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Opportunities and Limitations for Enterprise in the Socialist Economy

The Case of the Budapest Agricultural Cooperatives

To this day, there is widespread consensus in the secondary literature on agriculture in the socialist countries of the Soviet sphere according to which the “Termelőszövetkezet” (agricultural cooperative) in Hungary represented a unique path of development that diverged significantly from the Stalin kolkhoz model. In this article, I examine this process, focusing on the example of Budapest, the Hungarian capital. The natural features of the city (poor soil quality, land divided into small plots) did not really favor agricultural production. Furthermore, in the 1950s, the factories of the city offered higher wages, thus luring workers away from agriculture. The market pressures of the labor force set in motion a process of adaptation in agriculture. In comparison with the rest of Hungary, in Budapest the expansion of the sphere of non-agricultural activity of the agricultural cooperatives began earlier, and cooperative members were paid in cash instead of according to a Soviet-style model of remuneration based on work units. In response to the consumer demands of the population of Budapest, several innovative forms of vertical and horizontal integration emerged. I emphasize in my article that, in the case of the agricultural cooperatives, the important elements of entrepreneurial management took form before the introduction of the so-called New Economic Mechanism, for the most part as consequences of initiatives coming from below. Since these innovations were implemented before the relevant changes to the law had been made, a great deal depended on how the superior organs of government handled the lacuna between law and practice. In the 1960s, the agrarian lobby managed to exert sufficient influence on the government to prompt lawmakers to adjust the laws to conform, retroactively, to practice. In the 1970s, when the brakes were being put on the economic reforms, this phase displacement became a vulnerable point. Economic and administrative measures and even steps involving criminal prosecution were taken to limit the entrepreneurial independence of the agricultural cooperatives.

Keywords: collectivization of agriculture, communist regime in Hungary, divergence from the kolkhoz model, cooperatives, New Economic Mechanism

To this day, there is widespread consensus in the secondary literature on agriculture in the socialist countries of the Soviet sphere according to which the agricultural
cooperatives in Hungary represented a unique path of development. In the course of my research, which has focused on the primary phases and the dynamics of the shift away from the kolkhoz model, I have noticed that there were significant local differences in this process. As I examined the regional particularities of this process, I began to study the agricultural cooperatives that came into being in Budapest more closely. The conditions were somewhat unusual. The quality of the soil and the plots was below average for the country. The arable land was divided into many parcels. If one also takes into consideration the fact that the vast majority of their members initially not only did not bring any lands to the agricultural cooperatives but also did not really have an understanding of agriculture, it becomes quite clear that there was little rational reason for creating the cooperatives. It is hardly coincidental that for years they operated at a loss, and during this period the membership was continuously changing. This tendency began to change in the mid-1960s, and by the mid-1970s the Budapest agricultural cooperatives were among the “wealthiest” in Hungary. Agriculture became an increasingly marginal part of their operations. They were active in food preparation and processing, as well as the engineering industry, chemical engineering, light industry, and an array of services. They created joint ventures with other agricultural cooperatives and collaborated with state enterprises. They had partnerships with numerous Western countries. As I studied this interesting process of adaptation, I became increasingly preoccupied with the question of what actually took place in these cooperatives. What internal and external factors might help us better understand this distinctive socialist “success story”?

In order to understand the history of the Budapest cooperatives, one must know a bit about the Stalinist model, which was the model for the leadership of the Hungarian Communist Party when it came to the transformation of agriculture.

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1 One finds a clear example of this in an essay included in a recently published comparative collection on the subject, in which Nigel Swain identifies four different types of collectivization in the Soviet-dominated countries of Central and Eastern Europe: abandoned in Poland and Yugoslavia; Stalinist in Romania and Albania; Neo-Stalinist in Czechoslovakia, the GDR, and Bulgaria; and Hungarian, which constitutes a case of its own. Nigel Swain, “Eastern European Collectivization Campaigns Compared, 1945–1962,” in The Collectivization of Agriculture in Communist Eastern Europe. Comparison and Entanglements, ed. Constantin Iordachi and Arnd Bauerkämper (Budapest–New York: CEU Press, 2014), 499–502.

2 My research on Budapest cooperatives was supported by the Political History Institute.

3 Their net revenues, calculated according to units of land, were more than ten times the national average. The incomes that they were able to ensure for their members and staff were 33 percent higher than the national averages for cooperatives. Budapest Statisztikai Évkönyve (Budapest: KSH, 1977), 172; Mezőgazdasági Statisztikai Zsikkönyve (Budapest: KSH, 1976), 139.
in Hungary. In order to understand the Stalinist system of Soviet agriculture, one must go back to the late 1920s, at which time the Soviet Communist Party’s leadership decided to espouse a concept of economic development in which fast-paced development of heavy industry and military industry was a priority. Since the Soviet Union was unable to use foreign credit in order to implement this model, it turned to domestic resources. The income made from agriculture represented the most important internal resource. The compulsory delivery system and policy of price control ensured that the producer (the farmer) kept none of the profits made from his product. At the same time, the producer had to pay asymmetrically high prices for industrial products, and the gap between the prices of agricultural products and industrial products widened dramatically. Thus, agriculture became a kind of “inner colony.”

As a consequence of collectivization, a system came into being that ensured concentrated diversion of income from agriculture, as well as supervision and control over and discriminatory treatment of agricultural producers. The sovkhoz, or state farm (a contraction based on the Russian words, transliterated, sovetskoye khozyaystvo, or state ownership), was regarded as the most developed operational model. The other form of collective agriculture, the artyel (which became known as the kolkhoz, a contraction based on the Russian words kollektivnoye khozyaystvo, or collective ownership), was considered an inferior form of ownership, since it was based on group ownership by its members. Because of the different forms of ownership, workers belonging to the state sovkhozes were categorized as workers and therefore had a guaranteed monthly salary. In contrast, the incomes of members of the kolkhozes depended on the success (or failure) of cooperative farm. The success of a kolkhoz only became clear after it had fulfilled its obligations to the state (made obligatory deliveries, paid taxes, and made payments on loans) and set aside reserves for the upcoming year. The members of a kolkhoz received payment once a year. At the end of an economic year, whatever remained after obligations to the state had been met

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4 The name of the communist party in Hungary changed several times. Between 1945 and 1948, it was the Hungarian Communist Party (MKP). Between 1948 and 1956, it was the Hungarian Workers’ Party (MDP). After 1956 and until its fall in 1989, it was the Hungarian Socialist Workers’ Party (MSZMP).
was divided among the members (for the most part in the form of produce). The 1935 kolkhoz model charter made this all compulsory.

The fact that the large agricultural estates (the kolkhozes and the sovkhozes) fulfilled their obligations to the state by delivering produce (in part through the system of compulsory deliveries and in part as a way of paying the machine and tractor stations for the work that was done with machines) also served to eliminate any ties between money and goods in this sector of the economy. The authorities also used payments in kind as a means of eliminating the role of money. The resources that were needed in order to ensure continuous production were distributed as allocations and remittances, like the investments of capital between the economic organizations.

