Co-operative Transformation and Co-operative Survival in Slovakia

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Introduction

For those who observe rural change in East-Central Europe, what is striking about Slovakia is the extent to which it has retained the co-operative as the means of organising agricultural production. Whilst in Hungary, the former GDR, Poland of course, and even the Czech Republic, co-operatives are declining in significance, in Slovakia they remain supreme, covering almost 70 per cent of total agricultural land compared with just under 50 per cent in the Czech Republic and just over 30 per cent in Hungary (Swain 1998a). This paper first seeks to explain this persistence of the co-operative form in Slovakia and then considers the reality behind the form with the help of three case studies. It argues that there is indeed something distinctive about Slovak company forms in the agricultural sector, but that, despite the persistence of the co-operative as a label, underlying economic realities are pushing the farms away from a co-operative reality.

Section One – the National Scene

Slovak co-operative transformation cannot be considered in isolation from the pattern of recent Slovak history. This section will suggest the following:

1. that the relative failure of the socialist economic project in Czechoslovakia and the unreformed nature of its late socialism led to a consequent total rejection of the socialist past and the adoption of features in its co-operative transformation, which, although intended to destroy co-operatives, actually had the opposite effect;
2. that, following independence, Slovakia, less hostile to its socialist past, adopted a pro-co-operative stance; and
3. that in the context of an emerging capitalism in which ownership structures and capital flows are opaque, amendments to the co-operative transformation legislation both

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removed financial threats to the continued existence of the co-operative label, but, at the same time, introduced into co-operatives features characteristic of private companies.

Czechoslovak restitution can be characterised as having been full, direct and specific (Swain 1994), and the same spirit imbued co-operative transformation. In the inter war period Czechoslovakia, the lucky inheritor of much of the industry of the Austro–Hungarian Empire, had been a significant economic force in Europe (Berend and Ránki 1974: 177–208), but had declined relatively over the socialist years (Swain 1998b). It was easy therefore for politicians to present the socialist period as an aberration, forty years to be simply written off. Complete restitution for forty economically wasted and politically oppressive years seemed the only politically acceptable form that any settling of accounts with historical injustice could take; and complete restitution required, wherever possible, restitution at full value and in the actual form of the object lost.

If relative economic decline under socialism helps explain Czechoslovakia's preference for full and direct restitution, the nature of its late socialist decades contributed to an element of financial naivety. Czechoslovak society was in 'hibernation' for twenty or so years after post 1968 'normalisation' (Swain and Swain 1993: 170–173). There was no political or economic reform or experimentation, and few intellectual contacts with the non-socialist world. Politicians had almost no idea of how capital markets functioned, and the general public still less. Voucher privatisation, for example, was a failure as the experiment in direct popular capitalism that was originally conceived. It had to be rescued by financial institutions, the investment funds, which had not figured in the original conception (Swain 1998b: 199).

In a climate of full restitution in kind and naive expectations about popular capitalism as the path for privatisation, it is not surprising that co-operative transformation legislation (which combines elements of both) should have focused on physical assets, favoured former owners, and been financially unsophisticated. The mechanics of the process, which in overall conception is similar to those used everywhere in the region, is most fully described by Stryjan (Stryjan 1994: 17–18; see also *OECD* 1997: 66). The first element was to reassign to their historical owners, in keeping with the Land and Restitution laws, all movable and immovable property that had been put into the co-operative when originally formed. Next, the remainder, the net gain in capital and assets, was valued and allocated to entitled persons. Members and pensioners received 15 per cent of the total on the basis of length of service. A further 25 per cent was offered for sale to entitled persons at face value in an attempt to create a reserve fund for the successor enterprise, but few were sold and the unsold shares were returned to the share pool. The latter was distributed as shares to the entitled persons in three blocks: 50 per cent in proportion to the amount of land put into the co-operative; 30 per cent in proportion to the amount of capital put into the co-operative; and 20 per cent in proportion of years worked on the co-operative. Finally, the co-operative had to produce a business plan for its successor enterprise, or a liquidation proposal. Entitled persons who did not either immediately or within seven years decide to take out their shares and register as private farmers were entitled to the full cash value of their shares (which Stryjan likens to debentures) seven years after transformation.

These procedures rendered Czechoslovak co-operative transformation distinctive in five ways. First, by specifying the proportion of assets to be awarded to land, property and labour and biasing towards the first two, it greatly favoured outside owners. Second, consonant with the emphasis on complete restitution, entitled persons had a right to either their share of the co-operative assets in kind or the equivalent of their full value in cash. Third, in line with the anti-co-operative spirit of the law-makers of the time and their knowledge of a lack of enthusiasm for private farming (Hudečková and Lostak 1990) entitled persons had seven years in which to decide whether or not take their assets and farm privately. Fourth, in line with the cash or kind alternative, co-operative shares (or debentures as Stryjan prefers) were not formally tradable. Fifth, co-operatives had to operate in the knowledge that there would be a huge cash-call on their resources seven years after transformation.

