

The Rural Cooperatives and Members' Liability from a Historical Perspective: the Hungarian Case

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A cooperative involves the cooperation of its members for economic activities. The members are responsible for these activities, and therefore for both assets and liabilities. This is a universal rule of cooperatives, but it is not applied identically in every case: What regulations govern the members' rights and responsibilities? These can vary depending on the time and place. We can surmise that these regulations have to be more or less harmonious with social values, otherwise the cooperative could not function well in the long run. Therefore, historical analyses of these regulations can reveal the changing and unchanging internal relationships of the societies where cooperatives function.

The main focus of this paper is on relationships between members, and especially those regulations concerning liability in rural cooperatives. Though the investigated area is limited to Hungary due to language ability, our interests cover the whole of the post-communist area. Moreover, our concerns are broader, since the cooperatives' economic performances are, in the long term, largely influenced by the internal structure - rights and responsibilities - of its members.

1. First rural cooperatives in Hungary - dual liability: peasant community and landowners' patronage

1-1. The Agrarian movement

The first major movement for making rural cooperatives began in the middle of 1880s in Hungary. These were the countywide credit cooperatives organized by the Agrarians.¹ The Agrarians started the organizing movement after the national agricultural congress in 1879 in Szekesfehervar, where landowners and large farm

¹ The Hungarian historiography, in general, uses the term of "agrarian" in a broader sense; namely, the agrarians were the conservative big landowners and their followers who were against the over-industrialization of the country. Péter Láng, *Mezőgazdasági érdekek Magyarországon* (Organization of agricultural interests in Hungary), *Agrártörténeti Szemle*, 1971, vol.13, no.3-4. *Magyarország Története 1890-1918 (A history of Hungary 1890-1918)*, Budapest, 1978, pp.149-234. In this paper, however, the term is used in a narrow sense. Its definition is given in the paper, and the author, otherwise, already showed the narrow definition of the Agrarians in a Hungarian academic journal; O.Ieda, *Központ és községi szövetkezetek a Hangya szövetkezeti mozgalomban az első világháborúig* (Center and village co-operatives in the Hangya co-operative movements up to WW1), *Agrártörténeti Szemle*, 1990, vol.32, no.1-4, p.160.

managers met together and discussed the agricultural issues of the day.² Among the participants, were those of the rural elite who dedicated themselves to rebuilding rural society through the reform of peasant farming and the establishment of well-balanced agriculture, these formed the Agrarian camp. According to the Agrarians, "the peasantry are not developing, but stagnating and even declining, yet the peasantry is an organic part of Hungarian agriculture and without its sound development agriculture cannot make rapid progress as a whole. We may not postpone the solution of this problem".³

The Agrarians organized county agricultural associations into the National Union of Agricultural Associations (NUAA), which became the guiding body of the Agrarian movement,⁴ and carried out the national surveys of agriculture in 1879-1880. The surveys concluded that the main factors were: 1. prevailing usury and unfairly high prices; 2. lack of agricultural credit; and 3. the necessity of a self-help solution.⁵ In those days Hungarian peasants had no available credit system except usury, because all the available capital of the country had been poured into establishing the new banking system, emerging manufacturing industries, and constructing new infrastructure, and so on. In the rural sphere, only large landowners could get capital and credit from financial companies to reorganize their farming and to establish food-processing factories in the new economic environment after the emancipation of serfdom. In contrast, middle-sized landowners and peasants were left with fewer or no financial possibilities. Thus it was natural that the Agrarians and NUAA saw their first task as creating a new credit system for the peasantry. At that time, however, the dominant ideology was laissez faire in economic policies, thus the Agrarians' attempts to gain governmental assistance in financing peasant farms were categorically rejected.⁶ Consequently, self-help was the only way, not only for the peasants but also for the

² Péter Láng, op.cit, p.395. *Magyarország Története*, op.cit., p.1260.

³ *A gazdakör hitelügyi bizottságának emlékirata a kisbirtokos hitelviszonyai tárgyában* (Memorandum of Agrarian Committee for Peasant Credit, [MACPC]), Budapest, 1884, pp.3-5.