Drawing an analogy with the material relationships between parents and children, János Kornai characterizes this degree of paternalism using the pair of terms “in kind allocation / passive acceptance” and “in kind allocation / active demand.” He links the qualitative change that took place in the relationship between the state and the micro-organization to the New Economic Mechanism. The Hungarian economic reform, which was introduced on January 1, 1968, was part of a wave of reforms in the socialist bloc that began gathering strength in the mid-1960s. The New Economic Mechanism constituted the end of an important stage in the history of the agricultural cooperatives. My research suggests that in their case, there was an important turning point in the previous era as well, specifically 1956, because of the abolition of the system of compulsory deliveries. For this reason, in this essay as in some of my other writings, I regard this as a significant milestone in the history of the agricultural cooperatives and

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7 Thus, only subsequently did it become clear how much what had been bought in over the course of the year was worth. The system was given the name remainder principle precisely for this reason. Robert William Davies, *The Soviet Collective Farm, 1929–1930* (Cambridge, Mass.: Harvard University Press, 1980), 131–70.
8 For a detailed discussion of this see János Kornai, *A biány* (Budapest: Közgazdasági és Jogi Könyvkiadó, 1980), 575–78.
10 In the middle of the 1960s, economic reforms were introduced in many of the countries of the socialist bloc in order to address the failings of the planned economy. In 1965, the so-called Kosygin reform was launched in the Soviet Union. In Hungary, the New Economic Mechanism significantly curtailed the role of central planners and gave enterprises a greater degree of independence. The reforms in Hungary, which created a blend of planned economy and market economy, represented the most radical shift in economic management in the bloc. For more on this, see Christoph Boyer, ed., *Zur Physiognomie sozialistischer Wirtschaftsreformen. Die Sowjetunion, Polen, die Tschechoslowakei, Ungarn, die DDR und Jugoslawien im Vergleich* (Frankfurt am Main: Max-Planck-Institut für Europäische Rechtsgeschichte, 2007); Paul G. Hare, Hugo K. Radice, and Nigel Swain, ed., *Hungary: A Decade of Economic Reform* (London: Allen and Unwin, 1981).
divide this history into sections accordingly. In the first part of my inquiry I examine the characteristic features of the agricultural cooperatives of Budapest before 1956. In the second part, I consider the developments that took place after 1956. In the third, I examine the period following the introduction of the economic reforms.

Caught betwixt the Plan Targets and the Obligatory Regulations of the Kolkhoz Model Charter

In 1948/49, agricultural cooperatives began to be organized in Budapest and the rest of Hungary. The creation of the cooperatives in Budapest was justified with the contention that they would significantly improve food supplies for the industrial work force, which was becoming increasingly concentrated in the urban center. Three types of agricultural cooperative were permitted (types I, II, and III). Initially, all three functioned within the legal framework as farming cooperatives. The difference between these three types of cooperative groups lay in the amount of communal production and the manner in which the yield was shared.

The first agricultural cooperatives to be established in Budapest were of the third type, which most closely resembled the kolkhoz and which was regarded as the most developed. However, this did not mean that the founding members were so “ideologically advanced” in their thinking that they abandoned private farming and immediately decided in favor of the highest level of joint ownership or cooperation. Rather, in general workers in agriculture who had little or no land (and who often had come to the capital from rural parts of the country) came together in the hopes that, as beneficiaries of state support and lower taxes, they would have a better life, even if they would be obliged to make compulsory deliveries to the state. They were also thus able to get access to the state reserve lands, which was an important consideration. The market gardeners, milkmaids, and fruit-growing farmers who brought their


After Greater Budapest was created in 1950 (which meant the administrative addition of 16 villages and 7 towns to the city and hence a dramatic increase in the size of the arable lands belonging to the capital), it seemed even more reasonable to put these lands to large-scale use. Farming was only done on a significant scale in the outer districts of the city.\footnote{Miklós Horváth, Budapest története a forradalmak korától a felszabadulásig (Budapest: Akadémiai Kiadó, 1980); István Nyékes, Budapest mezőgazdasága (Budapest: Magyar Mezőgazdasági Múzeum, 1959), 27–31.} During the April 24, 1951 sitting of the Budapest Party Committee of the Hungarian Workers’ Party, the results of the collectivization campaign were summarized as follows:

An acceleration of our socialist development in the field of agriculture also took place in the capital in the first quarter of the year. In addition to the 11 agricultural cooperatives, with the assistance of the party committee the district councils helped the working peasantry of Greater Budapest form another 14 agricultural cooperatives.\footnote{BFL XXXV.95.a.o.e. 34. Official report of the April 24, 1951 sitting of the Budapest Executive Committee of the Hungarian Workers' Party (until June 15, 1954, the Budapest Party Committee). BFL XV.20. 74. Vol. 25. Official reports of the sittings of the Executive Committee of the Budapest Council, April 3, 1951. Report on the development of the Budapest agricultural cooperatives and the state of the harvest.}

In the spring of 1951, of the 25 agricultural cooperatives in operation in Budapest, 13 were type I cooperatives. 986 families were living on them, and they had a total of 1,181 members and 5,873 cadastral yokes (one cadastral yoke equaled 0.57 hectares) of land, some 80 percent of which (4,665 cadastral yokes) was cultivated.\footnote{14 000/1948. (XII. 18) government decree on the organization and operational regulation of the agricultural cooperatives. Magyar Közlöny no. 278 (1948).} These cooperatives constituted a very loose form of association, in which the members performed only the ploughing and sowing of the soil communally. The other tasks involved with husbanding the land were done individually. Every member had a claim to the harvest. They had to make contributions to cover the common costs of the cooperative and to ensure adequate reserves.\footnote{14 000/1948. (XII. 18) government decree on the organization and operational regulation of the agricultural cooperatives. Magyar Közlöny no. 278 (1948).} Only one type II agricultural cooperative was formed, a so-
called average distribution cooperative. It consisted of 10 members and lands totaling 100 cadastral yokes, 62 of which were cultivated.18

There were 11 type III agricultural cooperatives in Budapest, the so-called communal cooperatives, which were regarded as the most developed organizational form. 8 had been in operation since 1949. 3 were created as a result of a campaign in the autumn of 1950. They were home to a total of 486 families and had 603 members and a total area of 2,759 cadastral yokes, of which 82.7 percent (2,281 cadastral yokes) was cultivated. In the spring of 1951, the shared livestock consisted of 246 cattle, 76 horses, 687 swine, and 556 fowls. This alone indicates that the vast majority of the members had come from poor peasant backgrounds.19

It is worth examining in some detail the system of rules that governed the type III agricultural cooperatives, because this system exerted a decisive influence in the course of later developments, when the cooperatives became independent. The system was based on the kolkhoz regulations adopted in the Soviet Union in 1935, which remained in effect until 1969. According to these regulations, the members of the group turned the lands under their cultivation over for cultivation by the cooperative, whether the lands in question were in their possession or merely rented. They were given ground-rents in exchange. An individual family was permitted to maintain ownership of a household plot not more than one and a half cadastral yokes in size, though this included the area of the garden around the house. A household was also permitted to have a specified number of livestock.20 Beasts of burden, however, had to be turned over to the cooperative, as did farming implements, such as carts, sowing machines, plows, harrows, etc. The cooperative was obliged to pay a sum equivalent to the value of these things. Work groups and brigades of 6 to 10 people were created

18 Plowing and sowing were done collectively when they involved plants with which the work could be done using machines. The work that was done tending to the plants over the course of the year could be done by each individual worker on his or her own field, but the executive committee of the group checked to be sure that the work had been completed. Harvesting was done both in groups and individually. Threshing was done as a communal task. The costs that arose were borne by the members of the cooperative in proportion to their sowing areas, and members were apportioned a share of the net income according to this system. 14 000/1948. (XII. 18) Government decree on the organization and operational regulation of the agricultural cooperatives. Magyar Közlöny no. 278 (1948).
20 A member of a cooperative was allowed to keep as part of his household livestock one cow, one calf, five sheep or goats, one or two swine (depending on the size of the family), and an unlimited number of fowl, bees, and rabbits.
to perform the labor, and they worked together throughout the year under the supervision of a work group or brigade leader, whose instructions had to be followed. The members of the group were given a “work unit” in exchange for their labor, as was the Soviet model. A detailed table was issued in order to simplify the calculation of the “work unit,” though that time no one was obliged to take it into consideration.

