Mihály Laki - Julia Szalai - Ágnes Vajda

Participation and Changes in Property Relations in Post-Communist Societies

The Hungarian Case

Budapest

1994-1995

Introduction

Political analysts of the events of 1989-90 face considerable difficulties in applying the traditional concepts of political theory to the Hungarian case of the collapse of Communism. They are rather ambiguous also in conceiving the essence of those changes that could be observed in the fields of politics, economy and social relations during the past 4-5 years. The hesitations follow from the peculiarities of the Hungarian case among the East-Central European variations of post-communist transition. The radical transformation of the political system that took its start with the first free elections in Spring, 1990 had not been invoked by any revolutionary struggles, nor even by clamorous mass-demonstrations, strikes or other symptoms of massive political dissatisfaction. After 40 years of unbroken centralized one-party ruling, the passage to a multiparty-based parliamentary democracy was the outcome of a series of peaceful negotiations between the Communist Party and the most influential dissident groups. However, a reformist approach also fails to give the adequate theoretical framework: true, important reforms in the spheres of the economy had been introduced throughout the 1980s, but the clear political intention in the background was to gain endurance to full political control of the Communist Party over society, thus, rather to prevent than to help any "dangerous" modifications of the "old" system.

If neither revolution, nor reforms -- then, how can one characterize the "systemic" distinctiveness of the post-1989 changes? In more concrete terms: can one identify with the same momentum both, the prefigurations and the system-related limitations of those social, political and economic processes of late socialism that have led to the almost unanimous recognition of the need for a radical change in the political order, and that have given the "substance" of the peculiar peacefulness of the post-1989 transition to a multiparty democracy and a market-regulated economy?

While the question has been in the forefront of political discourse since the late 1980s (which fact is indicated by a great number of influential publications within and outside the country), a comprehensive analysis is still missing. Instead, when searching for the major constituents in the bakground, analytical reflections either limit themselves to economic factors alone (and spell out those "necessities" that the politicians had somehow to resolve because of the unstoppable decline of the GDP, the relatively high yearly rate of inflation, the continuous increase of foreign debts, the dangerous growth of the deficits of the state budget throughout the 1980s, etc.), or refer only to externalities, the most important being the favourable trends of the mid-1980s in international politics under Gorbachev.

However important these factors were in preparing the arena for changes, the serious limitations of any such analysis leave behind as many unanswered questions as they intend to resolve. First, the gloomy economic tendencies of the 1980s colluded with opposite ones, pointing to favourable shifts in the structure of production. Year by year, economic decline in the first economy was countervailed by always "unexpected" growth of the GDP driven from the informal economy. Thus, despite all the negative projections, real per capita income did not stop to raise, inflation, however high, could be kept under control, the standard of living showed a steady growth, savings of the households were continuously arising, etc.. Thus, the "pressure" for unavoidable change was far from being clear. Second, fortunate changes in foreign policy pointed much more to the "unnecessity" of the resignation of the actual rulers (giving them a previously unknown scope for maneuver in their internal affairs) than to "run ahead" and initiate free elections that they knew they would not win.

In a serch for somewhat more established arguments for the full exhaustion of the legitimacy of power of the Hungarian Communist Party despite all its apparent successes in the late 1980s, one has to go deeper in history and farther in time: the key has to be identified in the 1956 revolution and the spectacular length and intensity of its multifaceted socio-political impacts for the succeeding thirtythree years of Kadarism. The politics of these decades can be characterized as continuous attempts to resolve an unresolvable political paradox: the completion of totalitarianism through its day-to-day questioning. Nevertheless, this paradox gives us the clue to the understanding of the peculiarities of the Hungarian case of East-Central European socialism, and also of its most peaceful disappearance by the end of the 1980s.

To make this statement clearer, one has to throw a glimpse to the politically-driven innovation of Kadarism in its attempt to consolidate the relationship between the ruling party and the defeated society in silent, though full and lasting opposition to it.

The innovation and the key to the success of the long Kadarist period laid in the actual content and the everyday meaning of a fragile compromise between the Party and society. The essence of this compromise was a tacit acceptance, even a gradual expansion of the space for individual autonomy, based on the ideological-practical "rehabilitation" of the one and only institution which was legitimately independent of direct political control, i.e., the family.

Nobody could foresee the extent of change that the apparently "minor" political concessions to restricted private autonomy induced in the everyday life of the country. The re-gained "freedom" for privacy, in an exchange of unreserved fulfillment of one's duties in the socialist domain, activated tremendous capacity. It turned out that given the deeply rooted motivations of the material, cultural and symbolic pursuits of "Europeanism" in broad layers of Hungarian society, significant numbers of families were able to combine their participation in formal "socialist" institutions with a working out of alternative cultural patterns, values, skills and routes for social mobility, which were based on their restricted independence to follow self-determined rules in the second economy. Participation in informal productive activities to realize individually chosen goals slowly developed to a vast social movement. Families started to organize their internal division of roles, the choice of qualification for their children, the concrete decisions about jobs which could or could not be accepted by their different members, priorities in spending money and time, etc. according to a rationale, which was clearly driven by their personal concept of modernity, but often did not follow the "officially declared" expectations of the authorities. These diverging aspirations and expectations became the grounds for bargaining on the micro- and macro-level alike. Bosses had to accept the seasonal dictates of small-scale agricultural production in designing production-plans of their firms, otherwise they risked to lose their workers, who could easily move to another workplace amid the chronic man-power shortage of socialist industries. Similarly, the menace to withdraw the tacit permission on spending two hours less in official, for the sake of two hours more in one's informal work, became the most effective tool to sanction "undeserving" behaviour. Further, hidden interest-groups could exercise remarkable pressure on the continuous extension of social welfare benefit schemes in order to shift the financial burdens of intra-firm bargaining for higher-than-permitted wages to the state-budget and social security. In turn, the recurrent modifications of entitlement-regulations, the changing rigour of control over sick-pay or disability-pensions served as effective tools in the hands of the central planning authorities to direct the flow of labour and to keep formal production in a permanent subordination to the lesser or grater degree of "permissiveness" of central volition. The co-existence and mutual adjustment of the two distinct spheres of life had to be taken by all the partners as the basic guiding principle in the delicate day-to-day political game.

With the establishment of the general practice of a way of life based on two pillars and its semi-institutionalised routines, the totalitarian control over society was condemned to death. Nothing could halt its erosion, although, of course, no one could predict the concrete form of its collapse or exactly when it would occur. When it did happen, strange ambivalences came to light with the change of regime. It turned out that both of the pillars in the two-pillar way of life are equally important. The conflicts of the past five years have revealed that while the bourgeois aspirations for autonomy embodied in the second economy urge a reduction in the political power of the state and its possibilities for intervention, embittered struggles are being waged to preserve the state sources and institutional channels that represent the economic backing for the private sphere. While the drive to decentralise in place of the former overcentralisation is unstoppable, there has not been the slightest waning in the competition for the state's centralised funds. An endless stream of lobbies are besieging the offices of the state economy policy-makers to wring "special" donations and supports from the increasingly indebted central budget. Despite all the efforts for rationalisation and the cautious reform steps, there has been no easing of the battle for benefits provided through social security which still represents the single biggest item in the state budget. Strikes and demonstrations signal the resistance shown against the closure and privatisation of the big state firms, and every day brings news of petitions emphasising the obligation of the state to compensate various strata of the population for their losses caused by inflation. It seems that the transition from a command economy to a market-regulated one has brought about strong attempts to "re-interpret" the role and duties of the state, instead of getting rid of it. It would appear that Hungarian society now in the process of changing its system wants a state with weak political power but with economic power that is stronger than ever before. Despite all the original expectations, the past years of transformation have not led to a clear separation of the distinct agents of economy, politics and society. Privatization of properties previously in the hands of a faceless owner has not meant the emergence of an autonomous class of new proprietors, instead, it has initiated strong fights for a share in the state itself. Put it differently, developments of the past years quite clearly indicate that the time for detotalisation has come, but the time for denationalisation has not yet come in Hungary.

