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# National Report of Hungary

## EMPLOYEE OWNERSHIP IN HUNGARY

### *1. The notion of employee ownership*

**Employee ownership in a broader sense of the term** means that the employees of the company are partial owners. **In a narrower sense**, however, in legislative and technical literature in Hungary it means employee ownership created and maintained by the employees' preferential joint ownership acquisition. Hereinafter employee ownership will only be referred to in this latter sense.

By the term **employee ownership** we mean that employees own a stake in a legally regulated form and operate their partial ownership created in any legal form within their employer company. This means **entitlement** in an enterprise to:

- participate during its lifetime in ownership decisions (rights of participating in decisions at the general assembly), and
- have a share in the capital income during lifetime of the enterprise, to have a share in case of liquidation without a legal successor (liquidation proportion) of the unencumbered net assets (collective term: property rights).

Employee ownership also means **self-employment**. In this sense, employee owners are primary producers, a form in its traditional form as old as private ownership. Under free market circumstances contemporary form of employee ownership is the ESOP<sup>1</sup> form, which emerged in the United States in the 1950's, and achieved a high level of development until now.

### **The major social and economic advantages of employee ownership**

The major advantages of employee ownership, resulting from the implementation of the above-mentioned ownership rights are as follows:

- It increases employee interest in the maintenance and success of the company, as they are both employees and co-owners. This generally removes the usual tensions or eases the clash of interests between labor and management at these companies, especially in the case of majority employee

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<sup>1</sup> ESOP=Employee Stock Ownership Plan (The equivalent of the Hungarian MRP in English)

partial ownership. All this increases stabilization on both the corporate and political level.

- As partial owners, employees are entitled to gain access to all information regarding the company that can be obtained by any other owner, but to which, by the terms of conventional employment (labor conventions), workers have no legal access.

- In proportion to their partial ownership, employees, as an entitlement independent of their employment status, obtain capital gains and participate in the corporate decision-making process. In case of conflicts with the other owners or management, involvement of outsider (labor unions) intervention may be required.

- It has a beneficial effect on quality insurance, employment and profitability, all of which further the stability of the company.

- All of the above create positive conditions for the involvement of outside investors, which may reduce the need for loan capital, thus increasing the profitability of the company.

## **2. Review of history of economy**

### **2.1 *The nationalization of the production economy in Hungary (1929-1989)***

In 1949 in Hungary the form of government was changed from republic to “people’s republic” as announced by the Constitution issued on August 20, 1949. Subsequently, the production economy gradually transformed from a market economy to a planned economy, and the form of government first became a “people’s democracy” and then a socialist state.

As a consequence of the nationalization of all private enterprises employing at least 10 workers In the organizational structure of the production economy the state sector got top priority according to the Constitution, modified on August 20, 1949. The state sector was represented by the state farms in agriculture and by state companies in the other branches of the economy.

Secondary priority was given to the cooperative sector on the basis of its importance in production economy, mainly in agriculture, created by the enforced collectivization of small private farms, crafts guilds and retail outlets.

The private sector, which was given third priority in 1949, mainly as a provider of goods and services, gained more and more importance in the market. This was

due to the voluntarily created joint enterprises<sup>2</sup> established at the beginning of the 1980s.

## **2.2. The privatization of the production economy in Hungary (1989-1998)**

On 23 October, 1989 the form of government in Hungary was transformed back from a “people’s republic” to a *democratic* republic, and its production economy *from a planned economy* into an officially recognized market economy. However, this process had already started by the end of the 1960s with the beginning of the realization of the *socialist market economy*. It gained momentum in the 1980s with the creation of the so-called *second economy*<sup>3</sup>, with special emphasis on the fact that the development of the private sector had started to develop considerably in the form of small enterprises (economic collectives and small cooperatives).