The work unit served not only as a means of quantifying labor, it also was the foundation on which work was assessed as well. The brigade leaders would keep written record in the work unit book of how many work units a member had earned for work done in the course of the year. At the end of the economic year, the member would be given a share of the cooperative’s income on the basis of this written record. To be more precise, wages were only divided among the members of the cooperative after the cooperative had met its obligations to the state. As I have noted, the state acted as a proprietor, although the cooperative was not technically in its possession. The division of income on the basis of the remainder principle (i.e. on the basis of what remained after obligations to the state had been met), a system that was based on the Stalinist model, made it possible for the state to enforce its claims. But the cooperative was left to deal with the consequences. It is hardly coincidental that I often heard from members and leaders of cooperatives statements the essential gist of which was, “indeed the cooperative was a stepchild in comparison with the state farms.”

Among the consequences of this situation, the most serious for the members of the cooperatives was simply the fact that their income was unpredictable and constantly changing. Most of them responded by doing the minimum amount of work required in the cooperative to be entitled to the right to maintain a household agricultural plot. They provided for their families by cultivating their household plots and they were able to search for other occasional work in the area.

In Budapest, where the members of a cooperative had significantly more costs on a monthly basis (transportation, utilities, etc.), the household plot was a less effective solution, especially for those who joined cooperatives with their

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21 For a detailed discussion of the problems and failings of the work unit system, see Nigel Swain, *Collective Farms Which Work* (Cambridge: Cambridge University Press, 1985), 42–44.


own land, but not as gardeners. They needed cash. Furthermore, if a member of an agricultural cooperative in Budapest was not content with his income, he could get on a tram or bus and, within the space of a few stops, find work that would provide a regular monthly wage. Because of the forced industrial development of the first five year plan, there was a serious dearth of workers. Thus, no matter how strenuously the architects of the planned economy strove to eliminate market forces, the labor market continued to exert a strong influence, particularly in Budapest. This soon created serious problems. A report of the agricultural division of the Executive Committee of the Budapest Council issued in 1951 contained the following observation:

> When closed, the accounts showed a deficit everywhere. This was because we were not able to ensure employment for the members in the wintertime, since the agricultural cooperative neither set aside money for this period nor had other forms of income, many of the members left the cooperative and found employment in factories.

The Ministry of Agriculture reacted to the fluctuations in the cooperatives by increasing the severity of the regulations according to which they functioned. In 1951, they introduced a regulation according to which one could only leave a cooperative three years after having joined. In 1952, a resolution of the Council of Ministers raised the number of obligatory work units to 120 in general and to 80 for a woman with a small child. In the section of the resolution that dealt with work discipline one finds statements like the following:

> Members must go to work regularly. […] For every day missed, 1-2 work units must be deducted from the work units of members who, in spite having been warned, do not go to work regularly. […] As of May 1, 1952, members of the agricultural cooperative can only undertake

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The roots of the labor force problems lay in the fact that, because of the restrictive regulations, the cooperative had no say over how the products it created or the income from the sale of those products were used. Furthermore, the agricultural cooperative had no independence with regards not only to the division of income, but also in fundamental questions of production and cultivation. The instructions that were given by the Agricultural Cooperative Main Division of the Ministry of Agriculture concerning what the cooperatives should produce (and how much) were passed on by the Agricultural Department of the Budapest Council to the farms. The central crop plans also specified when the cooperatives should begin the work related to the various stages of cultivation. Given this, it is perhaps not surprising that in the 1950s cotton was included in the cooperatives’ obligatory crop plans, alongside wheat. As a perfectly logical corollary of the state’s paternalism, the cooperatives were not permitted to own their own machines. The Budapest machine and tractor station did the machine work for the cooperatives. This put the cooperatives in a very dependent, vulnerable position, since the machine and tractor station was not able to address the various problems that arose, often at the same time, on the two-dozen or so farms, and delays could cause considerable losses for the cooperatives.

Every important question in the lives of the agricultural cooperatives was determined from above and outside. The cooperative was not even able to decide on simple matters, such as how many rubber boots the members would need for the autumn and winter months. Important questions, for instance who would serve as the president of a cooperative, were also not entrusted to the members. Leaders were usually assigned from above. The party center or the authorities in

the ministry decided which member of the trusted cadre would be placed at the head of a given cooperative.\textsuperscript{30}

In 1952, following a summer drought, these restrictions created a situation of crisis. The compulsory deliveries were also dramatically increased, as were the taxes that had to be paid by the cooperatives, and this also played a role.\textsuperscript{31} It was also significant that, at the time, it was not only so-called kulaks who were offering their lands to the state, smallholders and petty landowners were also trying to rid themselves of their plots. Faced with this situation, the state sought to procure produce from the agricultural cooperatives in order to compensate for the decline that had been brought about by the drop in productivity by individual farmers. In this context I would again mention the analogy drawn frequently by the subjects of my interviews, who likened the agricultural cooperatives to a stepchild. The state treated the cooperatives as if it were the owner and were able to dispose as it sought fit of a given cooperative’s produce and income. The state farms also enjoyed the advantages of state paternalism, since the state helped them when they were faced with financial difficulties and were unable to pay workers their minimum wages. In contrast, the agricultural cooperatives were left on their own by the state to deal with such problems, problems which in fact were caused by the multifold intervention of the state, for instance, a production structure that was not suitable to particularities of a given cooperative, the division of income on the basis of the remainder principle, or the insufficient knowledge of the leaders who had been “parachuted” into their positions from above.

Faced with these pressures, the agricultural cooperatives saw a potential solution in the expansion of their sphere of non-agricultural activities. By creating so-called ancillary enterprises, they hoped to provide work and income for their members that would complement earnings from agricultural production, which was obviously very seasonal.\textsuperscript{32} This was not easy, however,

\textsuperscript{30} Interview with József Pál, June 8, 2011. At the beginning of the 1950s, Mr. Pál had overseen the Budapest agricultural cooperatives as an official at the Agricultural Cooperative Main Division of the Ministry of Agriculture.

\textsuperscript{31} Until 1950/51, the compulsory deliveries required of the agricultural cooperatives were smaller than the compulsory deliveries required of poor peasants. However, as of 1951/52 they began to grow rapidly. For more on this, see Gyula Erdmann, \textit{Begyűjtés, beszolgáltatás Magyarországon 1945–1956} (Békés: Tevan Kiadó, 1993), 116–27.

\textsuperscript{32} Initially, this term (ancillary enterprises) meant only the processing and sale of foodstuffs from agricultural production. Later, as the sphere of activity of the cooperatives grew, it came to include machine shops, servicing workshops, the construction brigade, etc. Several different terms were used in Hungarian, but I use this term consistently in this article.
given the strict constraints of the regulations, since according to the philosophy of the Soviet kolkhoz, an agricultural cooperative could focus exclusively on primary agricultural production. This Soviet idea was foreign to the agrarian traditions in Hungary, but it caused a particularly large number of problems in the case of the cooperatives of Budapest. These farms, which dealt primarily with the production of vegetables and fruit, quite naturally would have liked to have prepared at least some of their products for the market and perhaps even to have had the chance to sell them.33

In the wake of the changes that began to be implemented following the death of Stalin, the assessments of the agricultural cooperatives shifted as part of the politics of the “new course.” The government of Imre Nagy, in order to prevent or at least curb the unravelling of the cooperatives, introduced numerous discounts.34 As part of the changes that were being made to agrarian politics, more emphasis was put on adapting to local circumstances, and this entailed a change in the assessments of the ancillary enterprises of the cooperatives, which at first meant the preparation, processing and sale of foodstuffs associated with agricultural production.

A separate governmental decree regulated the creation of ancillary enterprises in agricultural cooperatives, officially in order to increase the incomes of the members.35 The agricultural cooperatives could create ancillary enterprises individually and collectively, but only if these enterprises had some kind of connection to agricultural work and did not hamper the fulfillment of the primary tasks of production. The use of a foreign workforce was strictly forbidden, though it was possible, exceptionally and only with permission, if there was no one among the members of a cooperative with the proper expertise. The work that was done in the ancillary enterprises could only address the demands of the civilian population if there was no similar local industry and the executive committee of the council gave its consent. The decree distinguished between three types of ancillary enterprise:

33 A 18.010/1951. (I. 20.) However, they could only take their products to the market after having fulfilled their delivery and sales obligations to the state. BFL XXIII.110. 9. d. State farms, agricultural cooperatives, 1952.