⁴ P.Láng, op.cit., pp.398-404, M.Kovalovszky/A.Solt, *gróf Károlyi Sándor élete és Alkotásai*, Budapest, 1942, pp.31-39.

⁵ The outline of the surveys' summary is as follows: 1. The size of the peasant farms was diminishing because of the egalitarianism in property heritage, especially after the emancipation of serfdom and the introduction of free land trade. 2. Small size made the peasants need additional lands. 3. "The land tax is so heavy that peasants can not pay it from agricultural incomes". 4. "The peasants also need to develop, rationalize, and make their farming intensive according to the current requirements. This is forced under the pressure of competition." 5. In Hungary "no credit is available for the peasants without terrible conditions" and mortgage credit was dominant. But it was not adequate for the peasants. (MACPC, pp.6-12.)

⁶ György Kövér, *Iparosodás az agrár társadalomban (Industrialization in an agricultural society)*, Budapest, 1982, The Freedom Party, the governmental party in the late 19th century, kept neutral economic policies, thus it was criticized by the both camps, the Agrarians in the broader sense and the Mercantilists, who supported the priority of industrialization.

Agrarian movement. At any rate, forming an agricultural credit system for the peasantry was a totally new task in rural Hungary and the Agrarians had to begin their activity by considering the possible nature of agricultural credits for the peasantry.⁷ Initially they focused on which method of finance was more adequate for peasant farms, mortgage credit or personal credit, then on the question of universal liability or limited liability, and finally on the method of initiation.

1-2. Mortgage credit or personal credit?

Mortgage credit on land at first seemed more appropriate, but soon it was perceived to be unrealistic. This was primarily because land registration and land ownership was not sufficiently clarified for the documentation of mortgage credits. In addition, common pasture and common forest were still very important for peasant farming but these lands could not serve as mortgage for credit. Thirdly, lease holding and other forms of additional cultivation like share-cropping, were important parts of peasants' farming and their incomes,⁸ but these land operations were also not taken into consideration when determining mortgage credit. Thus it was realized that mortgage credits could not adequately provide the peasants with agricultural capital.

Personal credit, on the other hand, met with no wider popularity, because the idea of personal credit was, at that time, represented by usury, which was so notorious that many people would not countenance the idea. Even within the Agrarian camp, objections were raised against it, concerning the risks of peasants' easy borrowing of credit⁹ and reduced ability for repayment.¹⁰ Nevertheless, the majority of Agrarians chose personal credit, supporting the idea of "reform of the personal credit system"¹¹ which was based on a concept of "the new peasants". In other words, the Agrarians expected that the new credit system would bring forth "peasants consciously behaving on their own account, and they would no longer be subject to imperatives from above".¹² The

⁷ MACPC includes the arguments. *A Nemzetközi Gazdakongresszus Jegyzőkönyve* (Minutes of the International Agrarian Conference in 1885) [MIAC], Budapest, 1885. *A Szövetségbe Lépett Gazdasági Egyesületek 1886 Május 17-én Budapesten, Közteleken Tartandó V.-ik Nagy-Gyűlése által Tárgyalás alá Veendő Kérdések* (Questions for Discussion at the 5th Conference of NUAA on May 17th, 1886 in Köztelek, Budapest) [QD-NUAA], Budapest, 1886. *A Szövetségbe Lépett Gazdasági Egyesületek 1886 Május 17-én Budapesten, Közteleken Megtartott V.-ik Nagy-Gyűlése Jegyzőkönyve* (Minutes of the 5th Conference of NUAA held on May 17th, 1886 in Köztelek, Budapest) [MC-NUAA], Budapest, 1886.

⁸ MACPC, p.37; MC-NUAA, p.192, pp.223-224; O.Ieda, *Peasant farming and community in the pre-war Hungary* (in Japanese), *Shakai-keizai-shigaku*, Tokyo, 1982, pp.92-125

⁹ MACPC, p.37; MC-NUAA, p.192, pp.223-224; O.Ieda, *Peasant farming and community in the pre-war Hungary* (in Japanese), *Shakai-keizai-shigaku*, Tokyo, 1982, pp.92-125

¹⁰ MIAC, p.179. A participant, count K.M.Zedwitz, vice-president of Czech Agricultural Council, stated this objection at the international conference in 1885 in Budapest.