This is the historical context in which the Hungarian team undertook the task to follow the changing patterns of access to property and the accompanying social, political conflicts within the cross-national comparative project on "Participation and Changes in Property Relations in Post-Communist Societies". The focal questions of the research followed from the above-outlined experience of late-Kadarism. The first, pilot phase of the project was aimed at describing the "state of erosion" in various segments of institutional and private life, and demonstrating the prefigurations of private ownership amid the conditions of the two co-existing economies. The twofold bondage of the majority of the social and political actors of late socialism was also pointed out as a "natural" consequence of the contrasting --often conflicting-- rules of behaviour in the formal and informal spheres of economy and social relations.

The major conclusions that this pilot-phase of the project arrived to, were, as follows:

The continuous spreading of a simultaneous participation in formal and informal economy has reached its peak around the mid-1980s. By that time, some three-quarters of the households took part in informal production and drew their livelihood increasingly from informal sources. As data from the subsequent time-budget surveys demonstrated, preceding the ultimate collapse of the old system, there had been already an effective trade-off between formal and informal production: while the aggregate working hours in the formal segments of the economy showed a steady decline, due to the ever-increasing participation in the informal sphere, the total of working time still increased. In effect, certain parts of production had been taken over by the second economy: some 40 per cent of exports in agriculture, the dominant part of housing construction and investements into the maintenance and development of public infrastructure (water, sewage, gas, etc.), an increasing segment of health-, childcare- and welfare services were derivated from the household-based economies of hundreds of thousands of families. These developments gradually imbued also the sphere under direct state control: the institutions of formal economy and social policy underwent an unnoticable "re-definition" of their functions, and, instead of working according to the dictates of a unified will from above, showed signs of unregulated functioning, driven by the changing constellation of power of an increasing number of interest-groups in the background. By the multiplication of the functions of social security, its benefits and services gradually became the vehicle of gaining tacit independence from the prevailing strict regulations in wage-policy, and, thus, they assisted the increasingly self-determined economic activities of the socialist firms; the very same benefit-schemes also served as hidden subsidies payed for the time spent in informal production by the temporary exodus of the labour force under still prevailing requirements of compulsory employment; and they also catered the fulfillment of the main political goals of the

Communist Party by orienting the redistribution of income toward private consumption, but to do so with a simultaneous maintainanace of unrestricted central control over its level and structure.

All these developments of late-socialism could be seen as a gradual move of Hungarian society toward gaining independence from any prescribed forms of living dictated from above. The shifts toward extended participation in the second economy were arguably interpreted as prefigurations of a market-regulated system with distinct private economic actors, who could become the agents of a rapid economic restucturing based on the prevalence of private ownership. And most important: all the symptoms of erosion indicated a massive embourgeoisement-process not only in its economic sense, but also in its civil and culltural aspects which would work as established safeguards of political democracy.

Nevertheless, the studies also pointed out some of the drawbacks and foreseeable longterm conflicts that followed from these strange developments. First, a noticable ambivalence could be detected toward the true withdrawal of the central state; at the same time, such a withdrawal was seen as the most important precondition of genuine systemic changes in economy and social relations. Therefore, it remained a focal question for any follow-up research of marketisation and the accompanying change of property-relations, whether the first years of transition would bring about the emergence of autonomous individual owners with a high degree of risk-taking, so important for the spreading of profit-oriented economic activities. Or else, insecurities and the withholding effects of the previous formations of double footing would prevail, blocking earnest economic restructuring to a great extent. Second, the gradual expansion of the informal economy was accompanied by a remarkable increase of inequalities in access to the necessary resources. Thus, the preliminary studies pointed to a steady growth of income differentials, wich hit most those social groups that had been dependant exclusively on one of the pillars of existence, namely the state. The gradual reinterpretation of the functions of social security and public services concluded in an effective squeezing out of these most vulnerable groups from the various schemes of social provision already around the mid-1980s. It remained an important aspect of later research, whether the systemic changes would lead to a turn toward the re-integration of the poor. Or else, the spontaneous processes of marketization and the accompanying hunger for state-support would lead to an explicit dualization of the social order, thus, the deepening of social disintegration can be conceived. Third, an important feature of late-socialist development was an increased importance of the decentralized institutions of economy and social life in creating greater or smaller space for the functioning of second economy in their surrounding. Local councils as community-level representatives of the state and the socialist enterprises as the decentralized actors of production played an outstanding role in these processes. With the systemic changes, their persuits in the formation of the actual property-relations became crucial. It remained (and partially, still remains) an open question, whether these decentralized agents of socialism become proprietors themselves through their managerial elite; or, whether their ambivalent interest in statism would induce spontaneous processes of recentralisation; or else, whether they become bare "moderators" of privatization, and extend participation through letting themselves privatized by a great number of small-size possessors. Fourth, the political connotation of participation in the informal economy as a form of opposition seemed to wither away with the collapse of the old rule. However, it was still undetermined, whether its civil aspects would be preserved by finding their expression in extended political participation and the necessary non-profit formations of property as their material base of functioning; or else, these civil aspects and also the culture that they had developed are condemned to disappearance amid the intensified struggles for privatization in the individualistic sense of the term.

Even this short list of open-ended questions might indicate that the actual content and the conclusive property-formations of the systemic changes in economy and social relations were not at all easily foreseeable. The design of the second phase of the project was informed by the common conviction of the members of the Hungarian team that "privatization" is too broad a concept to make it in itself evident, where and in which directions should further steps to be made. The actual selection of questions for empirical investigation followed from our common recognition of the fact that the above-outlined historical prefigurations play a decisive role in the process. In other words, the frequently heard arguments to take the transformation of property-relations as a bare technical issue of available capital and the most efficient utilization of it, were refused as the frame of reference. Instead, privatization was seen as an arena of conflicting economic cultures, dubious personal and collective interests in gaining full autonomy with all its risks and increased responsibilities; as a scene of potentially clashing sides of embourgeoisement, i.e., as a process with equally important, though sometimes contradictory economic and civil aspects; as an area of ambivalence concerning its political implications; finally, as a process of social resturcturing, determining not only the attainable level of material well-being, but also the varying scope of participation of the various social groups in gaining influence on matters of longer-term policy-formation.

The three studies in this monograph have the modest aim to highlight the socio-political complexity of privatization in three out of the hundred potential domains of transformation. The choice was deliberate: instead of restricting the analysis to the conventional economic concepts of "efficiency", "productivity" and "profitability", our interest concentrated around issues of participation and exclusion, the differential burdens that the various actors of economic transformation have to face, and the patterns of distributing the eventual gains and losses among them. Thus, different forms of collective actions and reactions were in the forefront of the study -- as much in the sphere of production, as in the diverse areas of civil representation. By this focus on the collective aspects of the transformation of property-relations, attempts were made to give a picture about the limitations of designating truly "private" economic actors straight after decades of missing concepts and practices of private property, and also, to point to the ambuiguities in people's attitudes when faced with the challenges of giving up one (the state-bound) pillar of their customary existence. Much of the current hesitations and uncertainties around privatization seem to center around these structural limitations and the ambiguous attitudes which rightfully reflect them. Their manifestation and the conflicts that follow from them belong to the true history of post-communist transformation in its present stage.

In an attempt to gain a comprehensive picture about the clashing interests in privatization and also to follow, what kinds of reactions are born from it within the affected institutions and in their wider socio-economic environment, an in-depth case-study within a well-definable community seemed to be the most promising approach. The choice of the site of the empirical investigation required extensive preparations in three aspects: a) the community to be chosen had to be sizeable enough to ensure ample diversity both, in economic activities and in social relations; b) its economic, social and institutional composition had to represent the major forms of previous co-existence and mutually geared-in relations of formal and informal economy in order to make it possible to follow, how far do these conditionalities of the past decades influence the actual direction of ongoing privatization; c) the privatization-process had to be in a relatively advanced stage to demonstrate a certain degree of crystallization of the various ownership-formations, thus, to render enough informations about people's motives to choose distinct concrete forms of property and reject others; in addition, the advancement of the transformation-process was expected to guarantee that informations about groups of the definite loosers and the reactions to their needs also can be collected.

The ultimate choice of the research-team was to make a set of interrelated studies in the city of E., a medium-size community in Northern Hungary. An Appendix to this monograph is presented to outline its history, give a description about its economic and social structure and render some background informations about its prevailing political and cultural orientations.

The three chapters aim at giving in-depth informations not only about the above-indicated distinct domains of property-transformations (in strictly meant production and in the spheres of public services and civil initiatives), but also about the major social groups that are affected. Thus, this monograph speaks as much about economic issues, as about social restructuring, and by doing so, it attempts to contribute to the conceptualization of the apparently peculiar features of embourgeoisement in post-communist Central Europe.