1. production based (for instance, tree nurseries, mushroom growing, tile firing, stone mining, etc.)
2. processing (distillation, milk processing, grinding, etc.)
3. ancillary enterprises in the service industry (vegetable stores, flower stores, milk and dairy stores, etc.)

The fact that, in the free atmosphere of 1954 (not long after the death of Stalin), some 20 new forms of endeavor were being pursued in 63 ancillary enterprises clearly indicates the eagerness of the Budapest agricultural cooperatives to take initiative. In 1955, 49 essentially agricultural ancillary enterprises and landscaping divisions were in operation. Commercial trade took place in 56 market stands or businesses. The Budapest agricultural cooperatives maintained 36 vegetable and fruit businesses, 17 ornamental plant stores, and 3 milk and dairy businesses.

When, with the forced resignation of Imre Nagy in the spring of 1952, the “new course” politics came to an end, the Budapest leadership rushed to declare its solidarity with the dogmatic line, which again was gaining strength. This is clearly discernible in the way in which the cooperatives were castigated for the work done in ancillary enterprises:

In many of the agricultural cooperatives, 30 percent and in some cases even 40 percent of the annual income is made not off agricultural production, but the work done in ancillary enterprises and direct speculative activity. In our agricultural cooperatives, people are engaged in every kind of trade, from making square rules to selling stockings, and yet comrades, we do not need agricultural cooperatives that prosper at any cost, that have let’s say an openly capitalist spirit, but rather cooperatives that operate according to strict regulations and grow stronger and develop on the basis of their own work.

From then on, the expansion of the sphere of activity of the agricultural cooperatives became a question of both economic and political significance. The principles on which the criticisms of the cooperatives were based (the criticism of their profit orientation) remained a salient part of the debates concerning their sphere of activity over the course of the next several decades.

38 BFL XXXV.95.a. 5. ö.e. Official report of the February 11, 1955 sitting of the Budapest Executive Committee of the Hungarian Workers’ Party.
Increasing Scope of Action after 1956

Though it is not frequently characterized from this perspective, the 1956 Revolution was an important watershed in the history of agriculture in Hungary. The Kádár government, which rose to power in the wake of the Revolution with Soviet support, soon realized that while industrial production had essentially come to a standstill because of a general strike, any confrontation with the peasantry, which essentially was in possession of food supplies, would have unforeseeable consequences. In the interests of rapid consolidation, the new government was prepared to address the principal concerns and grievances of the peasantry. It put an end to the system of compulsory deliveries (which, indeed, had already been repealed once by the government of Imre Nagy) and it permitted members to leave or even dissolve the agricultural cooperatives.\(^39\) Two-thirds of the agricultural cooperatives in Hungary were dissolved, but this included only one of the cooperatives in Budapest.\(^40\)

The most impactful of the measures that were taken was the elimination of the compulsory delivery system. By taking this step, the government put an end to an element of the planned economy that until then had been beyond question. After the system had been repealed, the state could only procure food supplies if it were prepared to pay realistic market prices. Thus instead of relying on compulsion as it had done earlier, the state used market incentives and structured its relationships with the individual producers, cooperatives, and state farms so as to meet address the interests and concerns of the producers. The rehabilitation of the agricultural marketplace, however, was limited, because prices were still determined not by the forces of supply and demand, but by the mechanisms of state price control.\(^41\)

Thus the economic environment in which the agricultural cooperatives functioned changed drastically, but perhaps even more significant was the fact

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39 Törvények és Rendeletek Hivatalos Gyűjteménye (1956): 62. Brought to an end the compulsory sowing plans, the obligation to obtain permission before slaughtering an animal, and the obligation to provide fat following the private slaughter of a swine. Ibid. 68–69, 263–65.

40 The number of cooperative members dropped by half, leaving only some 1,000 members of an original 2,000. The loss of land was not this dramatic, since most of the cooperatives farmed on state reserve areas. At the same time, however, the drop in the number of livestock was significant, a drop of some 60 to 70 percent. BFL XV.20. 74. Vol. 189. Official reports of the sittings of the Executive Committee of the Budapest Council, March 1, 1957. Report on the situation of agricultural production and the agricultural cooperative movement.

41 Pető and Szakács, A hazai gazdaság, 433–39.
that they were given a chance to make changes to the regulations that governed them. In the power vacuum that emerged in late 1956 and early 1957, government control of the agricultural cooperatives slackened, since the party and state institutions were caught up in the processes of their own restructuring. Taking advantage of this, agricultural cooperatives across the country made important changes to their basic regulations. These initiatives, which came from below, can be divided into two main groups.\footnote{Zsuzsanna Varga, \textit{Politika, paraziti érdekérvényesítés és szövetkezetek Magyarországon 1956–1967} (Budapest: Napvilág, 2001), 17–57.}

The agricultural cooperatives sought to obtain more independence from the party and state institutions that interfered from the outset in their operations. This was made easier by the fact that there was a drastic reduction in the number of people working in the council apparatus, including people in the agricultural divisions. The agricultural cooperatives sought to make themselves independent of the machine and tractor stations by purchasing their own mechanical equipment. At first, it seemed as if they would have the support of upper echelons of government.\footnote{The Agricultural Division of the party center supported this initiative from the outset, while the dogmatic leaders of the Ministry of Agriculture opposed it. Levente Sipos, “Reform és megtorpanás. Viták az MSZMP agrárpolitikájáról (1956–1958),” \textit{Múltunk} 36, no. 2–3 (1991): 188–97.} Taking advantage of the opportunity, in 1957 the agricultural cooperatives purchased 8 Zetor tractors.\footnote{BFL XV.20. 74. Vol. 191. Official reports of the sittings of the Executive Committee of the Budapest Council, May 24, 1957. The transformation of the Budapest Machine and Tractor Station.}

The cooperatives sought, furthermore, to make adjustments, adapt to local circumstances, and assert control over the regulation of their own internal affairs, first and foremost the organization of production and labor and the system of wages and pay.\footnote{MNL OL M-KS-288. f. 28/1957/2. ö. e. County reports on the basis of instruction 20/B/1957 of the Ministry of Agriculture on the reexamination of the organizational, economic, and political circumstances of the agricultural cooperatives. May 1957.} This was true of the agricultural cooperatives that continued to function in Budapest. As they had been unable, because of the restrictions of the kolkhoz regulations on which they were modelled, to ensure their members an income that would have competed with the wages offered in the factories of the city,\footnote{Attila Csaba Kondor, “Iparpolitika és iparfejlesztés Budapesten az 1960-as években,” in \textit{Budapest az 1960-as években}, ed. István Feitl (Budapest: Napvilág Kiadó, 2009), 65–80.} they saw a potential solution in the expansion of their sphere of activities.\footnote{The Agricultural Policy Theses that were issued in the summer of 1957 were also supportive of expanding the sphere of activities of the cooperatives. Henrik Vass and Ágnes Ságvári, ed., \textit{A Magyar...} 47
were caused by the seasonal nature of production and provide advances for their members the whole year through.

One of the first initiatives of the seven agricultural cooperatives in Budapest came in late 1956 and early 1957 with the creation of distilleries. The discarded or unsold fruits that were piling up in the food shops and canning factories of the capital provided an ideal foundation for the production of spirits. These distilleries did a great deal to alleviate the serious financial problems faced by the agricultural cooperatives and enable them to pay their members regular monthly advances. In general, advances were made every month, but in some cooperatives they were made twice a month. The amount of the advances was set by the Agricultural Cooperative Main Department of the Ministry of Agriculture, and it could not exceed 60 percent of the anticipated value of the annual work unit. Later, the agricultural cooperatives asked the Agricultural Department of the Central Committee to allow them to raise this limit to 80 percent. The fact that at the time the Agricultural Division of the party center was more supportive of initiatives coming from below than the Ministry of Agriculture played a role in this. I will address the tensions that existed between the two a bit later in this article.