In practice, these distinctive features paradoxically favoured the co-operative form's continuance, if they survived the transformation process, during which the influence of outside owners did in some cases destroy farms. Those with most shares in co-operatives, the outside owners, had least interest direct interest in their operation and were happy to let some one else farm for them: outside owners were too distant to interfere with production decisions. The existing managers or working members, even if they had a desire to start private farming, were usually not big land or property contributors. Hence they were unlikely to be major shareholders in their own right and were not in a position themselves to start farming with co-operative assets: they had to stick with the co-operative. Equally paradoxically, the seven year rule gave a permanency to the co-operatives: if they survived beyond 1992, the assumption was they would be around in 1999. These two features were supported by the absence of effective bankruptcy legislation. With little economic pressure for change, and no culture of experimentation and reform of socialist structures in the late socialist years, the co-operative form persisted into the post socialist era.

In the Czech Republic, these were the only factors at work. In Slovakia, conditions for the re-establishment of family farming were less propitious because the average pre-war land holding at around 5 hectares was much smaller than the Czech equivalent (Blaas and Wolz 1998: 106–107). This explains the small number of private family farmers, which is part of the reason for co-operative survival; but it does not explain Slovakia's equally striking small number of private corporate farms: 26 per cent of the total agricultural land in the Czech Republic, 36 per cent in Hungary but only 5 per cent in Slovakia (Swain 1998a). More important was the fact that the co-operative form became part of the attempt of the newly independent Slovak government to develop distinctive economic policies. The 'velvet divorce' was mainly about the assertion of national identity and the failure of the prime ministers of the constituent republics to agree about the nature of federation or confederation (Wightman 1993). When the Slovak bluff was called and the full independence granted that only a tiny minority demanded, the government set about implementing its own vision. But nothing develops out a vacuum. The policy differences between the Czech and Slovak Republics were in essence a national gloss painted on the policy differences which had existed in the former Czechoslovakia, disagreements about the pattern and pace of reform, and the evaluation of the socialist years. The liberal view of forty wasted years that informed politicians at the federal level was not shared everywhere, especially in the countryside, where co-operatives had given villagers a very comfortable life. It was particularly inappropriate for Slovakia, which had developed very significantly under socialism, and rather little during the period of the First Republic (Prucha 1995). In terms of economic policy, the assertion of national identity became inextricably linked with rejecting liberal privatisation policies and taking a softer line on the achievements of socialism.

With regard to privatisation, the government first hesitated. It postponed the second round of voucher privatisation, and all privatisation effectively came to a halt between the summer of 1992 and 1994. Subsequently the pace of privatisation began to increase, but in a new direction. Vouchers were converted into interest bearing bonds in 1995 (Swain 1998b), and the government reduced the influence of smaller investment funds, while placing the assets of larger independent ones in the hands of funds close to the government coalition (Miklos and Zitanansky 1997: 91–92). The emphasis switched to direct sales by the National Property Fund, dominated by representatives from the prime minister's party, which did not make public the criteria by which decisions were made (Miklos 1997: 110). The extreme neo-liberal rhetoric of the Czech Republic was thus rejected for a brand of capitalism which, if it could not directly be controlled, was beholden and subject to influence, a specific type of post socialist national capitalism based on 'lucrative concentrations of political and economic power.'[1]

The questionable justice of these opaque privatisations would have mattered little economically if the privatised companies had subsequently operated under hard budget constraints in a real market. But the Revitalisation Act of 1997, privileging selected 'important companies'[2] suggested the opposite. It seems that it is in the nature of economies where economics and politics are so closely intertwined that budget constraints are not hard. If influence is to be maintained, capital must flow to the privileged, to the loyal and not to the most efficient. Not surprisingly, Bratislava's stock exchange is the smallest in Central Europe, its value having fallen consistently since March 1994.[3]

In agriculture, independent Slovak policy was characterised by taking a softer line on socialist structures. The government declared a more supportive policy to the sector generally, dropped the anti-co-operative rhetoric and, although legislation was always neutral as to form, by favouring the status quo, it effectively supported co-operatives (Kabat and Hagedorn 1997: 274). In 1993, for example, the government was obliged to switch subsidies from environmental programmes to other areas, and the bulk went to supporting existing production rather than farm restructuring (Kabat and Hagedorn 1997: 234–235). It was in this context that a specifically Slovak co-operative hybrid emerged (Blaas and Wolz 1998: 108).

The potential cash-call seven years after was a cloud on the horizon of co-operatives in both successor states. Co-operatives clamoured for something to be done about this threat to their survival. Slovakia, with its pro co-operative stance, was the first to move. Following lobbying by the Association of Farming Co-operatives of Slovakia which regularly advises the Ministry of Agriculture, Act 264/1995 was passed amending the co-operative Transformation Law. (The Czech Republic passed similar legislation in the summer of 1998.) The long term threat to the future of co-operatives was removed by putting a deadline of February 1996 on members taking out their property shares in kind and replacing the shares of those who did not take their assets and start farming privately with 'share certificates,' real financial securities tradable on financial markets. Trade in the securities remains weak, however, mainly because co-operatives cannot register on the exchange until land registration issues have been settled. A survey in 1998 found that only 5 per cent of co-operatives were trading their shares on the appropriate securities exchange.