¹¹ Count Aurél Dessewffy (the president of NUAA), MIAC, p.160.

¹² Endre György, *ibid*, pp.169-170.

idea was basically rooted in a modern concept of humanity, since the keynotes were independence and self-help. The Agrarians were aiming to create new peasants through the reform of the credit system.

However, the idea of independent peasants was no more than an aspiration or an ideal at that time. Thus the Agrarians had to find realistic guarantees for the new credit system. The first one was the rural community. When objections were put against personal credit, the Agrarians replied; "Personal credit might be dangerous. But a credit cooperative, which would be founded on a community of interests, can solve the problem", and "joint liability can be the best guarantee."¹³ "The duty of contribution, which the peasants voluntarily gave the cooperatives, would be the guarantee of functioning cooperatives".¹⁴

1-3. Universal liability or limited liability?

The principle of joint liability was adopted in general by the Agrarians, but there arose another question: which was more desirable, limited liability or universal liability? Universal liability was at that time represented by the German model, the Raiffeisen method, in Hungary, and F.W.Raiffeisen himself was invited to the international agrarian conference in 1885.¹⁵ The essence of the Raiffeisen method was that "members are responsible for the cooperative's debts with the members' whole property and whole working power." Therefore the members' liability is unlimited and "the unlimited liability awakes a common spirit, mutual obligation, and an ideal of mutual help among the peoples."¹⁶

The Agrarians, in the beginning, considered the Raiffeisen method as more desirable,

¹³ CD-NUAA, p.18, p.22.

¹⁴ Sándor Károlyi's (the most important leader of the Agrarians) speech at the Parliament on January 12th, 1885; Országos Levéltár Károlyi Levéltára, P-389, Czákó h., 4.cs., 8.t. MIAC, p.42. MACPC, p.15.

More than half a century later, an agro-economist wrote in his textbook; "Joint liability is working as the basis of credit co-operatives, and the joint liability is supported by the members' personal liability for the co-operative's debts"; Károly Ihrig, *Agrárgazdaságtan* (Agro-economics), Budapest, 1941, pp.261-262.

¹⁵ Eventually, Raiffeisen could not come to Budapest due to illness and at the conference his message was read which ended with this sentence; "Joint liability is unconditionally needed". MIAA, pp.172-173. Raiffeisen's work was also translated this year: *A hitel-szövetkezetek mint eszközök a falusi népesség bajainak elhárítására* (Credit co-operative society as a method for resolution of rural population's misery), Budapest, 1885. The translator of the book, Jakab Pólya, gave an introduction of the Raiffeisen method earlier; J.Pólya, *A Raiffeisen-féle kölcsönpénztárak* (Saving and credit bank in Raiffeisen method), *Nemzetgazdasági Szemle*, Budapest, 1883, 9.füzet. According to Pólya, not only helping the peasants through credit co-operatives, but also developing the peasant farms by reducing the large landownership was needed.

¹⁶ J.Pólya, op.cit.

saying that "the method is theoretically excellent" and "it would highly develop the credibility of the cooperatives, since the members have to accept liability with their whole property."¹⁷ However, in the end, they rejected the introduction of that method for practical reasons. Firstly, universal liability was completely unknown among the peasants in Hungary.¹⁸ Secondly, it seemed very probable that cooperatives would give loans to their members so restrictively because of fear of bankruptcy and lack of experience that, as a consequence, the cooperatives could not work at all. Or, on the contrary, they might loan the members too much in their over-confidence and go into bankruptcy.¹⁹ Thirdly, "universal liability would prevent the wealthy and intellectual people from joining the cooperatives", because it was unlikely that "the wealthy and intellectual people" would risk losing everything, though the cooperatives would not be created and managed without the participation of the best strata in the villages."²⁰