The agricultural cooperatives used other means in their attempts to address the problems that had arisen because of the work-unit system of remuneration. The principal problem was that, according to this system, a member of a cooperative as not motivated to work attentively and effectively, but rather sought to acquire as many work units as possible as quickly as possible with the mere appearance of work. This led to unusually dire problems in the agricultural cooperatives of Budapest, since, given the role the cooperatives played in providing food supplies for the population of the city, most of the work involved vegetable gardening, floriculture, and livestock farming, all of which are particularly labor intensive.

A system of work units based on efficiency and results began to be used in places where the products of labor were the most easily quantified. “Thus [these kinds of work units] were used first in the brandy distillation ancillary plants, ...


where the members working in the distillery were given work units on the basis of the gross number of liters of alcohol produced. In 1959, the Champignon mushroom cooperative in the X. district of the city introduced this system. The work of the different groups of laborers, who were physically separate from one another as they worked in different places, could be clearly measured. Units of laborers shared in the profits on the basis of the number of mushrooms gathered, i.e. the value of the yield of their work.

Sometimes cash bonuses were also made. This form of remuneration was the most effective in branches of agriculture in which the results of a worker’s labor could be the most clearly quantified. Several agricultural cooperatives used this system effectively in dairy farming. For instance, in the Dózsa Agricultural cooperative in the XVII. district, a dairy farmer was given a specific sum in forint—not additional work units—on the basis of the amount of milk produced.

In some of the agricultural cooperatives in Budapest, for instance the Kinizsi and Beloiannisz cooperative in the XI. district, the cooperative on Bécsi Boulevard in the III. District, and the Táncsics cooperative in the XX. District, a system of hourly and daily wages was used instead of work units. This represented the most radical departure from the kolkhoz principles of remuneration, since it completely eliminated the work unit by making the amount of time spent working (measured in days or hours) the basis on which work performed was assessed. The agricultural cooperatives tried to make monthly cash advances in compensation for days or hours of work (in other workers, as a divergence from the remainder principle, workers were not compelled to wait until the end of the year for payment), regardless of their economic fortitude.

These approaches to remuneration seemed suitable as a means of mitigating fluctuations in the agricultural cooperatives, though because they constituted a departure from the regulations of a kolkhoz, they led to heated debates among the people who crafted agricultural policy, who were preparing to complete the

51 The Champignon Agricultural Cooperative continued to use this system of incentives in 1962, when it was merged with the Pákózd Antal cooperative in Zugló and the Vaszil Kolarov cooperative in Csepel. “Két szomszéd vár,” Magyar Nemzet, August 23, 1962.
53 MNL OL M-KS-288. f. 28/1960/2. ő.e. The introduction of the system of income distribution in the agricultural cooperatives of Budapest that expressed the direct material incentives for the cooperative members.
process of collectivization. The Ministry of Agriculture, which was led by Imre Dögei (who represented the dogmatic line), opposed these initiatives from below because they would provide members with an income (whether it be money or payment in kind) over the course of the year, before the cooperative had met its obligations to the state. Thus, the agricultural cooperatives were getting around the remainder principle. This principle was, after the practice of compulsory deliveries, the second most powerful tool used by the state to enforce its interests. According to Dögei, the use of alternative forms of remuneration would undermine the ability of the cooperatives to fulfill their obligations, in particular their obligations to the state. Even more disconcerting, in his view, was the fact that the initiatives taken by the cooperatives were a departure from the regulations of the kolkhoz model (and particularly the work unit), which was regarded as unchangeable. In contrast, the Agricultural Division, headed by Lajos Fehér (it functioned alongside the Central Committee), contended that the new solutions, which created new incentives for workers, would motivate the members of the agricultural cooperatives to take a greater interest in improving production from the perspective of both quality and quantity, and this was very much in the interests of the state.54

The Budapest leaders found Fehér’s reasoning more persuasive, as the following citation concerning the concluding phase of collectivization shows:

The introduction of a system according to which income was shared and bonuses were paid on the basis of the final product and output contributed to the creation of a favorable mood. In most places, the members of our agricultural cooperatives joyously welcomed the introduction of the new system of division of income. […] The fact that in most of the cooperatives advances on work units were paid every month also helped foster a love of work and a good general mood.55

However, all over the country the process of collectivization was accompanied by problems (drops in production, the migration of important segments of the workforce) so dire that the party leadership found itself compelled to confront the gravity of the risks it would face if it were to return to the dogmatic agricultural policy that had prevailed before 1956. At the beginning of 1960,

54 Sipos, Reform és megtorpanás, 188–97.
Dögei was dismissed from his position at the head of the Ministry. Dögei was replaced by Pál Losonczi, an innovation-minded agricultural cooperative president. Under Losonczi, a distinctive approach to problem solving was adopted. Every year, at the beginning of the year, the Ministry would disclose the remuneration strategies and solutions that—while they were in violation of the legal provisions—would create incentives for the members of the agricultural cooperatives. With the introduction of these semi-legal measures, the scope for action of the cooperatives increased step by step, which contributed to growth in income for their members.

The agricultural cooperatives of Budapest adapted well to this new atmosphere of “anything that has not been expressively forbidden is permitted.” Production in the ancillary enterprises was particularly lively. In the XX. district, for instance, each of the agricultural cooperatives pursued significant endeavors, in addition to traditional agriculture. The three cooperatives stored and packaged potatoes, which would be one of the staples of the winter diet for the city. Several cooperatives used their sandy areas for the production of sand and in doing so gained land that could be used for agricultural cultivation. In the Sasad cooperative in Buda, for example, alongside cultivation of plants and livestock farming (the main branches of enterprise), ancillary enterprises also came to play important roles. The latter included distillation, preserves, a tile workshop, a limestone mine, a landscaping enterprise, an automobile plant, and a maintenance workshop. There was also an artificial flower workshop in the cooperative, and the cooperative shops sold wreaths and flowers.

The spread of these kinds of ancillary enterprises contributed to the creation of forms of undertaking that were distinctly market oriented.

Government decree 3004/3/1960 (XI. 17.) gave the work of the agricultural cooperatives a new direction. The decree concerned state support provided for the cooperatives, but it also addressed questions concerning the auxiliary and the processing plants, as well as the cooperative construction brigades. According to the decree, the primary responsibility of the construction brigades was the completion of the shared construction projects of the cooperative, the renovation of the buildings used by its members, and the construction of new dwellings for its members. If there was no local industry in the given community,

56 For more information on the switch of ministers, see Tibor Huszár, Kádár János politikai életrajza, vol. 2 (Budapest, Szabad Tér Kiadó–Kossuth Kiadó, 2003), 128–40.
57 For more on its detailed operations see Varga, Politika, 82–92.
the ancillary plants were allowed to continue operation for the members and the local population without having to obtain the express permission of the authorities.\textsuperscript{59}

By the beginning of 1961, the complete socialist reorganization of agriculture in Hungary had been completed. According to official statistics, in Budapest there were 25 agricultural cooperatives in operation with a total of 17,114 cadastral yokes and 3,469 members.\textsuperscript{60} While collectivization had been effectively implemented, dire problems of production arose, and the country was compelled to import both breads and meat.\textsuperscript{61} The leaders of the Kádár regime were compelled to confront the fact that, without the proper mechanization of agriculture, the country would remain very much in need of the members of the agriculture cooperatives and their families as a labor force, but at the same time they recognized that the classic Soviet kolkhoz model did not provide the necessary material incentives for this labor force. Under pressure from the agriculture lobby, which formed around Lajos Fehér (secretary of the Central Committee of the Hungarian Socialist Workers’ Party and a member of the Political Committee),\textsuperscript{62} the party leadership gave its consent for the adoption, at least temporarily, of a solution which rested on the use of household plots and a system of remuneration that addressed the failings of the work unit system.\textsuperscript{63} In Budapest, the household plots were not as significant a factor as they were in the more rural parts of the country. The primary goal was to convert to a system of wages paid in cash. As a consequence of this, the Budapest agricultural cooperatives soon realized that, whatever clever solutions they might devise to replace the work unit system, the impact of these innovations would be limited as long as the remainder principle remained in force. A trifling quantity remains trifling, however equitable its distribution.

