But it applies to policy makers as well. There are many among them who look upon cooperatives with some degree of suspicion and reservation. That is why policies have not gone beyond general and rather weak statements on the support of a "genuine" cooperative movement.

Another area in which new tasks occur is in formal education at both medium and high level. The whole concept of agricultural university education needs careful reform. The main feature of the education concept of agrarian universities was the "large-scale approach". Among other things, this resulted in the training of managers exclusively for large agricultural estates. The minimum expectation of agricultural graduates, therefore, was to be offered a management post in one of the agricultural cooperatives. Other options, like starting a private business or getting involved in agricultural extension were out of the question. The new structure, however, will open up possibilities for all kinds of private business, not only in private farming but in the whole agribusiness sector. At the same time it will require highly educated agriculturists for a great variety of jobs from actual farming through support services to extension. University education has to be adjusted to these needs.

In the field of formal education private business should be given still higher priority at the level of secondary school education. Most of those who are expected to start a private business in farming or in agriculture-related fields will have a medium level of education. In fact this should be made a minimum requirement at least within a reasonable tune. This also needs a new approach to secondary education and the utilization of international expertise.

There is, of course, a need for management training in large-scale farms. From this point of view there is no difference between "surviving" large-scale cooperative farms and newly established joint stock companies. New knowledge is needed in the fields of marketing, financial management, communication skills, business planning and evaluation methods for business performance. Some Hungarian and foreign training institutions and management agencies have already started organizing courses for enterprise managers. Most of these, however, are intended for other sectors of the economy, above all for industry. No such programmes have been launched in agriculture the explanation for which is the delay in the transformation process.

In the case of the managers of the "surviving" large-scale cooperative farms, special cooperative education will be necessary. The new cooperative legislation alone would be a good enough reason for that. The lack of cooperative knowledge even among cooperative managers provides a further motive to design and conduct special courses.

Without doubt training and education are most crucial and will play the most important role in the promotion of small- and medium-scale private farming. In this field almost nothing has been done so far and basic institutional and infrastructural preconditions are missing. Among other things, extension is practically non-existent and there is no training staff. Therefore, one of the priority areas in this respect is the training of trainers. This concerns mainly university education at both undergraduate and postgraduate levels. In the near future, post-graduate education will most likely play the larger role because the appropriate rearrangement of the entire university education takes a rather long time. A series of special training programmes will have to be organized for those agricultural graduates who want to participate in small farmers' training. Participation may mean at least two important ways of involvement. One is actual training and the other is participation in the design and establishment of the entire training system, including the institutional network, for private farmers. A vital part of this system should be agricultural extension.

Since independent private farming has to be accounted for a new phenomenon in present-day Hungary, its training needs are very wide and complex. Although small-scale farming was carried out mainly on household *plots* during *the past 40 years as well*, entrepreneurial private farms did not *exist*. *In addition, there has been a complete change of generations*. Hence the potential private farmers have no experience and memory of real entrepreneurship of any kind. For these reasons, a full range of knowledge is to be delivered to both existing and future private farmers.

Training in technical skills and technologies is one of the areas which the new private farmers need. However, backwardness is perhaps smallest in this field. Within the framework of the agricultural production cooperatives significant household farming was carried out, assisted by large-scale farms. Assistance occurred mainly in the field "of production techniques and technologies. The large-scale farm very often provided the household plots with improved seeds, breeding stock, propagation material and production methods and technologies as well. This knowledge may serve as a good basis upon which further technical and technological training can be built. Nevertheless, technical skills of private entrepreneurs should be brought up-to-date and need to be not only maintained but developed in a permanent learning process.

The most important task, however, is to train individuals in skills required for running private enterprises and to instill attitudes which are required for their success as entrepreneurs. Farm management definitely belongs among those skills. Successful farm management methods and systems should be selected and adapted to the special conditions of Hungary. There is a particular need for introducing sound financial management, including cost-benefit calculations, investment plans, calculation of return on capital, profitability, etc. The whole issue of financial management needs basic training in farm accounting. However, no system of appropriate book-keeping and auditing exists in the country. Here again international assistance is not only possible but is of vital importance. In this context the use of computers in farm management should also be studied and, after having selected the appropriate system, training should be provided. Farm management should be included in training programmes in a broader concept as well. Complex farm management methods should be introduced to facilitate the continuous reproduction of agricultural entrepreneurs. Such systems might be adopted as the Global Management Approach which has been tested by the FAO Regional Office for Europe and has been in use in various European countries.

As matter of course, training in cooperative knowledge is indispensable for private farmers. In this respect the country's own experiences, even the negative ones, provide some lessons. Nevertheless, studying and adaptation of cooperative experiences in other countries, above all European ones, seems to be a must for a successful new cooperative prosperity. Replacing the present unfavourable cooperative image with a straightforward evaluation of the potentials and limitations of a genuine cooperative movement would make a serious contribution to the healthy development of the entire agrarian structure of Hungary. In this field, too, international assistance is of crucial importance in terms of providing cooperative models and management systems. FAO's Appropriate Management System for Small Farmers' Cooperatives (AMSAC) is one from which Hungary's new private farmers could benefit. The fact that AMSAC was originally designed to be used in developing countries does not seem to be an obstacle to adaptation.