But the Act did more than this. It permitted the co-operatives to issue 'share certificates' to members who did not leave, at a value equivalent to their property share; and obliged co-operatives which issued the 'share certificates' to amend their statutes so that voting rights were related to the value of share ownership. Further, it encouraged the concentration of ownership back in the co-operative by farms buying up the 'share certificates' of outside members.[4] Slovak co-operatives were thus transformed into dualistic corporate forms in which co-operative principles coexisted uncertainly with elements of the limited liability

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1 Quoted from Business Central Europe (Swain 1998b: 200).

2 *Slovak Spectator*, April 10–23, 1997: 1.

3 *Slovak Spectator*, January 15–28, 1998: 5.

4 The legislation also specified that outside owners with 'share certificates' should become co-operative members. The logic of this provision is hard to devine (although it is in line with the notion of 'one share, one vote'), and following opposition from co-operative chairmen and others it was ruled unconstitutional in 1997.

company, a rather unclear capital structure not inappropriate for an economy where capital flows were opaque.

Section Two – Case Studies of Co-operative Transformation

Novy Dvor

Our first case study, Novy Dvor, is not an example of the persistence of the co-operative form. It is rather one of the relatively rare examples of the transformation of a co-operative into a successful joint stock company. What is of interest, however, is what being a joint stock company in the Slovak context entails, and how success is achieved and, more important, maintained.

Novy Dvor is a town of regional significance in southern Slovakia. The land is flat and the soil fertile, providing good conditions for agriculture. The Novy Dvor co-operative as it existed prior to transformation was the result of a merger in 1976 of the Novy Dvor co-operative with that in a neighbouring village. The Novy Dvor co-operative was itself the result of a merger in 1961 of two co-operatives, the first founded in 1949, the second in 1950. Although not successful in the 1960s and 1970s, the co-operative improved its performance in the 1980s. By the end of that decade it had 550 full-time employees (including 16 university graduates), paid wages just below the national average, made a loss on its livestock, but an off-setting profit on its cropping; it benefited from 124,000 crowns in subsidies and produced a small profit. In addition to cereals and livestock, the farm had a specialist horticultural unit which included apple orchards and vineyards and was also profitable.

After 1990, the co-operative suffered, as all Eastern European agriculture did, from the effects of price-liberalisation and the widening 'price scissors' that accompanied it. It responded by tightening up on labour discipline, specifically theft and drunkenness at work, the latter becoming a sackable offence. The dairy herd was cut, some cows being sold to the members, and the pig farm neglected. By the end of 1992 the numbers employed had fallen, but it had no debts.

Transformation proceeded in accordance with the Transformation Act. The 1510 persons entitled under the provisions of this law were made up of 101 individuals who were both co-operative members and owned land that the co-operative farmed, 899 land owners who were not co-operative members, and 510 people who were co-operative members but did not own land. Of the 611 members, 340 were full-time employees and 271 were inactive. At the succession of general meetings of entitled persons specified by the Act, the management succeeded in persuading the vast majority of them that transforming the co-operative into a joint stock company was the best solution. No alternative transformation project came from a membership accustomed to accepting management decisions and without the resources to devise an alternative project for themselves. Only 18 entitled persons decided to start farming on their own, some of whom applied unsuccessfully to rejoin, and they received their final settlement at the end of 1995.

The underlying rationale behind the move was to maintain company stability, both immediately and long term. Once established as a private company, members (now shareholders) were prevented from taking physical assets from the farm, and the spectre of repaying property shares seven years after transformation was removed from the horizon. This was an understandable concern given the high numbers both of outside owners and members who did not own land.

The legal successor to the co-operative, the 'Farmer' joint stock company, was formally established on 1 January 1993. Two types of share were issued, preference shares, not tradable without the approval of the Board of Directors, and ordinary shares. Founding shareholders received one preference share with a value of 5000 crowns and a number of ordinary shares, valued at 5000 and 1000 crowns, in proportion to their share of the co-operative's assets. But only preference shares gave the right to vote at shareholders' meetings, so continuing a 'one member, one vote' principle. Each founding shareholder was also obliged to put 1000 crowns to a Reserve Fund.

In 1993 the company farmed 3,470 hectares of land of which 1,800 hectares was rented from shareholders, 1,430 hectares was 'non-identified land' rented from the State Land Fund, and 240 hectares was rented from private individuals who did not want to become shareholders or take up private farming. The organisational structure remained essentially unchanged, and although the quality of milk improved, the dairy herd was further reduced and the pig farm continued to stagnate. The number of employees fell slightly to 292, and the year ended with a profit of 8.7 million crowns, mainly because of increased subsidies and agricultural purchase prices. In 1994 the company's agricultural activities continued much as before, but it embarked on an important new departure when it set up a business providing after sales service for the agricultural machinery of a major western company. It also took on 18 new staff. By 1995 all sides of the agricultural business were performing well and to high quality standards; and the company was in receipt of generous subsidies. Generally the area under crops which were profitable were increased, while engagement in less profitable livestock farming was reduced. The labour force stood at 280 (including 46 in management and administration) at the end of the year and received an average monthly wage that was substantially higher than that of the agricultural sector as a whole. The company also introduced a system of performance related pay and made branch managers individually responsible for the success or failure of the parts of the business under their control. By this time it was the second most profitable agricultural company in the region and paid the seventh highest wages.