In the first third of the 1960s, Fehér and his circle, having confronted the limitations of the solutions that were being proposed from below, crafted a comprehensive agricultural reform plan that outlined all of the financial, legal,

\textsuperscript{59} With this ruling, the 39/1954 (VII. 15) decree of the Council of Ministers became void.
\textsuperscript{60} \textit{Budapest Statisztikai Évkönyve} (Budapest: KSH, 1962), 119.
\textsuperscript{62} The agriculture lobby consisted of politicians, agricultural experts, and scientists who wanted to bring about a change in the subordinate position of agriculture and agricultural producers. They suggested changes (corrections) to the use in Hungary of the Stalinist kolkhoz model.
and administrative measures that would have been necessary in order to begin to address the various challenges. The implementation of these measures, however, was postponed for various reasons.\textsuperscript{64} When the upper echelons of the political leadership finally reached a decision regarding the New Economic Mechanism, these agricultural reforms lent a significant dynamism to the process. Since the agriculture lobby had a clearly outlined platform for reform, it soon came forward with concrete suggestions, and thus in 1966 and 1967, i.e. before the actual introduction of the New Economic Mechanism, important reform measures were already underway.

Of these measures, Law III. of 1967 was among the most significant. It contained innovative steps based on the concepts of self-management and equal rights.\textsuperscript{65} The agricultural cooperatives were granted the right to make decisions concerning their incomes. They were no longer bound to planning, and thus could reach their own decisions concerning cultivation and working plans. They would have to deal with the economic consequences of their decisions. The law also stipulated that the agricultural cooperative was not simply an independent legal entity, but, furthermore, an entity with no legal superior (no trust, or territorial or production management). I.e. it represented itself in all respects.

In order for independent enterprise management to emerge, it was first important to ensure the necessary financial background. As I have mentioned, the agriculture lobby realized that the difficulties of material incentivizing could not be addressed, neither from the perspective of individual members nor from the perspective of the cooperative as a whole, as long as the system of pricing failed to reflect accurately the costs and the yield. Thus, prices were raised and credit concessions were made in 1966/67 with the aim of providing the foundations for self-financing, or in other words of transforming the majority of the cooperatives into “independently managed enterprises.” This meant, quite simply, that returns from sales would guarantee regular salaries for the members of the cooperatives and, from then on, the cooperatives would have the necessary resources to ensure adequate circulating capital, funds to replace fixed capital assets that had been used, and funds to procure some of the implements necessary to increase production and repay loans that had been taken out for this purpose. At the same time, revenues were not sufficient to cover the investments entirely. Investment policy was one of the main limitations on the

\textsuperscript{64} Varga, “The Impact of 1956.”

\textsuperscript{65} \textit{Mezőgazdasági termelőszövetkezeti törvény. Főd jogi törvény} (Budapest: Közgazdasági és Jogi Könyvkiadó, 1968).
entrepreneurial independence of the agricultural cooperatives, and it was a tool that was quite deliberately kept in the hands of the regime.66

This all affected the members of the cooperatives, since numerous changes were introduced in the distribution of income as the cooperatives came to resemble independent enterprises. Perhaps the most important of these was the elimination of the system based on the remainder principle. The 1967 law stipulated that wages paid to members over the course of the year would be considered a cost of production by the cooperative. It also specified that these wages took precedence over the demands of the state and recovery of the material costs of production. These measures created a fundamentally new situation with regards to incentives for the members of the cooperatives. With the creation of a legal foundation for regular salaries, a new approach had come to prevail, according to which the members of a cooperative (like other workers) were guaranteed a predetermined wage based proportionally on work performed and paid regularly and continuously.

It is worth noting that, of the local initiatives that had already become part of common practice in the cooperatives (though they were departures from the kolkhoz model) and that, with the adoption of the new law, were made part of legal practice, most concerned remuneration, the organization of production and labor, and household farming. The decree concerning the implementation of the law addressed remuneration as well, but it allowed for the use of any form of remuneration that corresponded to the principles of socialist distribution.

The transformation of the agricultural cooperatives into increasingly independent enterprises also meant organizational restructuring with regards to economic decisions, as jurisdiction was transferred from bodies of state oversight to the cooperatives themselves, which until then they had only exercised self-management as a matter of form. Earlier, the spheres of activity of the cooperatives had been determined essentially in an administrative manner by the district councils, the enterprises with which they had concluded contracts, and the local offices of the bank, which had used political pressure at times, but usually had relied on economic tools, such as loans and offers of support (or withdrawal of support).

In recognition of the transformation of the cooperatives into semi-independent enterprises, the 1967 law brought to an end the earlier narrow restrictions that had limited their sphere of activity. According to the new regulations, in addition to agriculture, the cooperatives could also pursue food processing, acquisition, sales, and services. A cooperative could use its implements, buildings, and equipment to perform tasks and provide services to address the needs of its members and their families, but also other cooperative and state enterprises, institutions, societies, and the general population.

The Situation after 1968: “If the Yields of a Cooperative are Bad, That Is Suspicious. If they are Good, That is Even More Suspicious.”

The secondary literature on socialist economic history has tended to emphasize, as one of the distinct features of the New Economic Mechanism, that it gave the socialist economic organizations a striking degree of independence. My research suggests that, in the case of the agricultural cooperatives, the important elements of entrepreneurial management were not introduced as a result of the New Economic Mechanism, but rather had emerged earlier, in large part as a consequence of initiatives from below. These solutions, which had been crafted in the course of everyday practice, had gradually shifted from the “tolerated” category to the “supported” category (the cultural politics of the Kádár regime classified things as “tiltott, tűrt, támogatott,” or “forbidden, tolerated, and supported”) thanks to the pragmatism of the agriculture lobby. The 1967 law provided legal recognition and protection for these innovations. This interesting prologue explains why the field of agriculture, and within agriculture, the cooperatives, were able to adapt the most rapidly to the situation that emerged following the introduction of the New Economic Mechanism.\(^ {67}\) The Presidium of the Alliance of Budapest Agricultural Cooperatives, a new organization responsible for the defense of the interests of the cooperatives, offered the following assessment of the pre-1967/68 period:

The opportunities ensured by the new law pertaining to the agricultural cooperatives have significantly furthered the emergence of independent,

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entrepreneurial farming, in spite of the fact that individual laws and economic regulations, passed with delay, temporarily hampered work. […] The cooperatives’ yields over the past year demonstrate the soundness of the measures that were taken as part of the reform of the system of economic management. The leaders and members of the cooperatives understood its aims and were able to take advantage of the tools it provided, and it created a favorable political and economic environment for their operations.  

By 1968, as a consequence of a process of unification that had been underway, only 14 agricultural cooperatives remained in Budapest. Alongside the increasing specialization that took place over the course of the decade, the dynamic development of the ancillary enterprises of the cooperatives was also striking. The revenues brought in by these enterprises grew in terms of net and gross earnings more rapidly than the revenues brought in by the basic activities of the cooperatives (in 1968/68, for instance, they grew by 130 percent), and they jumped from 20 percent of the cooperatives’ total income to 47 percent.