In the end, the Agrarians deemed universal liability as more desirable but unrealistic, and limited liability as workable and needed. Limited liability was, in fact, familiar to the Hungarian peasantry, since limited liability - that is, members were responsible with their capital shares or by several times as much as of their shares - was a similar method to how the rural communities had been managing their common properties traditionally. In addition, the credit cooperatives needed "the wealthy and intellectual people" - local patrons - for their financial contribution and leadership, and the patrons would have membership only when the liability was limited. On this point, at the international conference in 1885, patrons' leadership and limited liability was also commonly accepted among the foreign participants. For example, "Self-help is a fine and productive principle, but it is not enough. ... Wealthy intellectuals' leadership is necessary",²¹ or "I support limited liability. This is also the case in Eastern Prussia. These kinds of cooperatives need leaders of fortune, who are willing to serve the cooperative with several thousands of Forints. However, they might suffer, if they were to accept universal liability. This would be terrible."²² Thus the credit cooperatives were established on dual - joint and limited - liability; one aspect of which was the traditional peasant community in the horizontal dimension of rural society, and the other was the patron-client - formerly the landlord-peasant - relationship in the vertical dimension.

¹⁷ MC-NUAA, p.51, p.168.

¹⁸ The Raiffeisen method was accepted among the German minorities in Hungary; Istvan Bernáth, *A Magyar földbirtok tehermentesítése (Clearing the liabilities on lands in Hungary)*, Budapest, 1905, p.41.

¹⁹ MC-NUAA, pp.22-26.

²⁰ MACPC, p.26.

²¹ Leo Wollemborg, an Italian pedagogue, MIAA, p.197.

²² F.von Wedel-Malchow, president of agricultural association in Berlin ; MIAA.p.168.

1-4. Central initiation or regional initiation?

This issue concerned the method of organizing local patrons into the Agrarian cooperative movement. The ideal method was initiation at the village level. According to this theory, the movements' first step should be the organization of village credit cooperatives, and then the second or further steps would follow at county and national levels.²³ The second idea was a variation of the first, according to which intermediary cooperatives should be formed by village cooperatives at the sub-regional level and local patrons organized here.²⁴ The third method was initiation at the county level; namely, at first, a county financial center for village credit cooperatives was established with support of the county local government, and then the center would initiate organization of village cooperatives and the center would loan and oversee them. The last idea was central initiation, that is, "we are too weak to insist on our self-government, and we have no other way than to ask for the assistance of the central government in order to realize our aim."²⁵

Hot debates went on at the NUAA conference in 1886 on this topic, especially between the last two theories, but no consensus emerged as far as this issue was concerned, since each county had its own societal and economical conditions. At the end of the conference the chairman gave a speech calling for a compromise: "We shall make appeals to both the central government and county governments to give support to rural credit cooperatives."²⁶ The Agrarians, thus, could not launch the enterprise of building credit cooperatives uniformly all over the country, but in some counties, which had strong Agrarian leadership, the organization went quite successfully. Pest County was the first and most successful case where a county center of credit cooperatives was founded, and by the end of 1894, more than 150 village credit cooperatives had been established under the county center's patronage both within the county and also over the county border.

The Pest County center was the first step to a nationwide organization, because in 1898, adapting Agrarians' experiences in Pest County, a parliamentary law was established which set the standards for credit cooperatives on the basis of personal credit, joint liability and patrons' participation, with increased but limited liability. In the following decades up to the end of WW1, this type of rural credit cooperative became dominant throughout the country.²⁷ Moreover, this system of dual liability, based on the horizontal

²³ Count Imre Széchenyi. MC-NUAA, pp.52-53.

²⁴ MACPC, pp.18-19.

²⁵ A statement of baron Dezső Bánffy. MC-NUAA, pp.55-60.

²⁶ Ibid., p.60.

²⁷ Table of credit co-operatives in Hungary in 1912

and vertical relationships in rural society, also worked in other spheres of rural cooperatives, such as consumers and selling cooperatives.²⁸

2. Cooperatives in the People's Democracy: labor prior to capital

The era of the People's Democracy from the end of WW2 to the birth of the Communist regime in 1948 in Hungary used to be interpreted in two ways: the period was the first phase of communist rule; or the period had possibilities for other political regimes than a communist one. From the cooperative point of view, however, both interpretations are true, since the cooperative law established in April 1947, which was prepared in 1946 without serious foreign intervention, already included essential elements shared later with the communist producers' agricultural cooperatives [PACs]. In addition, the law continued to uphold the policies of the Agrarian cooperatives. This is why we are examining the cooperative law of 1947.