As the comments on managerial responsibility and performance-related pay above suggest, the company has been rather slow to introduce structures that are run-of-the-mill for western companies and which had long existed under late socialism in more reformed economies. The persistence of socialist patterns of management are visible elsewhere. Internal management information documents monitoring the performance of the company retain the socialist practice of comparing planned performance with actual performance and the extent to which the two differ. All large companies plan, of course, but a joint stock company is normally more concerned with profits and the state of its balance sheet than the extent to which plans were or were not fulfilled. Further, the company continues to function with very much the same organisational form as in the socialist years, and management remains essentially centralist. The centre decides on investments and redistributes profits. It also generously continues to devote almost a quarter of a million crowns to cultural events, a summer camp for the children of employees and renting a holiday facility in the mountains.

There are other features of the company which distinguish it from the conventional western joint stock company. The original shares were issued to insiders only, as already noted, and the company is keen to prevent other companies from buying its shares. It is not listed on the Bratislava stock exchange, is not aware of any significant external owner of shares, and would discourage any attempts by outsiders to buy into the company. In 1996 the company reported that it was going to increase its capital, and new shares were issued the following year. But this was an essentially internal operation. In addition to the preference shares valued at 5000 crowns and ordinary shares valued at both 5000 and 1000 crowns, the company introduced new shares with a nominal value of 2000 crowns. But the shares were issued to employees only, with management receiving bigger allocations than the ordinary workers. The primary motivation appears to have been to make management financially more interested in the success of the company rather than to attract additional capital. The logic of the joint stock company form is that it facilitates the in-flow of external funding. Funding of the 'Farmer' company remains, however, an internal affair.

Although the company's capitalisation and management information practices do not reflect the western norm for the joint stock company, there is no denying its success. The reasons for this would appear to be threefold. First, it has been successful in gaining access to investment subsidies. In 1993 investment subsidies of almost five million crowns helped with the purchase of a combine harvester and seeding equipment. In 1994 investment subsidies of roughly half that amount contributed to an animal feed mixer, computers and tractors. In 1995 investment subsidies of around four million crowns helped with the improvement of its apple business – apple grading equipment, to be followed later by a new warehouse. In 1997 investment subsidies totalled just over five million crowns again. This success was not a matter of luck. The director of the 'Farmer' company has friends in high places. One friend in particular is on the Board that decides on the allocation of investment subsidies; although, since he is a co-operative chairman, it is always more prudent for the 'Farmer' chairman to apply for support in areas where the co-operative chairman is not himself active.

But access to subsidies is not the only reason for the company's success. State subsidies were important to farm performance, but they covered only around 20 per cent of total investment in the years under consideration. Two other factors would appear to be of significance. First, the company has a sound business orientation for is agricultural business. It focuses on high quality products, high yield varieties, seed corn, edible maize for the German market, and bread grains which are sold directly to the mill. A new line is the production of organic asparagus mainly for export markets, for which they have established a subsidiary company (in which they have the majority share holding) with a partner company.

The second factor promoting success would appear to be its diversification into servicing agricultural machinery. The business, which began with the products of just one major western producer of agricultural machinery, has been expanded to take on two more makes. Although the contribution of this non-agricultural business is rather small in terms of turnover, producing in 1997 roughly ten per cent of the income from cropping, its potential contribution to profits is much higher.

The Novy Dvor case illustrates two things. First, it suggests that company form is not of great significance in an economy where the stock market is small and weak, and lobbying is as important as the state of the balance sheet in the allocation of investment funds. 'Farmer' is a joint stock company on paper, and this has probably increased the profit-orientation of management and labour alike, but this has not resulted in extensive structural reorganisation, nor has the company made use of the capital-raising potentials inherent in the joint stock company form. But, second, it demonstrates that access to the lobby is not enough for success. Budget constraints may not be hard, but neither are they entirely soft. A successful agricultural company like 'Farmer' has to have a sound business strategy and has to contemplate moving beyond agriculture alone if it wants to operate profitably.

Vinohrad

One interpretation of the events in the village of Vinohrad is that a traditional co-operative form was re-imposed after a failed experiment with looser, more capitalistic forms of organisation. That is to say, it suggests not merely the survival of the co-operative form but also its re-assertion. The reality, however, is much more complex, and to see developments in terms of co-operative versus private company is to miss the point.

Vinohrad, located near the confluence of the Vah and the Danube in the south of Slovakia, is a village which has declined in significance. It was a district capital for a time before this status was transferred to Sturovo in 1873 because of the latter's better communications. It became even more peripheral when the Danube became the border of the new Czechoslovakia. Its population, predominantly ethnic Hungarian (84.7 per cent in 1991), declined by almost 30 per cent in the 30 years between 1961 and 1991.