The first chapter (written by Mihály Laki) describes a form of property-transformation which, according to public opinion surveys, seemed to be popular in principle, but has proceeded with exceptional slowness in reality: the shaping of collective ownership through worker's shareholder-programmes. The case brought up here relates to the decomposition of a typical socialist large firm, and follows the conflictful formation of a small enterprise out of its several non-distinct subsidiary companies. The analysis points to the fluidity of the actual notion of "private" property in people's perception, and identifies some of the explanatory factors of the unclear and hesitant process. It demonstrates the fragile unification and dissolution of the various interest-groups at different stages, driven by their simultaneous aspirations to become "shareholders", and maintain the earlier achieved level of security. The search for protection of the ministerial bureaucracy, old and new political links with influential lobbies in the elected parliamentary parties, mutual blackmailing on the grounds of unclear financial dealings, the instrumentalization of the workers as potential owners in an uncontrollable struggle within the management, the in flux state of book-keeping as an arena for tacit bargains, frequently changing clusters of property that belong together or are distinct -- all come up in this history, and demonstrate the strength of non-economic factors in a sphere where "profit" and "return" could best be measured by "objective" economic indicators of the market, i.e., in production.

The second chapter (written by Julia Szalai) follows privatization in an arena where, prior to the systemic changes, claims for decentralisation and established rights of expressing communal needs were perhaps the most clearly articulated: in the sphere of public administration and locally delivered social services. The attempts to follow the changes in property-relations on the communal level were informed by two further considerations. First, due to the deliberate cuts in central social spending that came to light in the pilot-phase of the research-project, a shift of welfare burdens toward the lower levels of state-administration could be expected. From the above-raised points of participation and exclusion, it was of utmost importance to know, whether these processes have led to the officially announced better targeting of social provisions, or have contributed to the deepening of the earlier indicated processes of marginalization and disintegration. Second, an analysis of the privatization of properties on the local level also promised to gain an insight into those ambiguities toward the central state that partly have followed from the seriously rundown conditions of public infrastructure that the localities had inherited through the legal acts of transforming the property-relations in these domains. However, cultural patterns and attitudes also could be expected to play a major role in these ambiguities: intensified pressure from below to seek the maintenance of support from above seemed to be in close connection with the strives to preserve the strategy of double footing as the best way of collective self-protection. The remarkably differing strategies of the communities in the ways and forms of combining "statism" with independence, their innovative actions in converting central support into truly marketable commodities and services, their varied perception of the character of the welfare issues that they have to resolve, the procedures of desicion-making, etc. proved to be deeply embedded into those cultural conditions and previous experiences which had shaped their fate under the conditions of socialism. In this regard, the past years of transition could be seen more as the completion of earlier hidden developments than the beginning of entirely new social, economic and political relations.

Finally, the third chapter (written by Ágnes Vajda) describes an area farthest from the issues of property-transformation for the first sight. It follows the booming process of the emergence of several thousand civil institutions (associations and foundations) -- a most vivid development of the transition. The chapter points out that these initiatives have a non-negligable role also in the reshaping of the prevailing property-relations. By their presence, various concrete forms of non-profit activities have developed from the previously covert relationships of informal society to acknowledged organizations within the communities. These new organizations have gradually become complementary actors in social, cultural and educational services, and help to reduce the tensions that follow from the above-mentioned underdeveloped conditions of their state-delivered counterparts. Although participation in them is typically restricted to various groups of the middle-class, their activities and services are frequently oriented toward the most vulnerable parts of society. Thus, their presence in the communities helps to reduce the sharpness of exclusion that follows from the above-indicated intense competition for the limited resources. The interrelations between the newly formed civil organizations and those that traditionally belong to the local state show signs of a gradual convergence: the demarcation-lines are more blurred than expected. Thus, participation in the ongoing process of the tranformation of properties proved to be less restricted to those having access to capital in the limited sense of the term. Due to the intertwinned relations between the local state and the civil organizations/services, a wider circle of the public proves to be affected.

CHAPTER I.:

Opportunities for Workers' Participation in Privatisation in Hungary: The Case of the Eger Flour Mill

MIHALY LAKI

ACCORDING TO A public opinion survey, 26% of those Hungarians questioned replied that the employees of a company should be the new owners of formerly state-owned enterprises. Another 22% said that the workers and other private individuals should be given joint ownership.[1]

If almost half those questioned favour workers' ownership and furthermore -- although not always effective -- many government measures have been taken to support workers' ownership, then what can be the explanation for the pour results so far?

No more than 10% of the assets sold by the State Property Agency in 1990-93 could have become the property of employees of privatized firms; this was the share of forms of privatization in which employees had any chance to participate (small privatization, self-privatisation, leasing and the Workers Privatization Programme) (IKM, *Előterjesztés...*, 1994). In many cases, despite substantial discounts, the State Property Agency was unable to sell a considerable proportion of assets offered to employees.[2]

Moreover, the popularity of cooperatives has not increased in the post-socialist period, although the number of cooperatives has grown. There were 7076 cooperatives in December 1989 and 8217 in Marc 1994 (*Statistical Yearbook*, 1993). On the other hand, the total membership and the output of cooperatives has substantially diminished (Kőhelyi, 1992). More important, the power structure of several Hungarian cooperatives has changed fundamentally since the collapse of the socialist system. The so-called hidden privatisation of cooperatives has been carried out: managers (chairmen) and influential members became owners of these cooperatives. The majority of the members accepted that their "informal worker's position concealed by formal membership was transformed into a legal official workers's status".[3]

There is another indicator of the slow spread and marginal importance of collective ownership. Despite reestablishment of the fundamental rights of free organisation of people, worker's councils have not become a popular form of acquisition of property. There were about 300-350 workers' councils with 24 000 members in Hungary in 1993. (The total number of employed was about 4.6 million in the same year.) In the majority of cases worker's councils are actually trade unions, the aim of which is not to operate property but to defend the interests of the membership (Szalai, 1994).

The theory of the labour-managed enterprise gives us little help in explaining the slow spread of collective ownership in post-socialist Hungary. Representatives of this theory (Ward, 1958, 1967; Vanek, 1972, 1977; Atkinson, 1973) explained the reasons for the different behaviour of capitalist and labour-managed firms in developed market economies.[4] One of the important conclusions of their models and verbal analyses is that the labour-managed firm is less efficient than the privately-owned one and the labour-managed firm's lifetime is usually shorter than the average. But they emphasised that there are specific circumstances in which the changes of survival and of founding of collectively owned enterprises may increase. Socialist-egalitarian political movements prefer and establish anti-hierarchical self-managed organizations, for example (Heider & Mevissen, 1994). Another important result of some research in this field is that in market economies in periods of economic recession employees (being afraid of unemployment) founded many more labour-managed firms than in periods of recovery. Governments interested in diminishing the rate of unemployment often subsidised these actions (Ben-Ner, 1987).

In Hungary, however, during the deep transformation recession of 1989-93 more than half a million enterprises were established, but the overwhelming majority of them are privately owned (Major, 1993). Despite the fact that after the economic reform in 1986 the relatively small and flexible cooperatives were more efficient and more profitable than state-owned firms (Donáth, 1988) cooperative or labour-managed firms as a form of ownership did not enjoy great popularity.

We have to take into consideration here that millions of Hungarians suffered from the negative impact of the forced collectivisation. And it is not only the memories of mass pauperisation caused by collectivisation that influence the present decisions of employees. The restriction of employee's participation and control was a permanent experience of workers and of managers employed by state-owned firms and by socialist cooperatives throughout the whole period of socialism (Bonin & Futterman, 1987; Tellér, 1991). Yet, takint into consideration the relatively good performance of cooperatives after 1968, these controversial experiences and sentiments are not enough to explain the paradox of why collective ownership is popular if it is not spreading, or why it is not spreading if it is popular is post-socialist Hungary.

When there is neither strong explanatory theory nor sufficient statistical data to analyse, fieldwork and case-studies may help (Neumann & Mészáros, 1993), if only to put questions and formulate hypotheses.

This article presents a case-study of a company in which the majority of the workers wanted to be shareholding owners. Their difficulties and setbacks may help us to understand why workers' ownership is not increasing at a speed proportionate to its polularity in Hungary. Our study reviews the events surrounding one of the Heves County Grain Trading Company's (HMGV) plants, the Eger Mill, its transformation into an independent privately owned company, or more precisely into several companies.