2-1. Labor prior to capital

There were serious conflicts in the preparation process of the cooperative law between the Smallholders, the majority party at that time, and the communists. The most serious one related to the Hangya, the national center of the Agrarians' consumer and selling cooperatives. Specifically, the communists wanted to liquidate the center into the new national center for all kinds of cooperatives, but the smallholders insisted that it remain

Type of co-operative	number	given loan*	member	members' agriculture	occupation trade*	intellectual
other						
Agrarian	1,900	121,422	577,464	460,562*	71,285	20,727
24,890						
Serbian	130	601	5,675	4,927	483	127
138						
Raiffeisen	175	5,318	15,431	9,638	621	574
315						
Tisza region	19	9,010	44,890	15,340	17,844	4,630
7,076						
Independent	867	27,027	503,697	191,004	223,718	44,859
44,116						
Total	3,091	163,378	1,147,157	686,193	313,718	70,917
76,329						

Source: *Magyar statisztikai évkönyv (Hungarian statistical yearbook)*, újfolyam, vol.20., 1912., Budapest, 1914, p.3201.

*The figures at given loan are 1000 Korona.

*Trade includes manufacturing, transportation and commercial industries.

*The Agrarians co-operatives covered 6,603 villages out of 12,562 all over the country: *Magyar statisztikai évkönyv, 1912*, p.312, p.321.

²⁸ O.Ieda, *Központ és községi szövetkezetek...*, op.cit., pp.158-175. O.Ieda, *Agrarian crisis and policies in the Modern Hungary: Middle-sized landowners' agrarian and co-operative movements (in Japanese)*, Hirosima-daigaku keizai-ronso, 1987, Vol.11, No.2-3, pp.226-233.

independent as it had been originally. On this issue the Smallholders were able to keep a coalition with the national peasant party, and thus the Smallholders would not surrender their commitment to the Hangya. The final solution - a victory for the communists - was brought about only after the change in the general political environment at the beginning of 1947.²⁹

Another major issue of conflict concerned the discipline of profit portion. On this problem the Smallholders were ready to compromise with the communists, because the Smallholders were afraid that their coalition with the national peasant party would be broken if they had insisted on the dominance of capital return in the issue. Even within the Smallholders party, the left wing did not agree with the discipline of capital priority. Thus a compromise was born at the end of 1946: namely that, "a part of profits *should* [the accent is the author's] be refunded to the members according to their labor contribution" (chapter 93, article 1). However, "return to capital shares *may* be given after keeping reserves and refund to the members" (chap.93, art.2). Moreover, a model contract attached to the law provided specific figures, according to which the refund to members was 40% of the profit and the capital return was less than 25%.³⁰ It is obvious that the policy of labor priority prevailed within this compromise. This was a symbolic conclusion of conflicts in the era of the People's Democracy, and the discipline was later introduced into the PACs.³¹

2-2. Membership and liability

The issues mentioned above were the main points of conflict among the political parties, and other subjects like the liability of members were not focused upon in the Parliamentary preparation process. Thus we may suppose that the parties had, more or less, a general consensus relating to the issue of liability. In reality however, liability was a very serious and significant question among cooperative members in the critical and unstable reconstruction process of the cooperatives after WW2.³² Moreover, liability was the key issue from the historical perspective, and from this point of view,

²⁹ Sándor Balogh, *Parlamenti és Pártharcok Magyarországon 1945-1947 (Struggles in the Parliament among the political parties)*, Budapest, p.588. Istvan Simon, *Hangya termelő, értékesítő és fogyasztási szövetkezetet felszabadulás utáni Története 1945-1949 (A history of Hangya producers, selling and consumers co-operative after the Liberation 1945-1949)*, Budapest, 1976.

³⁰ K.Fülöp and L.Boros, *A szövetkezeti Törvény és Magyarázata (The law of co-operatives and its interpretation)*, Budapest, 1947, p.219. Other entities were reserve (10%), members' welfare (10%), and reward to executives (15%). The last one was not obligatory to pay.