Its first co-operative was established in the 1950s and this then merged with the co-operative in a neighbouring village in 1975. The headquarters of the new co-operative remained in Vinohrad. By the end of the socialist period it was farming a total of 3392 hectares of agricultural land, 2836 hectares of which was arable. It had 2221 head of cattle, 2836 pigs, and 342 sheep. Its milk yields were significantly above the Slovak national average, but livestock farming taken as a whole operated at a loss: the pig farm alone operated profitably. Yields from cropping were below the average for the region, and economic results generally were poor compared with other farms operating under comparable climatic and soil conditions. Labour productivity was low, 'artificial employment' high, and there were relatively few university graduates on the staff. The co-operative had 350 members employed full time, of which 56 worked in management and administration. Production was organised in five units: a cropping section with a sub-unit in each village; a specialist horticulture/viticulture unit with an orchard in Vinohrad and vineyards in both villages; a livestock section with a unit in the neighbouring village and three sub-units in Vinohrad, one of which was a high capacity cow shed; a technical services section comprising transport, fuel, workshops and a construction brigade all based in Vinohrad; and some non-agricultural activities which sub-contracted to the metal-working industry. The co-operative made a profit of 4.8 million crowns in 1989, but this was translated into a 1.9 million loss in 1990 and a huge 12.5 million loss in 1991, due mainly to the widening price scissors.

Given this precarious financial situation, it is not surprising that there was a change of management. The person elected chairman was an ambitious, forty year old former agronomist who had close contacts with the Association of Co-operatives which had recently been formed by former officials in the Ministry of Agriculture and who retained good connections with the political establishment. This new chairman was the driving force in the co-operative transformation of 1992. But even before legal transformation some important restructuring measures had been taken when, at the instigation of the new chairman in March 1991, the equipment of the technical services section was leased to the employees who subsequently all became independent self-employed subcontractors. Some 35 former employees became sub-contractors in this way, although by 1996 their number had fallen to 15.

Under the 1992 transformation, the co-operative separated out again into the two farms that had been merged in 1975. The co-operative in Vinohrad transformed itself into a 'co-operative of entrepreneurs in agriculture.' The membership fee in the new co-operative was set at 30,000 crowns, with the result that of the 1222 entitled persons, only 444 became members. Voting rights in the 'co-operative of entrepreneurs in agriculture' is not based on 'one member, one vote.' The entrance fee entitled members to one vote, but each bundle of 30,000 crowns share in the co-operative gave an additional vote. Most members had between three and five votes, but the largest shareholders had around 15–17 votes.

The transformation project envisaged at the time, inspired by the chairman's contacts in the Association of Agricultural Co-operatives, proposed the creation of something similar to what the Hungarians term the 'holding co-operative.' The co-operative itself would not engage in production but rather hold shares, controlling interests of between 60–90 per cent, in new private companies to be formed in each of the co-operative's former spheres of operation. Machinery services would be provided by the self-employed subcontractors set up in 1991. The co-operative would restrict its activities to paying rent and dividends, redistributing profits between the various subsidiary businesses, and providing financial and other commercial services.

But the transformation project was never implemented as originally envisaged. For 1993 and half of 1994 it continued to operate more or less as before, as a traditional co-operative. Although the number of full-time employees fell by almost a half over this period, from 245 to 126, contributing to the village's overall unemployment rate of over 30 per cent, results were not good and the co-operative continued to produce at a loss. In July 1994 the establishment of subcontracting units was begun, but, crucially, not on the basis of capital participation. The subcontractors, whether limited liability companies or private individuals, simply rented co-operatively owned assets.

The first development, on 1 July 1994, leased the specialist horticulture/viticulture unit to a limited liability company established by its former management, the lower pig farm to a private individual (its former manager), the mushroom-growing unit to a private individual (also its former manager), and the petrol station part of the former technical services unit, also to an individual. The repair shop was rented to some one from outside the village who set up a garage in it. Demand for repair shop services in the village all but disappeared when the machine operators became self-employed contractors: they saved money by repairing their machinery for themselves. The second stage in the process took place at the beginning of 1995 when the cropping and beef and dairy units were rented out to limited liability companies, the latter headed by its former manager, the former by the co-operative chairman.

Over the course of 1995 it gradually became apparent that this lease-based arrangement was not going to work, that the necessary financial guarantees were not in place. The co-operative was already falling behind paying the taxes that it owed to the village. This was exacerbated when the subcontracting units, especially the cropping one, failed to pay the rents that they owed to the co-operative. Whether this was intentional or the result of poor management decisions is a matter of some dispute. In the cropping unit, the decision to grow poppy seed, which they were finally unable to sell, suggests bad management. The establishment of a subsidiary company in order to farm some church land in the far east of Slovakia in order to qualify for special subsidies for farming poor land, and the purchase of tractors and specialist machinery with the help of investment subsidies, suggests that the company had the financial means to meet its rental obligations.

The non-payment of rent on the part of the cropping company not only meant that the co-operative could not pay its taxes to the village, it also meant that it could not pay the land rental that the land-owners of the co-operative were due. The cropping company did not rent from the individual land-owners. It rented the land, 1712 hectares in all, in a block from the co-operative; and it was up to the co-operative to pay the individual land owners. But, self-evidently, the co-operative could not pay the owners if it did not receive its rent from the cropping company; and, increasingly, it did not.

By September of 1995 these conflicts of interest reached a head. Those with the largest membership shares in particular were infuriated by the non-payment of rent. Using, in part, a rather populist rhetoric against the chairman and management who were 'newcomers' with no land and few shares in the co-operative, they mobilised sufficient of the other members to stage a boardroom coup. The chairman (who had organised the transformation and was apparently siphoning assets into his private company) and all the existing management was sacked. They were replaced by a management made up of those who were holders of larger shares in the co-operative. The new chairman was a 56 year old man who had worked in the finance department of an electrotechnical company. He had no background in agriculture and lived in the nearby district town. His mother lives in Vinohrad and he acquired his share-holding through her. Once the new management had taken over, it started, in January 1996, crop production of its own on 300 hectares of State Land Fund land. The rationale behind this was threefold: it wanted to generate some income of its own to begin repaying its outstanding taxes, it wanted to be in a position to give members some benefits in kind at least if it could not immediately pay them their rent, and it felt duty bound to supply the cattle farm with the fodder it required and which the cropping company had been reluctant to do.