The Óbuda agricultural cooperative pursued a wide range of endeavors in the III. district, Szentendre, Pomáz, and Csobánka. The president of the cooperative, Ferenc Varga, offered the following explanation for its successes:

The various endeavors undertaken in addition to the basic activity [of the cooperative] are wide-ranging. Industrial undertakings comprise revenues from an array of products and manifold services. In addition to the production of foodstuffs, within the framework of other industrial undertakings the mine, the metal works, and the workshop in which elements used in buttons, rubber, ironworks and concrete are made are also turning out products, and we are also engaged in packaging, automobile and refrigerator repair, motorized winding, cleaning, and other service industries. Of the industrial endeavors, export packaging has the largest volume.

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69 On the gigantic cooperatives created through these unifications, see for instance Nándor Keresztényi, Csepeli agrárszövetkezők: a Duna Termelőszövetkezet 25 évének krónikája (Budapest: Duna Tsz, 1986); Tamás Kő, ed., 25 év a sasadi dombokon (Budapest: Sasad Kertészeti Mg. Tsz, 1975).
70 BFL XVII-130. 1 FNEB 35. box. Summary report on the supplementary activities of the agricultural cooperatives.
In the first half of the 1970s, fifty-five units were involved with domestic trade enterprises in this agricultural cooperative alone, including a flower shop, a grocery store, a clothing store, and a seed shop.

Providing foodstuffs for the population of the capital remained one of the primary responsibilities of the Budapest cooperatives, in spite of the fact that the revenues brought in by work done in agriculture and food processing constituted only a small percentage of the total income. With regards to the needs of the population of Budapest, the most substantial contributions made by the cooperatives involved vegetables, poultry, mushrooms, and flowers. Their entrepreneurial spirit was quite evident in these enterprises. They endeavored to sell as much of their products as possible (for instance poultry meat, eggs, milk, and mushrooms) in their own stores or market stalls, and not to state enterprises. At the time, the agricultural cooperatives in Budapest had 135 stores of their own (74 of which were grocery stores, while the other 61 were flower stores).

Construction work done outside the cooperative was also part of the cooperatives function of addressing the needs of the population of Budapest. They were commissioned by the councils to build schools and kindergartens and renovate and make repairs to residential buildings. Their contributions to the service industries were similarly important. For instance, they set up several automobile repair shops.

As a consequence of the expansion of the scope of activity of the cooperatives and the shifts in the ways in which taxes and fees were levied, in 1968 the Budapest cooperatives had to pay some 120 million forint to the state, in comparison with 38 million in 1967. Of this, 70 million went to the city council (as property tax, income tax, and sales tax), 41 million more than in 1967. Because of changes that were made to the system of social insurance and security and the growth in the number of people working as part of the cooperatives, their direct costs in taxes and fees paid to the state grew by more than a factor of four.

These data clearly demonstrate that by the end of the 1960s, the agricultural cooperatives of Budapest were in a process of dynamic growth because of the successes of their ancillary enterprises. Similar processes were underway in the agricultural cooperatives nationwide thanks to their successful adaptation to the

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72 90 percent of the agricultural and food industry products were sold in Budapest.
New Economic Mechanism. The members of the cooperatives profited, but so did the population in general and the regime itself.

In light of this fact, it may seem surprising that at the beginning of the 1970s a press campaign was launched according to which the agricultural cooperatives had achieved their successes not through hard work and judicious adaptation, but rather by swindling, defrauding, and speculating. The criticisms targeted the ancillary enterprises first and foremost, thus it is not surprising that the Budapest cooperatives were put in the spotlight. According to one of the most frequently repeated contentions, staff and workers in the industrial units were given so much in the way bonuses and various benefits that, combined with their wages, these forms of remuneration vastly exceeded the hourly wages earned by workers in state enterprises who performed essentially the same tasks, even taking into consideration the benefits these workers were given. This allegedly led to income inequalities between the Budapest cooperatives and the industrial enterprises. Furthermore, by offering better pay and benefits, the agricultural cooperatives effectively lured skilled workers away from the state sector.

Népszabadság (The People’s Freedom), the main newspaper of the Communist Party in Hungary, participated intensively in the campaign against the agricultural cooperatives. On February 3, 1971, for instance, it printed an article according to which, between 1968 and 1971, the Shared Independent Agricultural Industrial Enterprise (Mezőgazdasági Ipari Közös Önálló Vállalat, or MIKÖV), a joint venture of the Vörös Október (Red October) and the Sasad cooperatives in Budapest, had illegally paid an innovation fee of more than 500,000 forint to its trade partners, in exchange for which its trade partners were to place an order for the enterprise’s low-quality products. After the inquiry had been completed, the Central People’s Control Committee (Központi Népi Ellenőrzési Bizottság, or KNEB) issued a report denouncing MIKÖV. The newspaper article, however, did not end here:

It is comforting, then, that the process of holding to account has begun in this matter. It is nonetheless perplexing, however, that until the public interest announcement was made, for years the people at the enterprise of the two cooperatives in question, who are now being held accountable, were able to pursue their business dealings without

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hindrance. How was this possible? A swindler or a fraud can always pop up in an industrial plant and try his luck to see if he can illegally get his hands on a higher income without working. But no one can profit from this for years at a single enterprise or an industrial plant turning out billions in production value. The fate of such a half-million forint sum is soon exposed. Why? Alongside other safeguards, first and foremost because the internal and external system of control is strict and consequential, and it effectively protects public funds.

Perhaps no one is monitoring this agricultural cooperative enterprise? Formally, a board of directors consisting of leaders of the two founding agricultural cooperatives exercises control over the legal supervision of this enterprise, as well as the executive committee of the Agricultural Division of the Budapest Council and the Ministry of Agriculture and Food. Nonetheless, in practice extensive opportunities were available for underhanded dealings that infringed on public interests.

It is worth noting the conclusions reached by József Sólyom, the author of the article:

Such fine agricultural cooperatives as Sasad and Vörös Október should never have given their names (or their money) to such a dubious enterprise. But since they did, they must now take careful note to obeying the laws strictly, lest anyone violate them. [...] Today there is plenty of money in these cooperatives not only for bread, but for spreads as well. This case should shock them: they can avoid problems like this if they really do keep their own enterprises under strict control, if they thoroughly audit the finances and management of their cooperatives. This lesson should be put to good use, and not only by the agricultural cooperatives involved.75

This attempt to sway public opinion was part of a larger political struggle the essential question of which was the continuation or the repeal of the 1968 reforms. The agricultural cooperatives found themselves in the crosshairs of the supporters and the opponents of the reforms. One side characterized them as a positive example to be followed, while the other pointed to them as proof positive of the negative effects of the reforms.

A campaign of persecution was launched against the agricultural cooperatives, the essential point of departure of which was that indeed the cooperatives had achieved their successes dishonorably, by swindling and breaking the law. According to the accusation, the forbearing conduct of the leaders of some of the cooperatives, who paid no mind to ethical or political considerations, had encouraged violation of the law. Allegedly, this indulgence was plainly obvious in the excessive wages that were paid to staff, the efforts that were made to lure workers away from other sectors of the economy, the pursuit of various lines of work without the proper permission from the state, laxity when it came to financial records, and creative interpretations of the law.

In the first half of the 1970s, police and judicial proceedings were launched against more than 1,000 leaders of agricultural cooperatives. Nationally, this meant 10-15 percent of the total number of people belonging to this group. My research has shown that the first step was always a so-called people’s control investigation. Historians of the Kádár era have devoted little attention to this organ of government, which was created in 1957, though it was active all over the country and played an array of roles, all the under direct supervision of the party. From the perspective of the agricultural cooperatives, the organs of people’s control were particularly significant because, after 1967, given the fact that the cooperatives enjoyed a larger degree of independence than they had earlier, in principle no other body of government had the right to inspect the ways in which they managed their affairs. One should add, at the conclusion of an investigation the people’s oversight committees could propose disciplinary proceedings that might also involve having to pay compensation. In more serious cases, they were obliged to file reports with the police and the prosecutor’s department.