An employee buyout of the Eger Mill (an establishment owned by a larger company, HMGV, still in state hands) was initiated by a few managers, and staff members of the mill. Most of the workforce supported their efforts,, but the management of the parent company, joined by a small group of managers and workers of the Eger Mill itself, opposed them.

A detailed description of the conflict between those who were for the Mill's independence and those who were in favour of the Mill remaining a part of HMGV may help us understand what occurred within the Hungarian economy and society following the collapse of the socialist system in 1989, i.e. who gained economic power and how this power has been distributed: who has come into possession of capital assets and can control product markets.

Throughout the preparation of the case-study interviews were conducted with several of the key players in the story, and articles in local and national newspapers on this subject have been taken into account. Many documents relating to the transformation of the company have also been analysed.

The players

The 19 companies responsible for the milling, storage and trading of grain still belonged to a national monopoly, the Grain Trust, in the 1980s. These companies did not compete inn the market for supplies and sales. Each company dominated its respective county's grain and flour markets.

The object of our study, HMGV, was one of the companies belonging to the Grain Trust. Its property comprised mills, forage mixers, warehouses, grain stores, produce stores, means of transporting goods, and offices. In 1988-89 HMGV employed approximately 700 people.

HMGV buys grain predominantly from farming cooperatives and private farmers in the county. Its main products are flour and fodder and are purchased for the most part by participants in the local market -- farms, small-scale producers, bakery companies and privately owned bakeries. Most of the flour is bought by wholesalers and retail outlets and sold to the general public. A small percentage of flour is occasionally exported. HMGV also trades in grain, selling to other grain and milling companies and customers abroad.

Eger Mill is a much smaller company. In the 1980s 40-50 people were employed there. According to a property surveyor the Eger site (and future company) is worth 28.4 million HUF. At HMGV, Eger Mill has been valued, according to the expected profit it could yield at 100 million HUF.[5] Eger Mill produces fodder and flour from the grain it buys. Its grain suppliers are local farms. The fodder is purchased mainly by agricultural cooperatives and private farmers in the Eger area. Eger Mill also supplies many local food trading companies and private retailers. It does not, however, sell grain.

Decentralisation

The Grain Trust, an unusually powerful monopoly within the grain undustry, even in Hungary's highly centralised food industry, was terminated by the Cabinet of Ministers under Clause 1070/1989 (VI. 10) as from 1 December 1989. In this resolution the government also decided that, "following the decision of the Cabinet of Ministers, companies shall begin preparations for commercial operations".[6]

The resolution is concerned with the transformation (decentralisation) of this branch of industry. It does not, however, say that the state share in the grain industry should be discontinued or reduced. Yet an important precondition of privatisation is the "crude privatisation",[7] namely restructuring into a joint stock company whose shares can eventually be sold into private hands by the state.

Privatisation

Draft plans for privatisation of the whole grain industry were made by the Department of Privatisation at the Ministry of Agriculture because the founder of these companies (including HMGV) was the Ministry. This plan was coordinated with SPA as well. Tenders for privatisation were announced by different law offices dealing with privatisation, as approved by the SPA.[8] One cannot say that they were in a hurry: privatisation tenders for part of assets of the grain industry were not invited by SPA until the first half of 1993. Since then some of the assets offered (for example, about 50 mills) have been sold.

HMGV followed this path. Some of its assets (plants or equipment) were offered by SPA in April and October 1993. Since then two mills have been sold. One of them was bought by a foreigner and another by a Hungarian investor.[9]

These events, which were not all all unusual in the decentralisation and privatisation of the grain industry and HMGV, are not the subject of our study. As we have mentioned before, HMGV differs from the other companies of the former Grain Trust in one important aspect. A part of its assets, namely the plant in Eger, was decentralised and privatised contrary to the privatisation plan of the Ministry of Agriculture. We shall focus on this story, in which neither foreign nor Hungarian investors but its own employees wanted to buy the Eger Mill.

The beginning

An important antecedent to our story is that the manager of Eger Mill and his deputy were already on bad terms with each other in 1988-89. The deputy manager was under the impression that he would be made manager, but the Head Office of HMGV appointed another person ("who had no qualifications in the milling industry") to manage Eger Mill. This new manager soon gave the deputy manager a written warning, believing him to be "... bad in his job, unreliable".[10]

Even at this time the deputy manager was critical of the HMGV oranisation: "I considered the number of administrators too large -- there are over a hundred people working at the Head Offices -- the workers' wages are very low and the working conditions are very bad".[11]

It is hardly surprising that under such circumstances, and being aware of the changes in the times, it was he who led the movement towards separation. He called a meeting of Eger Mill's workers, who, by a majority decision, "informed the company's director (and the Ministry as founder) in a letter written on 27 December 1990 of their intention to form an independent company".[12] There followed six months in which nothing happened. The state secretary at the Ministry of Agriculture responsible for this affair did not answer. On 26 May 1991 a new action was taken: 51 people, "90% of Eger Mill's employees, signed an application for the transformation of the mil into an independent company, which they posted to the Ministry of Agriculture".[13] In this letter, addressed to the political Secretary of State at the Ministry, the signatories based their intention to form a separate company on paragraph 10, VI. Act of 1977, referring to company laws, and added that "their proposal to privatise Eger Mill would also be supported by an "Egzistencia" loan".[14]

Advantages and disadvantages

Personal conflicts are not enough in themselves to enable us to understand the actions taken to transform Eger Mill. Most of the persons involved in instigating the separation did not just act on their emotions, but actually hoped that separation would bring more profits than if they remained with HMGV.

"The average wage of Eger Mill employees is much lower than the average company wage, and the technology and social conditions at the plant are among the most backward".[15] Furthermore, "... a situation could arise where about 200 people would have to be made redundant. Eger Mill would not escape such measures either".[16] Some people were not ruling out the possibility of all-round reduction at HMGV after the disposal of some of its obsolete sites.

The group seeking separation also mentioned the heavy administrative costs of HMGV and the disadvanteges of overcentralisation caused by inflexible company management: "HMGV, with its large head office apparatus and enormous general costs is operating a price cartel with the other companies. Its mnopolistic approach and size prevent it from being capable of integrating or keeping up with the changes in the times. The company's resources have been used up by a lack of strategy and uneconomic investments in the past few years. It is therefore incapable of developing the obsolete Eger plant...".[17]

The head office had a different opinion concerning wages: "if we take the average wages there are equal at HMGV and Eger Mill".[18] It also considered that the separation of Eger Mill was not advantageous on an economic and operational basis for HMGV, opposing the move primarily because it would be "creaming off" the most attractive part of the assets. "It would be understandable (to put it mildly) but unfair to snatch a part of a company carrying several and quite worthless burdens following a general depreciation of its overall value and demand ownership". Moreover, it argued that the burden of repayments on loans taken out by the company could be disproportionately redistributed. "HMGV is committed to heavy loan repayments...the decision to invest several lhundred million forints into the Selyp project was made at the time when the Trust was in force, and the obvious condition of this decision was that the overall balance should fall equally on all of the Trust companies. At present, though, the debts are borne by HMGV".[19]

The good-natured administrator

Both camps, after the letter had been sent, turned their attention and interest to bodies that had decision-making powers or at least participated in any preparations leading to a final decision being made. They sought and found supporters in the central economic management of the country. They used the messages of these supporting bodies in an effort to gain the mill workers' support in the course of the whole conflict.

The head office of HMGV was protected by the Department of Privatisation at the Ministry of Agriculture. This department was still preparing privatisation plans for the milling and grain industry as a whole. The separation and independence of Eger Mill did not fit into the scheme of such plans. Not only would such an action increase the work involved, but it would also provide an example and point of reference for others who might be considering similar plans within the milling and grain industry. "This small mill suddenly became a very important issue to the management at HMGV, who methodically sought out and managed to persuade people of their own views... The compaign to get signatures withdrawn began in earnest".[20] The HMGV director called a workers' meeting in which the head of the Ministry's Department of Privatisation at that time described the risks of separation to those who were gathered: "There is no need to become independent, because on the day after, you will have to pay the electricity bills".[21]

The arguments put forward by the HMGV head office and its supporters made many people unsure and hesitant about the whole affair. After the meeting "about 10-15 names were colected,, which the Ministry of Agriculture also received".[22] Following this, "some of the employees... on 7 June 1991 shifted their ground, in total 19 persons withdrew their names from the letter, leaving just 32 persons who wanted to fight for the independence of Eger Mill".[23]

The supporters of the buy-out also put a lot of pressure on the waverers. "Those who stand by the people at head office will not be employed when the mill becomes an independent company", the technical deputy manager declared inn the local newspaper.[24]

The group calling for separation also established a workers' council at Eger Mill headed by the technical deputy manager who had initiated the battle for independence. Because of the uncertain legal status of workers' councils this action had a primarily symbolic character. But there were some practical advantages of the council as well.