The co-operative was unwilling, initially, to take action against its subcontractors, even though non-payment of rent constituted a clear breach of contract. Finally, in March 1997, the co-operative unilaterally broke the contract with the cropping company because of its persistent failure to pay rent. The company folded, but its founders immediately set up a new one which still operates in the region. The scale of the co-operative's cropping activities grew correspondingly after this so that it farmed approximately 2000 hectares, nearly all of the socialist co-operative's arable land. But by this time it provided employment for only 24 of the 420 members.

The specialist horticulture/viticulture company is the only one of the subcontractors to pay its rent in accordance with the contract, and the co-operative has no plans to get this part of the business back. It has planted 115 hectares of vineyard itself and has schemes to develop its two wine-cellars for rural tourism. The co-operative is keen, on the other hand, to get back the pig unit and the beef cattle and dairy farm, although it does not envisage making moves in that direction until the existing contracts run out in the year 2000. By mid-1998, the co-operative had repaid virtually all of its back taxes to the village, and relations between the chairman and the mayor, which had once been frosty, were cordial.

As noted above, one reading of the events in Vinohrad would be to see it as a reassertion of a relatively traditional co-operative form after the failure of an experiment involving private limited liability companies. But such a reading neglects many of the facts. First, there was little that was traditional about the co-operative. What was set up in 1992 was a 'co-operative of entrepreneurs in agriculture,' and that form was retained in 1995; but in the 'co-operative of agricultural entrepreneurs in agriculture,' the principle of 'one member, one vote' had already disappeared. It is much more slimmed down in form than the traditional co-operative, and the leading lights are not former managers but the heirs of the richer peasants of the pre-collectivisation era. Second, the problems encountered were not so much problems inherent in the subcontracting form, but the non-payment of rent, a delinquent disregard for the terms of the contract. There are, in fact, many problems inherent in 'holding co-operative' solutions, especially when they are based on rental arrangements rather than capital participation, and they all tend to have a centrifugal effect; but here the problem was that the biggest subcontractor behaved unethically. The only solution that the co-operative had, other than to wind itself up, was to engage in production itself in order to pay back the debts that the subcontractor had passed over to it. The co-operative idea was never an issue. The co-operative was essentially a private company under a different name, and the events of 1995 were a boardroom coup by the larger shareholders to protect their interests against a management that was effectively trying to transfer co-operative assets to other companies that they owned.

Jasno too could be seen as an example of the traditional co-operative reasserting itself after an experiment with looser forms of organisation reminiscent of Hungarian 'holding co-operatives.' But this too would be a misreading. The company form was unimportant to the pattern of events: it remained a co-operative because, in the words of the chairman, 'what else would it be?'

Jasno, situated on fertile soil to the north of Bratislava, has a long tradition of agricultural success, beginning in the nineteenth century when the local land owner introduced progressive farming methods. In the socialist period it became something of a show-place where visiting Soviet dignitaries were taken to see a farming success. Collectivisation in the two smaller villages administered from Jasno was unproblematic and complete by 1950. In Jasno itself, there was more opposition and 'brutal pressure' was required before the village became wholly collectivised in 1957. In the 1970s the co-operative was merged twice, first in 1974 when it became the centre of an expanded farm including three other neighbouring co-operatives, then, in 1976 when a further one was added. In addition, significant non-agricultural ventures were introduced during the 1970s and 1980s, focusing particularly on light engineering and the production of cattle feeds. By the end of the socialist period these were producing more income than agriculture. At this time, the co-operative was farming around 2500 hectares of land, mainly cereals and especially maize. Its livestock activities focused on dairy cows (1600 in 1988) and pigs (9000 in 1988). The dairy herd was located in a single facility and milk yields per cow over the decade increased to 5,200 litres, pig farming, on the other hand, took place in three separate locations. The total membership of the co-operative in 1998 was 750, of whom 477 were employed full-time, and 77 worked in management and administration. The co-operative also supported the village crèche and kindergarten and a sports club; and it had its own folk dance ensemble.

Even before co-operative transformation, some 35 entitled persons had reclaimed 126 hectares under the 162/1990 Act. Transformation itself took place in accordance with the 1992 law and the 1596 entitled persons (636 members, 457 with a registered ownership interest and 503 land owners whose claims were not yet supported by legal title) accepted the transformation project submitted by the chairman. No counter strategy was proposed by any group at this time. Following the transformation, the membership fell to around 560, even though the membership 'fee' for outsiders was relatively low at 6000 crowns. The number of members employed fell dramatically to around 200, morale amongst the labour force was low, especially in the pig units, and an increase in theft of tools and equipment was recorded. At the end of the transformation year, livestock farming made a loss, but profitable cereal growing meant that the co-operative could still return a modest profit. Luckily it carried over no debts from the socialist period and even had a sizeable reserve fund; and, because of its good reputation in the socialist years, it found it easy to raise bank loans.