Every year, the party leadership set the work plan for bodies responsible for the people’s oversight. In 1972, the Central People’s Control Committee examined the transport activities of the agricultural cooperatives. It is worth noting that, while this investigation involved 39 cooperatives nationwide, 13 of

77 The people’s oversight committees were formed on district and county levels, and they were all part of the Central People’s Oversight Committee, or KNEB (Központi Népi Ellenőrzési Bizottság). Formally, KNEB was answerable to the government, but in practice it was answerable to the party leadership. Ferenc Horváth M., “A ‘népi ellenőrzés’ Magyarországon 1957–1989,” Levéltári Szemle 40, no. 4 (1990): 29–40.
them were in Budapest.\textsuperscript{78} In the first half of the 1970s, the recurring themes of the people’s oversight investigations included abuses by the ancillary enterprises, the illegal or improper use of state support, and violations of storage contracts. There were also many inquiries that focused on closing account balances and document forgery. According to my calculations, the number of investigations launched by bodies of people’s control rose continuously until 1975, and a growing proportion of these inquiries ended in criminal denunciations.\textsuperscript{79}

The Budapest agricultural cooperatives, which were regarded as allies of Lajos Fehér and were under close scrutiny by the party, were not spared the attacks, the gravity of which varied.\textsuperscript{80} In some cases, the leaders of a cooperative were “only” issued a warning at the conclusion of a people’s control investigation. If abnormalities were discovered to have taken place, a cooperative had to pay compensation to other farms. Sometimes show trials were even launched against the leaders of a cooperative. The Rozmaring (Rosemary) Cooperative had acquired a good reputation for its high-quality flower stores, and not only in Budapest, but in the (not exclusively socialist) countries of Central Europe to which it sent its exports.\textsuperscript{81} The president, Alajos Kovács, was known as an entrepreneurial leader eager to succeed. He was a member of the presidium of the National Council of Agricultural Cooperatives, and he had a good relationship with Lajos Fehér, one of the leading figures of the economic reforms. The Rozmaring trial was very clearly a show trial, as is made plain by the fact that articles disparaging the cooperative were printed in the dailies well before the decision of the court had been reached. The following excerpt gives a good sense of the tone of these articles:

Some of the staff of the cooperative […] cautioned the president many times: if he continued to lead the cooperative in this manner, he would find himself on the accused bench. President Alajos Kovács,

\textsuperscript{80} Because of their location, these agricultural cooperatives were often used when the regime was welcoming high-ranking foreign delegations. This entailed numerous advantages, but at the same time, the high incomes that were paid to the leaders and members of these cooperatives in the 1970s irritated many of the politicians who visited them.
\textsuperscript{81} Nándor Keresztényi, Zugligettől a Pilisig: a Rozmaring Termelőszövetkezet első negyedszázada (Budapest: Rozmaring Mgtsz, 1982), 71–92.
however, did not believe this: ‘Exaggerated administration, strict regulation,’ he said, ‘would weaken the effectiveness of trained leadership.’ In the Rozmaring Gardening and Agriculture Cooperative—as is now clear—bribery was one of the most important tools of effectiveness: this criminal gang’s business venture flowered for a long time. The leaders of the cooperative, who according to the indictment caused damages to the national economy of almost one-million forint, are now waiting in custody for their trial to begin.82

In the autumn of 1976, when the article cited was printed in Esti Hírlap (Evening News), several leaders of the cooperative, including the president, had already been in custody for months. One might well wonder why a person like Alajos Kovács, who was known all over the country, needed this. He himself later shared the following recollections in an interview:

Returning to the interrogation: it’s quite true that they were able to keep you in a state of stress. A real criminal would have laughed at the whole thing, but this was not my situation. Once they had dictated whatever they felt was important, they put it in front of me for me to sign it. In all sincerity I didn’t even read it. They did not cause me any physical harm, but the feeling of helplessness […] I cannot express the atmosphere. They had learned how to create this atmosphere very well. It would be slanderous of me to say that they were not civilized police. They never maltreated me. […] But the atmosphere that they created, one cannot express it. A neurotic or inexperienced person breaks under it.83

The president had a shrewd grasp of what was at stake at the time when he was being held in custody. As the study of similar trials makes clear, the accused were held in custody for long periods of time as a general matter of practice. This was in part simply because the process of gathering the evidence in support of the accusation (which had been hastily cobbled together at the order of the regime) was slow. This was one reason why the police strove to prompt the accused to confess. Many agricultural cooperative presidents spoke in interviews of the tools that were used in the investigation stage of the proceedings. At first, the attorney who had been given the task of serving as Kovács’s defense had tried to persuade him to confess, as indeed did his cell mate, who had been recruited by the regime.84

82  “Elvirágzott vállalkozás,” Esti Hírlap, October 26, 1976 (emphasis in the original).
83  Árpád Pünkösti, Vasalt ruha mängorolva (Budapest: Műszák, 1989), 22.
84  Ibid., 23–24.
I came across many instances of infringements of the rights of the accused, not only in the investigation stage, but also in the courtroom proceedings. For instance, exculpatory witnesses were hardly called to testify. Even more importantly, criminal law, which was modified in 1971, created numerous channels for interference, which allowed for judicial bias—and therefore political pressures—to prevail.\(^85\)

In the end, in the trial that was launched against the Rozmaring Cooperative charges were brought against 22 people and 120 witnesses were called to testify. The hearing in the court of first instance lasted from November 23, 1976 to March 15, 1977. On December 21, 1977 the High Court of Justice issued its ruling.\(^86\) It found Alajos Kovács not guilty of any crimes committed as part of a conspiracy to commit unlawful acts and also not guilty of the crime of breach of trust. He was reprimanded only for having failed to take adequately resolute measures to ensure compliance with the rules concerning the handling of enterprise documents. In other words, he was found not guilty. However, in order to find some justification for having held him in custody for months, the court imposed a fine of 20,000 forint, which it regarded as paid in exchange for time spent in remand. In the meantime, of course, he had lost his position as president and the Rozmaring Cooperative had been merged with another cooperative, and a new president had been chosen for the new, larger cooperative that thus had come into being.\(^87\)

The criminal proceedings that were launched against the leaders of agricultural cooperative clearly demonstrate that the demands that were made concerning market forces and efficiency at the time of the New Economic Mechanism never became (and never could have become) as important as the unchanging ideological precepts. Figures within the regime were able to take coercive measures against the agricultural cooperatives and their leaders by referring to the leading role of the working class and the superiority of the state-owned sector of the economy.

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\(^{86}\) MNL OL XX-10-e 22.278/1977 (539.d.) Trial documents of J.G. and associates.

\(^{87}\) Keresztényi, Zugligetől, 109–10.
The three decades of agricultural history presented in this essay clearly demonstrate that the successful adaptation of the Budapest agricultural cooperatives depended in part on the extent to which they were able to free themselves from the limitations of the kolkhoz model and in part on the responses of the representatives of power when initiatives that were raised from time to time from below overstepped the regulations prescribed by law. In the 1960s, in part in response to the pressures of the agriculture lobby, the leading organs of the cooperatives addressed this lacuna between law and practice by making changes after the fact to the regulations in order to make them better correspond to the challenges faced in practice. In the 1970s, when the brakes were being put on the economic reforms, this phase displacement became a vulnerable point. Economic and administrative measures and even steps pertaining to criminal law were taken to limit the entrepreneurial independence of the agricultural cooperatives. Unfortunately, this took place at a time when, following the dramatic leap in the price of oil worldwide, effective adaptation to market forces would have been more important than ever if the regime had seriously hoped to salvage the Hungarian economy.

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