One of the advantages of this workers' council was that its president became a member of the HMGV workers' council too and could thus easily advise them about the affairs of HMGV. The founders also took into account the fact that, according to the existing laws,, one possible form of separation would be to set up a company with self-management. We must not forget that at that time the forming of a woerkers' council was encouraged primarily by the leading coalition party, the Hungarian Democratic Forum (MDF). The group calling for separation was supported from the beginning by a MDF Member of Parliament. He is an auditor by profession, an economic adviser and well-informed in legal matters. He helped those urging separation by assisting in the drafting of the letter sent to the Ministry of Agriculture, as well as in compiling a programme for the transformation of the company. The group for separation asked the MP at the end of August 1991 "to be the future managing director of the company. He accepted their offer. There was an alternative future for the mill to consider: it could be an independent state company. If requested, the MP would also take on the role of manager director at an independent company for a short period".[25] The MP also became involved in the discussions that took place between the head office and the Eger camp. On 26 June 1991, for example, the "Member of Parliament for the county's capital was present by invitation at Eger Mill, while the Ministry sent an authorised representative, and naturally the company management and all those workers in favour of separation took part in the discussion".[26]

The head of the Privatisation Department at the Ministry of Agriculture asked for a new vote to be taken at this meeting: "they announced that they had come to get a new vote in the matter because it was difficult to know from the «Let's not turn this into a farce». Finally people decided that they would prepare abusiness plan for the Mill by 31 July, and afterwards, if they insisted, a new vote could be taken",[27] remembered one of the participants. Then the MP, using his influence and connections, went over the head of the Department of Privatisation and asked for support from the highest-ranking figures at the Ministry. "I rushed over to the Ministry of Agriculture to speak to the Secretary of State, the Minister, with everyone I could, to explain to them that this matter was unacceptable, that the Department of Privatisation was clearly using delaying tactics and incapable of counting signatures... Because of the people at Eger Mill really do want this, we should not allow the company management to overstep the mark and intimidate the workers".[28]

The Ministry of Agriculture, under pressure, sent a faxed order on 25 October 1991 for an inventory to be made at the mill. The group seeking separation "received a verbal promise from the ministry that on 28 October they could commence work as an independent state company".[29] The MP was given a verbal request to be director for the three days he claimed it would take to prepare an inventory, "during which time the inventory could be submitted, the settlement of accounts completed, a new vote taken and so everything would be resolved".[30]

Factory takeover Hungarian style

On 28 October the group favouring separation, armed with verbal promises and facsimiles from the Ministry of Agriculture, sprang into action. They held a meeting, at which the MP "announced to the 20 workers present that from 28 October 1991 Eger Mill would operate as an independent company headed by him, who appointed himself to that position. He did not show any written documents relating to the mill to the workers...".[31] Afterwards he called the HGMV director at the Gyöngyös head office and informed him that "he had started up the mill, as production had to continue, if only because from now he would be paying the workers".[32]

The story does not end here though: "At about 10am members of the management from HMGV arrived, claiming that they had received other instructions from the Ministry of Agriculture".[33] They made it clear that they would only acknowledge the takeover of the factory on seeing documents from the ministry which had a legal basis.

State or private company?

The MP took steps to speed up the administrative procedures once again: "I had to take slightly drastic measures, because it was no longer possible to put up with all that dithering about. So then what happened was that the Secretary of State at the Ministry of Agriculture received a delegation from one camp, another one from the other, and then I came along and asked for some kind of decision. Failing which, I might add, the matter would be taken to parliament in the usual course. So I asked for a few explanations. Then the head of the Privatisation Department was withdrawn from the whole affair because it was plainly obvious and actually quite catastrophic that a head of department should, to put it mildly, blatantly tell lies and then retract his statements. Why did he order the transfer of the inventory if he did not want to relingquish if after all? ... I then asked the Secretary of State if a decision could now finally be made, following which someone said that a state-owned limited company should be formed, which could immediately apply to the SPA to privatise itself".[34]

The local press published the following statement: "New talks were held at the ministry: representatives of the parent company and of Eger Mill were present. An agreement was made in the presence of leading officials at the ministry. the Eger Mill workers will «buy out the mill form HGMV with the effect that they will set up a limited company owned by the workers»".[35]

New players

At that time a new player appeared on the scene. It was the organisational committee of the Worker's Participation Programme, set up by 22 employees at Eger Mill. Its members deposited in a joint account amounts between 10 000 and 1000 000 HUF and, along with a special "Egzistence" loan (guaranteed by the government), intended to use the monies to buy the mill.

Collaterally with this development, another group of employees and an outsider, a limited partnership, founded the limited liability company Molnár. The main purpose of this small firm would have been the buyout of Eger Mill. One of the members of the limited partnership was the Member of Parliament.

At the same time three of the mill's employees founded another limited liability company, called Malomtrade. This company existed only on paper for a long time, but finally began operating in 1992. (Its role will be discussed later.)

An unsuccessful action to privatise

The group seeking independence moved quickly. They informed the SPA in a letter dated 1 November 1991 that "the newly formed Molnár limited company had announced its intention to acquire the buildings that make up Eger Mill, its machines, storage buildings and the produce store at Bélapátfalva".[36] The MP became managing director of the company.

The group seeking independence were hopint a decision would be made quickly. "It looked as if the SPA would reach a decision by Wednesday, 6 November".[37] But since there was no quorum at the SPA no decision was made after all. Because of the delay 22 mill workers were ready to strike, but others rejected such a course of action on the grounds that halting production could easily ruin their market prospects.[38]

A meeting at SPA on 15 November also proved fruitless. As yet no decision had been made. Instead "the SPA asked the large county company HMGV and Eger Mill to submit further documents in connection with the matter in hand".[39] Finally, at the beginning of December, "the SPA declared that because of the small size of the mill, it should be sold by the (HMGV) company management. The ministry's recommendation was turned round, for what should have happened was that the company management would sell to the workers. But the former had already found every possible loophole to stop us buying that mill".[40]

The reason (the loophole) why they gave up the idea of the buy out in the end was that the Eger Mill was burdened with 89 million HUF worth of mortgages. "Well, of course the whole mill is not worth 89 million forints".[41]

Decentralised state property again?

The group who wanted to buy out the mill then returned to their plan of forming an independent state company: "We immediately put it in writing that these empty gestures by the SPA were unnecessary, but that we would stick to our original intention of independence, and after that eventually we would buy the mill".[42] This earnest declaration was backed up by a sum of money collected by the workers and put into the account of the organisational committee of the Workers's Participation Programme, which entitled them to take up an Egzistencia loan of 100 million HUF. An important development was that some of Eger Mill's business partners also paid monies into this account: "three farming cooperatives, which had previously joined in by offering contributions in kind, now threw in 1 million HUF each, and some of them got involved as private individuals by putting in amounts ranging between 50 000 and 60 000 to 100 000 HUF...".[43]

After this it was a race against time: the crucial 1977 Law of Separation was in force only until 31 December 1991. The Minister of Agriculture actually signed the document pertaining to the separation of the mill as an independent company on 29 December 1991. It stated that with effect from 1 January 1992 it would found the Eger Milling Company.

Dispute about sharing of assets and liabilities

By now it had transpired that a high proportion of the profits and risks attached to the move for independence depended on how the labour, capital and burden of loans were shared by Eger Mill and HGMV. The success of the separation, the gain made by the new companies -- at least in the early stages -- did not depend primarily on their performance in the market but on the decision of the responsible authorities with regard to the division of property/assets. If a large proportion of the burden of loans were left with HGMV, along with a large part of the "unattractive" capital assets, then Eger Mill would stand a better chance of succeeding than if the division were to be settled on other terms and proportions.