The most significant aspect of the transformation project was to develop a form of 'internal privatisation' within the co-operative. Individual operations were rented out to individuals, usually their former managers, who bought the inventories and stock (but rented the sites), usually with the help of a loan from the co-operative, and then operated them as private entrepreneurs. The rent was set at 3 per cent of the value of the assets, and the contracts stipulated that there could be no reduction in the size of the labour force. This development was the brainchild of the co-operative chairman, and many of the former managers were rather unhappy about their new status as entrepreneurs. Although, as 'new' private farmers, they did not have to pay land tax for five years and benefited from income tax concessions, they had no experience of farming privately and the requirement to maintain employment levels was a significant burden, especially in units which were loss-making. The machine workshop, transport unit, construction unit and a pig unit in Jasno itself were 'privatised' in this way in 1992. Other units, including two of the three cropping units, were 'privatised' from the beginning of 1993. The dairy unit, however, together with one cropping unit and the feed-mixer unit remained fully within the co-operative. Finally the last cropping unit, 923 hectares together with machinery and a repair shop, was 'privatised' in 1994 to a former agronomist. Most of the 'privatised' operations, even the previously loss-making pig units, succeeded in operating profitably. However, in 1994 the lease-holder of the pig unit in Jasno was unable to pay his debts to the co-operative. The contract was terminated and the whole unit closed down.

Part of the rationale of the 'internal privatisation' solution was to generate additional income so that the co-operative would be better placed to repay property shares to outside owners. A further element of their post transformation strategy was to reduce the potential influence of members (especially outside members) by buying them out. In late 1992 and 1993 the management 'convinced' many members to give up their membership in return for cash. Co-operative membership, which was 561 immediately following transformation, fell to 480 by the end of 1992 and 194 by the end of 1993.

In the increasingly tight financial conditions of 1993 and 1994, when the co-operative was owed almost 15 million crowns by customers who did not pay their bills and the newly privatised non-agricultural businesses which did not pay their rent, the 10 million crowns worth of assets owed to individuals who had left the co-operative and wanted to farm for themselves signified a significant drain on resources. Despite this, thanks to success in gaining investment subsidies and the general relief on payroll taxes that year, a small profit was recorded in 1993. In 1994, however, despite subsidies of 1.5 million crowns, the co-operative recorded a loss, although reserve funds accumulated from the socialist years and early 1990s meant that it could enter 1995 free of debt. Perhaps more worryingly, milk yields plummeted, reaching 1970 litres, and 126 animals were lost, mainly due to declining labour discipline. The number of full-time employees also fell dramatically from 186 in 1992 to 68 in 1994 (although this figure does not include those working in the subcontracting units). The age and educational structure of the labour force also deteriorated. Early retirement reduced the number of older workers, understandably, but the number of workers under 30 also declined, as did that of those with a university degree.

By 1995 therefore, financial results suggested first that the dairy unit, the only agricultural activity that the co-operative was directly involved in, was in crisis and that the 'internal privatisation' was not proving as beneficial for the co-operative as might have been expected. Furthermore, there was some dissatisfaction amongst sections of the co-operative membership that the co-operative was not being run properly. There had been no General Meeting held, for example, for two years.

It was at this point that Mr. Moric, who became chairman of the village organisation of Prime Minister Mečiar's Movement for a Democratic Slovakia (HZDS), came onto the scene. At the time Moric was not a member of the co-operative. He had left the co-operative in 1992 and worked for two years in Germany. His original plan was to establish his own beef farm in the area and he entered into discussions with officials within the Ministry of Agriculture. The officials did not look favourably on this proposal, but, anxious about developments in Jasno, suggested that he take over an existing co-operative. Capitalising on the discontent within the Jasno membership, and criticising the previous management for selling co-operative livestock in order to settle the property shares of outsiders, Moric initiated a General Meeting to evaluate co-operative performance. At this meeting, in May 1995, a new board was elected and Moric became general manager. His policy priority, announced at the meeting, was to improve the disastrous situation in the dairy farm. In order to do this, he, unilaterally, without compensation, and in the middle of the agricultural year, moved to cancel the leasing arrangement with the cropping unit in Jasno. The work force was persuaded to accept the change by the promise of higher salaries, achievable by providing them with alternative dairy jobs in the slack season. The former lease-holder was re-employed as manager of the unit, retaining control of all production decisions. But financial responsibility reverted to the co-operative, which was thus able to transfer profits to balance the loss-making dairy farm.

In the knowledge that he was operating with the approval of the Ministry of Agriculture, Moric invested heavily in 1995, liquidating 10 million crowns from the reserve fund, taking out a bank loan for 5 million crowns and receiving one million crowns in government subsidies. The co-operative refurbished the Jasno pig unit and planned to increased it to the 9000 pigs of the socialist years, and it set itself the task of improving milk yields to 6000 litres. The co-operative made a loss of 1.5 million crowns in 1995, less than the 1994 loss, and a small profit in 1996. Having taken back the crop unit, it employed 95 in 1995, and 82 in 1997, the reduction being attributable mainly to retirement. The policy of trying to buy out outside owners continued, facilitated by the 1995 amendment to the 1992 Transformation Act.