³¹ See the disciplines of profit portion of the third type co-operatives. A Magyar Népköztársaság minisztertanácsának 113/1950. számú rendelete az önálló termelőszövetkezetekről (Ordinance of the ministers council on independent producers co-operatives), *Magyar Közlöny*, Budapest, 1950, no.78., május 7.

³² O.Ieda, Society, economy and politics in Hungarian People's Democracy (in Japanese), in O.Ishii ed., *European politics and the Cold war in 1940s*, Kyoto, 1992, pp.167-185.

the cooperative law in 1947 was the intermediate step between the Agrarian type of rural cooperative and the communist type. The following relates to this point.

The law of cooperatives in 1947 stated that "each member has equal obligations and equal rights." (chap.23, art.3) Egalitarianism was the general rule of law, and the first impression of the law seemed to differ from that of the Agrarian cooperatives. However, the practical policies in the law were contradictory to the general rule. Chapter 24 and chapter 51, article 1 stated: "anyone, who declares his/her will of payment of a capital contribution, can be a cooperative member, regardless of political, religious and ethnic affiliation." "Each member has one vote at shareholders meetings," and even those members who cannot complete their obligation of payment through no fault of their own can exercise their right to vote". (chap. 51, art. 3) Thus, the egalitarianism was so perfect that equality in obligation was, in turn, denied. Moreover, inequality was the main feature in obligations, or in other words, in members' liability. Chapter 27 article 1 stated that "each member has a liability to the cooperative's debts up to the amount of his/her capital share. ... The contract can increase the liability by several times the amount of capital shares." (chap.27, art.1) "If a member cannot discharge his/her liability for the cooperative's debts, the undischarged liability is transferred to the other members proportionally to their capital shares." Transfer of undischarged liability was to be repeated until the whole of the cooperative's debts were cleared. Thus, the system of liability in the law was based not on egalitarianism but on placing an increasingly heavier burden on wealthier members.

The 1947 law of cooperatives, as a whole, provided two disciplines: firstly, members of no fortune could exercise the rights of members without fulfilling the least obligation and participate in profit sharing by the policy of labor priority - this was a new discipline and was taken up by the communist cooperatives; secondly, members of fortune had to receive progressive liability - this was the Agrarian policy - and received a minor part of the profit for their capital contributions. These policies - labor prior to capital - were the spirit of the People's Democracy at that time. However, they included no guarantee to enable the cooperatives to function, since it was unlikely that men of fortune would enter a cooperative under such unreasonable conditions, and that as a result the cooperative would not have enough capital to be established and function. Such a system could work only when local patrons accepted membership on the basis of social obligation - this happened in the Agrarian cooperative movements - , or when political violence forced the peasants to enter the cooperative. There was no possibility of patrons' membership, because this social class was liquidated by the land reform in 1945, and the latter alternative - membership by violence - was realized in history right

after the establishment of the law in 1947. The cooperative laws in the communist era gave no descriptions on members' liability, since the communist agricultural cooperatives were based not on the members' capital contribution but on the members' labor contribution. Thus, there was no possibility of requiring liability from the members. Land was the single exception that members brought into PACs as a capital contribution, but land was not regarded as a capital share and PACs paid nominal rent, not return, to the landowners.

3. Post-communist cooperatives on the communist disciplines

The end of the communist regime brought fundamental changes in the rural cooperatives. In the privatization process of agriculture dominant concerns were focused on the division of land and cooperative assets. This is the case everywhere in the East European countries, though the actual result of the privatization - liquidating or keeping collective farming - differed among the countries.