For this reason the conflict betwen the two sides (the two companies) continued after the ministry decision in 1992. There was no agreement between them as to:

1) Who would become permanent members of staff at the Eger Mill company and who at HGMV?

2) Which assets (property, etc.) belonged to which of the two companies?

3) Who would finance the current assets (grain stocks) stored at Eger Mill and from what resources?

4) Who should pay off what proportion of the loans taken out originally in 1987 by HGMV head office?

On point (1), the director of Eger Milling Company, formerly the deputy technical manager, kept his promise: when the work-books of the staff of the mill were brought over from head office, four to five people were told that they would not be employed at the new company. The former head of Eger Mill, the former chief administrator and a few other "countersignatories" fell into this group.

This apparently technical decision bore significant financial consequences: if their workbooks remained at head office, they were not entitled to severance pay; unless Eger Milling Company were to give them notice. Both companies turned to the courts in this matter. The HMGV trade union committee requested an investigation at the Public Prosecutor's Office, referring to the founding papers of the Eger company, which they claimed did not comply with legal regulations. (It should be mentioned here that the "countersignatories" organised themselves within the trade union of the local company organisation, opposing those who had signed the application for independence and had set up a workers' council). The president of the HGMV trade union committee, in the petition he sent to the Public Prosecutor's Office, referred to the fact that a new vote had not been ordered on the applicationn for independence of Eger Mill following the withdrawal of some signatures therein. He also claimed that it was a violation of the law that the ministry's founding resolution did not provide Eger Mill with the resources necessary for the organisation of the new company.

On receiving this letter, the Chief Prosecutor launched an inquiry into the matter and on 10 June 1992 a decision was reached in which a protest was lodged against the resolution of the Ministry of Agriculture to found the Eger Milling Company. The reason the Chief Prosecutor gave was that the founding resolution was an infringement of the law because: "Paragraph 10/A and 3 of the law states that the proposal of two thirds of the workers is a condition of the foundation of a company, and this was not the case as 37 signatures supporting this law would have been necessary, and only 32 workers supported the foundation of the new company".[44] It was also a violation of the law that "the opinion of the local government was missing".[45] Moreover, the Ministry's resolution did not comply with legal regulations, namely that "the company should be provided with enough resources to ensure the smooth running of its operations at least for the first twelve months of its existence".[46] The Chief Prosecutor also raised the objection that "Eger Milling Company"s founding capital was 15 million HUF, which is generally known in these circumstances to fall short of the amount needed for the running of such a company in the prescribed twelve months, as decreed by the Ministry of Agriculture. According to entry 52.614/3/1991 of 30 December 1991 at the Department of Privatisation at the Ministry of Agriculture the (HMGV) company would be incapable of making provisions for the capital needed to establish an independent company. Thus is could not ensure the resources needed to this end".[47]

The Department of Privatisation at the Ministry of Agriculture, supported HMGV in a letter written to the Chief Prosecutor's Office on 22 April 1992, informing them thet "the settlement of distribution of property at the divided organisation was in progress and that the final founding resolution would be given following this process".[48] On the basis of this the Chief Prosecutor "found the withdrawal of he unlawful founding resolution justified".[49] The Minister of Agriculture accepted this protest and with resolution no. 54.315/1992 withdrew the founding resolution.[50]

Eger Mill was no luckier in the legal action pursued by the "countersignatories". In October 1992 the court resolved that it should re-employ these workers and the mill was obliged to pay them a lump sum settlement.

On point (2), the basis of the dispute over the distribution of property, as mentioned in the Prosecutor's protest, is that, beside Eger Mill, HMGV had several other buildings and plants in the Eger region and nine shops in Eger and the local area selling fodder. The newly independent Eger Mill would have liked to keep the flour store situated at the mill as well as other shops selling fodder. "The company wishes to perate 8 retail grain shops and 1 flour store in the Eger region".[51] HMGV won this dispute and the eight shops remained under its authority.

On point (3), at the time of separation 6000 tons of grain was in stock at Eger Mill. HMGV had earlier bought this grain with a bank loan. Eger Mill's new management asked HMGV to provide the new company with credit proportional to current assets. This was rejected by HMGV head office, which claimed that by law the Ministry of Agriculture, as founder, should provide the current assets, not HMGV.

On point (4), whereas in the first three cases HMGV managed to get its own way, this was not the case with the division of investment loan repayments. As we pointed out earlier,. HMGV argued that they had taken on loans in 1986-88 for the reconstruction of Selyp (Lörinci) Mill in the belief that the repayments would be made from the profits and capital of the whole company. They wanted to burden Eger Mill with 89 million HUF mortgages on the company's property. If repayment of the mortgages now fell on a smaller company as a result of the separation of Eger Mill, the proportionately higher burden of debt could ruin HMGV's potential profitability and consequently its chances of privatisation.

In this argument the Ministry of Agriculture swung in favour of Eger Mill. As no investments were made at Eger from the loans taken on in 1987-88, the newly formed Eger Mill Company would not be liable for any loan repayments.

Teething problems

Eger Mill was exempted from making any investment loan repayments. Thus it managed to avert the danger of rapid financial collapse. The other three points of contention (foundation of company, shop network, current assets financing) turned out to be less advantagous than in the draft plans and increased Eger Mill's chances of failure. They did not make any serious attempts to get back the chain of shops. (Instead, they set out to build up their own network, partly through agreements with the people who had earlier run the shops.)

In the financing of stock and particularly in the matter of obtaining a new founding resolution the MP, once again came to the company's assistance. He asked for and succeeded in getting a personal hearing with the Minister of Agriculture. He also persuaded him to ensure that the new founding documents should be in accordance with the regulations. This made it easier, after the withdrawal or removal of the "countersignatories", to submit a list of signatures showing an overwhelming majority of workers wanting independence. The Public Prosecutor's misgivings relating to the assets necessary for the operation of the company were dispelled, so that the new founding resolution of August 1992 did not contain a balance sheet, this was replaced by the detailed enumeration of the property which went to the Eger company.

The MP also helped Eger Mill in obtaining new loans covered by the existing grain stocks. He happened to be a member of a large investment bank's board of directors. His connections managed to get a bank account opened for Eger Mill, which had still not been registered at the Court of Registration, as well as to secure loans through one of the bank's Eger branches.

Following this HMGV and Eger Mill were able to agree that the Eger company would pay the larger company back the 13 million HUF current asset loans utilized and accumulated interest of approximately 5 million HUF. HMGV would, "in exchange", take over the 89 million HUF repayment burden. Thus the mill would not be burdened by a loan, which would prove disadvantageous to any future buyer if the company were to be privatised.

Organisational changes

The new director of the now independent but still state-owned Eger Mill made the following changes:

1) He discontinued quality control on the assumption that the workers, who now had an interest in the effective running and profitability of the company, would exercise self-control to ensure high quality.

2) He reorganised the company's administration, reducing the number of staff from nine to five. At the same time he took on the services of the limited

partnership of which the MP was a member to computerise office operations, processing of information and stock control: "he offered the services of his auditors and financial specialists, and of course this was done within the framework of a formal and legally binding contract. We signed an agreement which was completely independent and unrelated to the fact that he is a Member of Parliament. Members of his limited partnership whom he employed did all the company's accounts...".[53] Workers who had an interest in the buyout of the Eger Mill tried to maintain their influence in the following manner: the limited partnership which dealt with the accounts, together with some of the mill's employees (among them the chief miller), established a limited company called Molnár Kft, which offered financial and accounting services to Eger Mill. These services were actually carried out by the limited partnership as a member of Molnár Kft. The managing director of Malom Kft was the same person who managed the limited partnership and Malomtrade Ltd, which was set up at the time of the separation of Eger Mill from HMGV.

Building up the market

The improvement of the market position of the mill was essential for the survival of the company and an important condition for its future chances of success in privatisation. The new management tried to build up an image for the fledgling company in several ways. Customers and business partners could see Eger Mill's new emblem (e.g. on the flour packaging), and the employees' new work clothes also bore the new company logo.