6.2 Training institutions and extension services

Systematic cooperative education is carried out at the University of Agriculture, in Gödöllő. It is the largest agricultural university of the country and offers a one-term course in cooperative knowledge to second year students. The curriculum of the course has just been brought up-to-date and a set of new lecture notes issued. The course covers the subjects of cooperative theory, history, Hungarian and international cooperative experiences and lessons, including those of the agricultural production cooperatives. It puts particular emphasis on the cooperatives forms and models which are new to Hungary but are likely to gain great importance such as supply and marketing cooperatives, credit cooperatives, etc. The course has been rather successful and increasingly attractive for the students. It would be useful if the university's experiences in this field could be shared with similar institutions of higher education and special cooperative courses were institutionalized. These should go beyond providing a general cooperative knowledge and should focus on special target groups like potential cooperative extension agents.

The agricultural cooperatives have their own training institution. The Training and Recreation Centre of TOT (National Council of Agricultural Cooperatives) was established by the Council in 1979 and its premises were inaugurated in 1982. It is situated in the capital city. During past years the Centre was sponsored/by TOT, but to a gradually decreasing extent. Today it is totally self-supporting, which is made possible only by the recreational and hotel business of the Centre. Nevertheless, the training centre itself offers a rather wide selection of programmes to the elected and professional managers of agricultural cooperatives. Currently courses are conducted on subjects like directions in Hungarian policies, changes in agrarian legislation, the situation and development alternatives for agricultural cooperatives, main features of the new cooperative legislation, entrepreneurship and the cooperatives, problems of cooperative management, etc. In addition, there are special courses for cooperative arbitrary committees, personnel managers, social security officers, etc.

The Training Centre has established quite broad international relations. It collaborates with national and international organizations alike. Good bilateral cooperation has been developed with German institutions (Friedrich Ebert Foundation, Bavarian Peasant Association, Raiffeisen Federation), and with the Austrian Raiffeisen Federation. The Centre maintains contacts with the Turin Training Centre of ILO.

The organization of international training courses and meetings has traditionally been part of the activities of the Centre. Some illustration of this is given below:

- Hungarian/FAO Workshop on "Increase of Agricultural Production through Small and Large-Scale Cooperative Farming" (1981);
- Hungarian/FAO/DSE AMSAC Workshop (1985);

- Hungarian/UNESCO seminar on rural development (1985);
- Hungarian/ILO fellowship programmes and study tours in group training;
- Session of FAO/ECE Working Party on Agrarian Structure and Farm Rationalization (1985);
- Session of the International Cooperative University (1985).

The Training Centre has excellent facilities for all kinds of training programmes, workshops and conferences. It has a plenary hall for 250 people and 7 meeting/class rooms for 20 to 25 people each. The Centre can accommodate 260 people in 120 double and 20 single rooms in its hotel. Simultaneous interpretation is available and a video studio and a three-channel closed-circuit video network support efficient training. The Centre has a nationwide network built upon the facilities of the territorial federations of agricultural cooperatives through which study tours and local/regional courses can be organized.

The Training Centre of Agricultural Cooperatives has been trying to get involved in agricultural extension as well. However, no real "breakthrough" has been reached so far in this field. Extension in general has no traditions in Hungary and its institutional and infrastructural background is entirely missing. That is why the PHARE Programme of the European Community has given priority to the issue in its 1991 programme and designed a special extension project. The objectives of the project, as given in the Project Document, are as follows:

"The immediate objective of the Project is to create a core of human and information capital and to improve physical facilities necessary to launching the training of extension workers geared to market economy. The Project is to focus on the training of trainers and on creating the facilities for the actual education of extensionists.

It will produce:

- curricula, proper for the training of extension staff in third level education, considering the special features of Hungarian agriculture, while making full use of the appropriate knowledge from existing and successful extension systems in developed market economies;
- trainers, who know how to teach extension and will teach their students the know-how of communicating extension knowledge in the field;
- trainees, who have graduated from the first extension course and will actually start working in the field. The evaluation of their course should give important feed-back for the necessary adjustments in the future extension projects.

In the process the Project will contribute;

- audio-visual equipment for the campuses to facilitate modern teaching and training;

- equipment for model farms, which are to be replicable in private operation under commercial conditions, to demonstrate efficient economic production and to provide information on the latest biological, ecological and technological innovations related to medium- and small-scale farming.

In the medium term the Project is to contribute to the development of an effective agricultural extension system, which would concentrate on helping private farming operations of medium and small-scale, including solving the problems of the part-time farmers.

In the longer run the extension training system will help Hungarian agriculture to adopt the most up-to-date and appropriate technology oriented to the natural and economic conditions of the country. Hungarian agriculture will thereby be helped to improve production, and economic and resource use efficiency and thus provide high quality nutrition at affordable cost, increase export earnings, generate satisfactory income for the agricultural population and preserve the natural environment."

A tender was invited for the execution of the project, won by the joint bid of Danagro Advisors, Denmark and Rural Development International, Ireland. Execution of the project starts in September 1991.

In order to facilitate the exchange of experience among European countries in transition in reorienting their cooperative structures, FAO commissioned, in 1991, a series of country case-studies. This study deals with the developments in Hungary. The report reviews the different forms of agricultural production organizations in Hungary, such as state farms, agricultural cooperatives, agricultural associations and small-scale farms. It describes the new agricultural policies of the government related to the transformation of agricultural property rights, its financial and development policy, the proposed changes in the cooperative sector, and the new supporting system and legal framework for agricultural cooperatives. The report recognizes an urgent need for training of cooperative leaders and managers.

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