3-1. Dual membership: passive and active capital shares

In Hungary the new law of cooperatives in 1992 laid down the criteria according to which the members received lands and capital shares from PACs.³³ The new law of cooperatives anticipated, ideally, that the reorganized cooperatives would be managed on the basis of private ownership. In reality, however, the criteria were politically decided and the initial concept was not realized. In effect, the new law created two kinds of membership or two kinds of capital shares of cooperatives: one was a passive member, who received only "ordinary capital shares"³⁴ and had no rights except to receive returns for his capital shares; the other was an active member, who received not only ordinary capital shares but also "special capital shares", with which an active member received the right to vote at shareholders meetings. Passive members were, in other words, those who had once held membership in cooperatives before privatization or their inheritors, and active members were those who held membership at the time of

³³ A series of compensation laws in 1991-1992 were also important in the land privatization. Needless to say, the land question is very important. But in Hungary land is no longer the co-operatives' assets. Thus we neglect the land question here. Another critical question in Hungary's privatization relates to the pensioner members. They have a considerable part of the capital shares of the co-operatives. As a rule, the co-operatives used to transfer an extra income to them in kind or in cash in exchange for their lands lent to the co-operatives.

³⁴ The criteria for ordinary capital shares are the members' contribution in labor and assets; for example, the assets contribution was 12% of the whole ordinary capital shares, duration of membership was 25%, number of working days was 28%, wage and salary was 30%, and others are 5% in Veszprém county's PACs. KSH veszprémmegyei igazgatósága, *A mezőgazdasági átalakulása és az átalakulás várható társadalmi következménye (The agricultural transformation and its expected social consequence)*, Veszprém, 1993.

the privatization.

This dual membership was introduced due to the historical background. One passive member, for example, stated: "The founders of the PAC dedicated all their lives to the cooperative and died. Therefore it is not justice that their descendants have only passive membership. ... No vote at shareholders meetings is violence to our rights."³⁵ On the other hand, active members regarded the dual membership as very natural, because "Many members left the village, since life was easier in towns and cities. The law, however, also gave capital shares to those who left the cooperative at times of difficulty. ... We respect those who didn't leave the cooperative and stayed here". Dual membership was a historical heritage from the rural societies in the communist era.

Another important issue was the profit portion between labor and capital contribution. According to the law of cooperatives, "the largest part of net annual profit of a cooperative is transferred to labor contribution" (chap.61, art.2). In an actual case, for example, the ratio was 40% of net annual profit.³⁶ The priority of labor contribution had the same background as dual membership; namely that, the working members thought it unacceptable that passive members should receive a part of the profit without working. Even such a radical opinion as the following was heard: "All profits should belong to those who worked and created the profits."³⁷

3-2. No liability

The conflict between the passive and active members was the main issue of the Hungarian privatization and reorganization process of PACs. In contrast to this, no one paid attention to members' liability for the cooperatives' operation and debts. The law states that "a cooperative is liable to debts with its assets. The assets are special capital shares, ordinary capital shares, reserves, undividable properties, and movable properties. The members are not liable to cooperatives' debts with their private properties and wages from the cooperative." These paragraphs were accepted without any comment at the local levels as well, though a number of questions and disputes arose among

³⁵ Minutes of members meeting at the Veszprémvársányi Jóbarátság PAC, Veszprémmegyei cégbiróság irattára. See O.Ieda, *Folytonosság és változás a magyar mezőgazdasági termelőszövetkezetek átalakulásában, különös tekintettel a Veszprém megyei esetekre* (Continuity and change in the transformation of Hungarian PACs : sample investigations in Veszprém County), in M.Oláh ed., *Az átmenet, avagy Veszprém megye a rendszerváltás időszakában* (*Transition: Veszprém County in the period of system transformation*), Veszprém, 1995, pp.222-223.

³⁶ Minutes of members meeting at the Mencshelyi Balatonfelvidéki PAC Veszprémmegyei cégbiróság irattára. See *ibid.*, p.220.

³⁷ Minutes of members meeting at the Zirci Bakonyi PAC Veszprémmegyei cégbiróság irattára. See O.Ieda, *PAC in the post-communist Hungary* (in Japanese), *Studies of Agricultural co-operatives*, Tokyo, vol.20., 1995, p.139.