The management believed a better market position could be gained through improved quality and a wider selection of products. They began producing new types of flour, and the company's shop sold not only fodder bran but bran for human consumption and muesli ingredients as well. Apart from the existing package sizes, new, smaller and larger size measures of flour were put on sale. An important means of improving the company's connections was to negotiate contracts with most of the grain-transporting companies and farmers whereby in exchange for the grain delivery they would receive flour and bran rather than cash payments. This type of agreement was favourable for both parties: it ensured good quality and made more precise scheduling in production and delivery possible. These agreements also helped to ensure that only good quality wheat was bought and processed -- in contrast with the days of the old company when they had to mill diffeent qualities of wheat bought by HMGV.

New methods were also adopted inn the maintenance of the equipment and machinery. They replaced HMGV and signed a service and maintenance agreement with a local engineering works just a couple of hundred metres away from the company site, in the hope that this proximity would result in more flexibility and faster repairs and service performance.

First results: preparations for privatisation

Eger Mill closed its first year's accounts (1992) with relatively good profits. By releasing organisational and market reserve funds it was possible to raise slaries and wages: "We pay somewhat more than HMGV with the present system. Not much more".[54]

The profit, the very gradual raising of wages and increased job security strengthened the resolve of those planning to buy the company. Great efforts were made at Eger Mill to ensure that the necessary conditions existed in time for the SPA to announce the tender for its privatisation.

The first step for the buyers was to revitalise the company's Workers' Participation Programme organisational group, in which the 22 workers involved stepped in with some 10 000 HUF deposits: "the workers put enough money into the bank, with the intention of buying the company, to entitle them to a 100 million HUF «Egzistencia» loan".[55] This capital seemed to be enough to buy the mill, as long as the Workers' Participation Programme organisational group was the only applicant. But what if another investor, with a lot of capital resources, entered the scene? In that case they could not be certain that their capital and loans would be enough to win: "What is happening is quite dangerous, because today the mill has been put up for sale, for which we have been working hard for three years to enable the employees to buy, and then a prospective owner comes along who declares that nothing is too expensive...".[56]

Self-confidence as well as anxiety increased on hearing that various foreign investors were interested in the company. A German company wanted to build a semolina plant as a joint venture at Eger; a Swiss company had designs on building a "reference" plant at Eger Mill. These foreign companies actually wanted to invest in projects in co-operation with the Workers' Participation Programme organisational group rather than compete against them, but their existence and interest succeeded in raising rather than reducing the fears of the employees.

To improve their prospects, the workers revitalised Malomtrade Company Limited in autumn 1991. Until now the company had only existed on paper. Eger Mill contracted with it, to sell a part of their products on a commission basis. The target for Malomtrade Ltd was not primarily to increase the effectiveness of sales but to take out part of the profits of the mill and accumulate more: "a part of the profits made were transferred so that they could be used for the buyout".[57] The owners of Malomtrade Ltd (all three being influential members of staff at Eger Mill with an interest in the buyout of the company) would have lent the company's Workers' Participation Programme organisational group (of which they were also members) the accumulated profits so that they would have more capital with which to increase their chances in the battle for ownership.

Crisis of confidence

Proparations for privatisation brought their own consequences: the two limited companies, Molnár and Malomtrade, garthered information relevant to the impending decision connected to Eger Mill's future (the company accounts) and accumulated a large part of its capital outside the company. The emptying of the company, the privatisation of information and capital, had begun.

This became apparent to Eger Mill's director and the majority of workers who had an interest in the buyout, when, between March and September 1993, the director of Molnár Ltd, whichwas responsible for the processing of information, was asked several times to give precise, up-to-date information on the financial state of Eger Mill."In May of the second year, after we had closed the first year's accounts, I asked themm for a complete and accurate set of accounts...and the conflict began here, because they did not want to print out the report. They claimed everything was on computer, and if the Inland Revenue accepted this, there was no need to print out so much paper".[58] The director of Eger Mill continued to insist on seeing a statement of the accounts, but in vain: "... I could wait no longer and I felt that something here was wrong. I was proved right because the Member of Parliament was at the 14 September meeting...he afterwards announced that it was unnecessary to print out all that material. So then I asked for the books to be balanced up to 30 June 1993. I wanted a half year balance to see where we stood. He replied that if I was so adamant about seeing the reports, he could compile a set of accounts which would ruin the company. He could show a nil balance, or 20 million or 40 million HUF and then we could immediately pay out a huge tax bill with money we did not even have, and then we really would go bust. I still insisted on a statement of accounts. I decided there and then to terminate with immediate effect any mutual association with Molnár Ltd".[59]

WORKERS IN PRIVATISATION IN HUNGARY

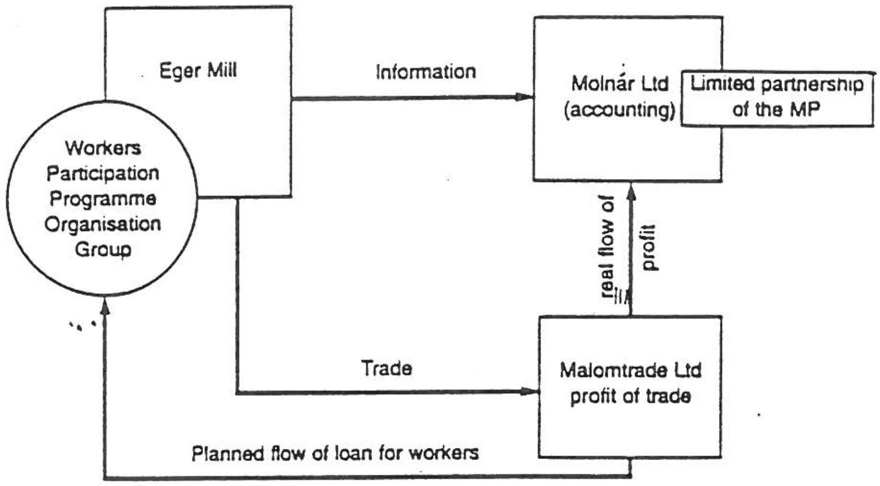

FIGURE 1. Transactions concerning privatisation of Eger Mill.

Eger Mill then found a new lawyer and accountant. They discovered that the main reason for the reluctance to show a statement of accounts was so that the director and mill workers would not find out that Malomtrade Ltd owed Eger Mill 10 million HUF: "They did not meet their commitments with the business partner companies of the mill, they were not willing to do the quarterly accounts and they did not pay a part of the value of the products sold to Eger Mill".[60]

One could justifiably argue that Malomtrade Ltd was only acting in accordane with the plans for preparing for the privatisation of Eger Mill: it sucked out part of the profits of the mill so that it could lend the Workers' Participation Programme group the monies needed to allow them to take part in the privatisation budding process. Yet another financial transaction further heightened the tension and increased the lack of confidence of those remaining at Eger Mill: a key figure in the bid for a buyout of the mill, who was a member of Malomtrade Ltd and Molnár Ltd, transferred a large percentage of Malomtrade's profits, amounting to 7, million HUF, to Molnár Ltd, the ccounting company which, though part of Eger Mill, had refused to reveal important information. Thus Molnár Ltd (along with its associate, the MP's limited partnership), by keeping monies from Eger Mill and using the funds transferred from Malomtrade Ltd (and additional resources) could actually even buy the mill itself, in the face of the workers who were preparing to do the same. Through loss of confidence, the latter feared the consequences: 'Since then, he and the MP and KI (director of both of the limited companies and partnership mentioned above) are perhaps waiting for the tender to be put out as soon as possible so that they can buy Eger Mill...".[61]

Breakdown

After this controversial monetary transaction in the last months of 1993 and early 1994 not much has happened at Eger Mill concerning privatisation, partly because the privatisation of Eger Mill will only be announced after a restrospective inventory has been completed. During this time the companies involved (Molnár Ltd. Malomtrade Ltd) would be expected to come to some agreement with Eger Mill or pursue legal action. But the political situation of the country changed in 1994. The MP's party lost its popularity and therefore his own chances of re-election diminished as well. Four days before the first round of the general elections in May 1994 the leadership of Eger Mill went into action: "The chairman of the workers's council and the director of Eger Mill presented their position at a press conference. According to them, the MP who used to be one of the members of the supervising committee of Eger Mill company could not account for 20 million HUF. In their opinion he (with the help of people at the mill under his influence) wanted to obtain the mill through his own accounting company which provided services for Eger Mill".[62]

The MP, who was not present at the press conference, declared that "he had no connection to the company. He refuted these accusations. He did not want to buy the company. But he wanted to prevent the director, the chairman of the workers's council and two other persons buying the mill instead of the employees. On behalf of the workers he had applied to the SPA and these leaders could not forgive him this step".[63]

A few weeks later the MP and his party lost the elections. There is a new political constellation in Hungary. Eger Mill will meet its fate sooner or later. But that is another story.