But, despite this high level of investment, despite visits around the globe in search of the perfect dairy herd, and despite regular lengthy visits to his patrons in the Ministry (less than an hour away by car), Moric's management of the co-operative was far from successful. Financial problems continued, and milk yields, although improved, were still no more than their socialist level. Furthermore, financial problems could not be blamed on the high level of 'circulating debts' in the agricultural sector in Slovakia, because the farm was in a better situation than most. They finally found a dairy which paid regularly, and only sugar beet processors were bad payers. The co-operative did eventually pay some rent (in kind) to land owners in 1997, but it was less than half of what it should have been. It was obliged to sell to one of the non-agricultural successor companies the building that it rented in order to raise cash to pay wages. It fell behind on its tax payments to the village council, and, with profits in 1997 of only two million crowns, it was hardly doing more than breaking even.

In this situation of financial uncertainty, the decision to go along with the desire of the lease-holder of the cropping unit in a neighbouring village to set up an independent business was entirely reasonable. The lease-holder, its former manager in socialist times, had long complained of problems with the rental agreement. Neither lessor not lessee was interested in maintaining, let alone improving, the buildings and infrastructure, and they were falling into disrepair. The increasingly cash-strapped co-operative recognised that sale of the assets represented a means of generating cash and pressed a hard bargain. The asking price was four times higher than its valuation in 1992 at the time of co-operative transformation. The lease-holder accepted because it meant that he was finally free to put the buildings to whatever use he wanted, and he could invest in the site in a way that the co-operative had been unwilling and unable to do. The sale was partly for cash and partly a debt-swap. The new business paid the co-operative 15 per cent in cash and the rest by taking over co-operative debts.

The organisational form of this new business is of interest. First, it is nominally a co-operative. Second, it is a co-operative of a rather unusual form. The decision to establish a new business as a co-operative, especially when it is effectively a one-man business and the leading figure was its former socialist manager, might seem a little unusual. The reason was pragmatic rather than ideological. The founder's primary motivation was that he simply felt that co-operatives were the main business form in Slovakia, and, because of this, that governments would be less likely to take measures or enforce legislation that might result in them being wound up. It was a safer form for Slovak conditions; and it was also one with which people felt comfortable.

The capital structure of the co-operative was similar to that of the co-operative of entrepreneurs in agriculture in Vinohrad. The minimum compulsory contribution for each member was 100,000 crowns, payable over two years after an initial deposit of 5000 crowns; and this entitled the member to one vote. An investment of 200,000 crowns gave two votes, and so on, up to a maximum of ten votes. The principle of 'one member, one vote' thus did not hold. But, unlike Vinohrad, the co-operative is essentially a capital entity, with no employment relations. The co-operative as a body does not employ anyone. All employment is on the basis of individual private contracts. In theory all co-operative members are at liberty to set up businesses as part of the co-operative, and employ insiders and outsiders as they see fit: the co-operative is a form of capital umbrella. In reality, given the low level of entrepreneurship encouraged by socialist agriculture, it is only the former lease-holder and socialist boss who employs anyone. He employs all of his former staff, on a full-time basis, as a registered private farmer.

In Jasno too, it is possible to see events in terms of a swing away from the co-operative form, followed by a swing back to it, in as much as the Jasno co-operative took back one of its former independent units, and the seceding business took on a co-operative form. But here too, this would be a misreading. The Jasno co-operative took back the cropping unit for commercial and not ideological reasons; and it only took back the cropping unit, nothing more. Similarly, the reasons for the new business adopting the co-operative label were pragmatic and defensive, and the 'co-operative' was organised in a far from traditional form.

One lesson from the Jasno case, then, is that co-operative versus private company debate is of little significance. The label co-operative covers a multitude of corporate forms, some traditional and some rather innovative. A second lesson is that, although political influence can be helpful in getting control of a business, as Moric's boardroom coup demonstrated, a great reliance on lobbying after acquisition and neglecting to innovate and adjust to the market also seems to lead, in the end, to corporate failure. Hard budget constraints win out long term. Although it is conceivable that Moric will survive personally by abandoning the sinking ship, taking with him as much as he can extract from it as possible (the view of some critical voices in the village), the co-operative itself is in a crisis that will require radical measures to solve.

Conclusion

Our discussion of national policy developments and, more importantly, actual grass-roots practice suggests the following three conclusions. First, the survival of the co-operative in Slovakia is the survival of a label rather than a real company form. The label in fact covers a wide array of organisational types. Second, the survival of the co-operative label is related to the nature of Slovakia's post independence economic structures in which legal form is of less significance than interpersonal relationships of patronage. Third, beneath the label, developments are not so very different from elsewhere, although they are perhaps evolving more slowly. On the one hand, a gradual process of capital concentration is taking place in the larger structures such that they increasingly resemble limited liability companies. On the other hand, smaller, dynamic entities are breaking away to farm independently, either as one-man businesses (the new co-operative in Jasno) or as slimmed down companies (the co-operative at Vinohrad). To read the survival of Slovakia's co-operatives as the persistence of a socialist form, or as some kind of socio-economic immunity to the forces which are transforming the rural scene elsewhere in Central Europe would be radically to misunderstand the Slovak countryside.

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