cooperative members on the issue of how much return the members should receive for their capital shares. It was very probable that the members never perceived their capital shares as "shares"; namely, a capital share means both a right and a liability for the operation of the cooperative. But the shares were, in reality, "given" to them as compensation for their troubled membership in the communist era and the shares were, in their consciousness, never represented members' capital "contribution" to the cooperative. A very frequent question from members was: "Do the members have to pay for special capital shares?" The answer was: "No. Active members receive it with no charge." It was beyond the members' consideration that they might be liable for the cooperative's operation due to their capital shares. The law itself confused the character of capital shares, because the sentences cited above - "a cooperative is liable for debts with its assets. The assets are *special capital shares*, *ordinary capital shares*, reserves, undividable properties, and movable properties. The members are not liable for debts with *their private properties* and wages from the cooperative" - are not correct. The capital shares of the cooperative are the members' private properties as well. A correct phrase would be "The members are not liable for debts with their private properties but their capital shares". Anyway no one is liable to the cooperative's debts and, thus, to the cooperative's activities according to the law and the members' perception. The members are interested only in return and rights.

4. Perspectives on the future and the past

What is the present nature of rural society in Hungary through the prism of the current cooperative disciplines? These disciplines prioritize labor over capital, a diminishing community of active members, and no personal liability. We may surmise then that: the renewed cooperatives are still organized in the same spirit as the PACs in the communist era, and rural society itself is basically unchanged.

From the viewpoint of management, the cooperatives are in a critical situation. This is also not surprising to us, because the cooperatives have no possibility of credit from inside or outside due to lack of liability among the members. In this case, does the cooperative have no future in Hungary? In the following, two successful cases are shown.

One is the Hajduszovát model. The agricultural cooperative in Hajduszovát village, while keeping its commercial form as a cooperative, transferred the dominant part of its assets to a joint stock company established by the cooperative itself. The company, as a holding company, has a majority share of capital stocks of the small companies, which

previously were the divisions of the cooperative or its subsidiary companies, and now usually have the form of limited liability companies. The essence of this model is to keep the ruling power of the active members after the nominal transformation of the cooperative into companies which have more acceptable forms of economic activity but have no dual membership. In reality, however, the active members lost their ruling power after the transformation. Now the cooperative leaders or the top leader have/has significantly strengthened their power as a director and/or a representative of the ruling stockholder, the cooperative, in the commercial companies.³⁸ Now nobody can actually supervise them. The active members' meeting of the cooperative, legally speaking, could do so, but this is not probable practically, especially when the companies' economic performance is good and the members' employment is ensured there. Thus, the Hajduszovát case is a strong coordinator model; namely, the cooperative concentrates all its assets in a coordinator, who manages the assets under his/her strong leadership.

The other case is the Lajosmizse model. The method of division - transformation to limited liability company or joint stock company - is almost the same as in the Hajduszovát model, but in the Lajosmizse case the cooperative was liquidated. Therefore there is no longer any dual membership. The new directors of the companies are those former leaders of the cooperative, who bought the major part of the company's stocks with their own money. They finance the company on their own account, for example, by mortgage credit on their private properties.³⁹ Leaders of this type may be called owner-directors. We may find other type of leaders elsewhere. However, from our viewpoint, the interesting aspect is that not egalitarian but hierarchical, or top-bottom relations are emerging among the members in the successful cases. In addition, the new leaders are in many cases not new leaders, but they were often the last chairman of the PAC, or even descendants of "kulak" families before the collectivization of farms.

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We have as yet no conclusions, as reality has neither. But our starting premise-Agrarians expected that the new credit system would bring forth "peasants consciously

³⁸ The author's field investigations at Hajduszovát co-operative, including interview with Istvan Juhasz, the director, in March, 2000. I. Juhasz, Az átalakult szövetkezet működése (Function of the transformed co-operative), *Számadás*, 1995, February 16, pp.11-15. A szövetkezet Hajdú megyei cégbírósági iratai (Official documents of the co-operative at the county commercial court).

³⁹ The author's field investigations at Kossuth co-operative in Lajosmizse, including interviews with Márton Budosó, the director, in January, March and August, 2000. A szövetkezet Bácsi-kiskun megyei cégbírósági iratai (Official documents of the co-operative and the companies at the county commercial court).

behaving on their own account, and they would no more be subject to imperatives from above"- also seems pertinent in post-communist rural societies, since the traditional character of the Hungarian rural society - patron-client relations - is now emerging again beside a peasants' community after a half century of interval.

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