Some conclusions

As one well known expert on the theory of the labour-managed firm wrote "the routine formation of worker-owned firms in market economies is obstructed by fundamental obstacles, including the problem of entrepreneurship, workers' risk aversion, and high costs of establishment of a rare form of organisation. Worker-owned firms are established when they can overcome these obstacles by enjoying sufficiently large efficiency advantages relative to capitalist firms and external support. Superior efficiency stems from internalisation of the conflict of interests between workers and owners that prevails in acpitalist firms and eliination of this conflict's adverse consequences". (Ben-Ner, 1988, p. 307).

Eger Mill has suffered from the disadvantages of the labour-managed firm. As their estimations of the expected risks of decentralisation or privatisation of the mill increased or decreased the proportions of supporters and opponents have fluctuated. Because of the lack of some managerial skills the new management of the mill needed a lot of outsidesupport. The mill's efficiency has grown but this positive development did not make the firm extremely profitable. Moreover, some factors of the transition economy increased the risks faced by the group seeking separation and privatisation.

1) The vagueness and uncertaintly of property valuation, and the slack, irregular and often amended laws relating to acquisition make it difficult to define the risks involved in such an investment. Under these circumstances the number of buyers and the resolution of a buyer/buyers can sometimes radically change.

2) An effective way of reducing risk is if the prospective buyers succeed in taking out a valuable,, profitable part of the larger organisation to which the company belongs. The former will invariably try to frustrate such actions.

3) In uncertain legal and institutional circumstances, particularly if influential forces are against the separation and independence of a company, taking drastic actions and seeking political support reduces risks in business ventures.

4) If those wanting to buy have little acpital, or similarly, if they only intend to invest a small amount in acquiring a company, they only stand a chance of winning a tender if they can succeed in mobilising additional capital. One important way of achieving this is to pump capital out of the company to be sold off and into one or more companies set up to werve this objective.

The management and members of the company with the capital reserves do, however, find themselves in a clearly defined position -- under such conditions it is primarily trust which makes owners of employees taking on the purchase of their company.

We do not want to underestimate the "usual" risk of founding labour-managed firms. We have to take into consideration here the negative impacts of the forced collectivisation as well. But the main message of the story of Eger Mill is that the special impact of the post-socialist environment increases the risk of establishing labour-managed firms. Public opinion polls show that a remarkable share of the population supports the fair redistribution of the state-owned assets accumulated in the period of socialism, but because of the high uncertainty and risk only a few are ready to translate this general support into specific action.

Institute of Economics, Budapest

[1] Endre Hann & Mihály Laki: "The Hungarian public on the Advance of Private Economy", *Acta Oeconomica,* 44, 1-2, 1992, pp. 191-201.

[2] Miklós Hajduska: "Privatizáció a Chinoinban". A franciák nyertek" (Privatisation at Chinoin. Frenc are the winners), *Magyar Hírlap*, 21 November 1990.

[3] Tellér & Gyula, pp. 434.

[4] For an excellent summary of the results see Bonin & Puttermann.

[5] Karoly Kömlei, *Food Economy,* November, 1991.

[6] *Ibid.*

[7] The expression "crude privatisation" was used first by György Matolcsy (1991).

[8] *Privinfo*, 16 November 1993.

[9] Judit Doros, *Népújság*, 17 November 1989.

[10] *Ibid.*

[11] *Ibid.*

[12] Interview.

[13] Restructuring Programme at Eger Mill and Its Economic Justifications, p. 1.

[14] *Ibid.*

[15] Restructuring Programme at Eger Mill and Its Economic Justification, p. 2.

[16] *Ibid.*

[17] Ibid.

[18] Interview.

[19] Kömlei.

[20] Interview.

[21] Interview.

[22] Marcell Renes. *Heves County News*, 4 July 1991.

[23] Letter of 20 June, 1992 from Chief Prosecutor, Afl. 171/1992/1, to Minister of Agriculture.

[24] Marcell Ranes, *Heves County News*, 9-10 November 1991.

[25] *Ibid.*

[26] *Heves County News*, 27 June 1991.

[27] Renes, *Heves County News,* 4 June 1991.

[28] Interview.

[29] Renes, *Heves County News, 9-10. November 1991.*

[30] Interview.

[31] Renes, *Heves County News*, 9-10 ovember 1991.

[36] *Ibid.*

[37] *Ibid.*

[38] *Heves County News*, 15 November 1991.

[39] Interview.

[40] Interview.

[41] Interview.

[42] Interview.

[43] Letter from Chief Prosecutor. Afl. 172/1992/I. to Dr Elemér Gergatz, Minister.

[44] Interview.

[45] *Ibid.*

[46] *Ibid.*

[47] *Ibid.*

[48] *Ibid.*

[49] *Ibid.*

[50] Third letter, dated 23 June 1992, from Chief Public Prosecutor, Afl. 1972/19928, to I.Cz., President of the HMGV Trade Union Committee.

[51] Restructuring Programme At Eger Mill and Its Economic Justifications.

[52] Interview.

[53] Interview.

[54] Interview.

[55] Interview.

[56] Interview.

[57] Interview.

[58] Interview.

[59] Interview.

[60] Interview.

[61] *Interview.*

[62] *Népszabadság*, 4 May 1994.

[63] *Ibid.*

References

Atkinson, A.B., "Vorker Management and the Modern Industrial Enterprise", *Quarterly Journal of Economics*, LXXXVII, 1973. pp. 375-392.

Ben-Ner, Avner, "The Life Cycle of Worker-Owned firms in Market Economices", *Journal of Economic Behavior and organization*, 1988, pp. 267-313.

Bonin, Joh F. & Putterman, Louis, "Economics of coopeation and the Labor-Manged Economy (Chur, London, Paris & New York, Harood Academic Publishers, 1987).

Donáth, Ferenc, *Reform és forradalom. A magyar mezőgazdaság strukturális átalakulása 1946-1975* (Budapest, Akadémia Kiadó, 1977).

Heider, Frank & Mevissen, Margret, "Selbsverwaltete Betriebe zwischen Ökonomie und Politik", *Initial*, 1991. 3, pp. 276-279.

Ipari és Kereskedelmi Minisztérium (IKM). *Előterjesztés (tervezet) a Kormány részére. Tárgy: A Kormány középtávu kis- és középvállalkozás fejlesztési koncepciója* (Budapest, March 1994).

Kőhegyi, Kálmán, *jelentések az alagútból. Az ipari szövetkezetek helyzetének alakulása 1989-1991 között* (Pénzügykutató Rt, 1992).

Kőhegyi, Kálmán, "Az ipari szövetkezetek szerepe a magángazdaság terjedésében", *Európa Fórum*, 1994. 2.

Kornai, János, *The Socialist System. The Political Economy of Communism* (Princeton, NY, 1993).

MNB, *Havi Közlemények 1994/5.*

Major, Iván, *Privatization in Eastern Europe: A Critical Approach* (Cheltenham & Brookfield, VT. Edward Elgar, 1993).

Matolcsy, György, *Lábadozásunk évei. A magyar privatizáció. Trendek, tények, privatizációs példák* (Budapest, Tulajon Alapítvány-Privatizációs Kutatóintézet, 1991).

Neuman, László & Mészáros, László, *Az MRP törvény alkalmazásának közgazdasági és szociológiai hatásai (Budapest, Zárótanulmány Munkaügyi Kutatóintézet-MERITUM Vagyonkezelő és Befektető Rt, 1993).*

Teller, Gyula, *"From Hidden Nationalization to Covert Privatization. Lessons from the Past and Present in the Industrial Cooperatives"*, *Acta Oeconomica*, 43, 1-2, 1991, pp. 19-37.

Vanek, Jaroslav, (1970) *The general Theory of Labor-Managed Market Economics* (Ithaca, NY Cornell University Press, 1970).

Vanek, Jaroslav, *Self Management, Economic Liberalization of Man* (Baltimore, MD, Fenquin, 1975).

Ward, Benjamin, "The Firm in Illiria: Market Syndicalism", *American Economic Review*, 68, 1995. pp. 566-589.