### **The privatization of the production economy in Hungary**

#### **A. Start - at the end of the 1980s:**

- Act VI of 1988 of the economic companies
- The passing of Act XIII of 1989 regulating the transformation of state companies into joint-stock companies and limited liability companies
- Application of these laws

#### **B. Acceleration:**

- The leading role of the state sector was cancelled from the Constitution on 1989, October 23;
- The privatization acts<sup>4</sup> were passed during the 1992 spring session of Parliament and
- The Act XLIV (MRP) of 1992 on the Employees’ Partial Ownership Program was passed and applied.

The privatization of the market sector was basically completed by the end of 1998. At that point, the bulk of the Hungarian GDP was generated by the private sector. Today, in effect, only the following elements of the privatization process are available:

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<sup>2</sup> Companies, as well as voluntary joint ventures were established and operated by the employees of the state-owned enterprise with its means of production. Today these are mostly operative in the form of unlimited partnerships and small cooperatives.

<sup>3</sup> Employees received the opportunity to establish enterprises in the form of corporate economic teams, which controlled some of the means of production of the social sector, under the term “unlimited partnership”.

<sup>4</sup> §12 (1) Act LIII of 1992 was passed, which dealt with the handling and utilization of wealth which had long been considered the property of the state. Subsequently, Act LIV of 1992 was passed dealing with the trading, utilization and protection of the wealth temporarily kept in state custody.

- The partial privatization of previously nationalized companies, e.g. the legal successor companies, which still operate as monopolies or oligopolies. (The extent to which nationalized assets remain in state property is regulated by law.)
- The sale of company stock, at present still minimal, is however significantly present in nominal value in the companies to be totally privatized.

During the eight years of privatization three phases can be distinguished:

1. The **cash privatization strategy** inherited from the socialist era lasted until September 1992.
2. The **preferential privatization strategy** was the next phase, which put stress upon the property acquisition of Hungarian citizens and among them of the employees. This phase started in September 1992 with the introduction of the privatization program instituted by the conservative party that won the 1990 parliamentary elections and had lasted till the end of the government cycle in May 1994.
3. The preferential privatization strategy was followed by a new cash privatization strategy proposed by the social-liberal government that won the 1994 parliamentary elections. This strategy was accepted by Parliament and introduced by Act XXXIX of 1995 in April 1995. It is still in effect.

During the entire process of the privatization of the competitive sector, financial policy was characterized by tying up the public savings, which are the bulk of Hungarian capital apart from the productive capital. Interests on deposit in the banks were significant, but much lower than the rate of inflation. The issuing of government securities guaranteed by the government budget, and ensured significant outputs.

Hungarian citizens, according to the privatization strategy, obtained a share of the privatized state assets in the proportions as follows:

- |   |                        |                         |
|---|------------------------|-------------------------|
| • | Until the end of 1992: | one-third               |
| • | 1993-1994:             | two-thirds              |
| • | Since 1995:            | only about one-seventh  |
| • | Altogether:            | approximately one-third |

In the competitive sector about five percent of the capital of privatized enterprises of the country went into the hands of the 300 MRP (employee share ownership) organizations<sup>5</sup> that were created with the aim to conduct preferential employee ownership acquisition.

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<sup>5</sup> In about one sixth of the approximately 1800 economic companies (transformed from state-owned enterprises into joint stock or limited liability companies) have been MRP organizations established, most of which submitted a competitively bid for majority or minority ownership of the employer company.

### **2.3. The development types of employee ownership**

Employee ownership in Hungary was first developed in the form of cooperatives. Later the economic (joint stock or limited liability) company form was developed and remains in operation according to the following:

#### **2.3.1 The development of employee ownership in co-operative form**

Hungarian cooperatives could be established as trade companies (presently known as enterprises) from 1875 on, according to the law of commerce of that year, only **until 1949**, at which time the socialist planned economy was introduced. Until 1949 they had functioned as *non-profit trade companies*.

**After the nationalization this type of cooperatives**, and the collective farms which were **created in the socialist production economy**, differed from the earlier model in their character. The stipulations of **collective farm membership**, i.e. the employees' social security, retirement plan and the protection of the right to work, became practically identical with the conditions of employment in state owned companies. However, the collective farm members were obliged to underwrite the collective shares that served the purpose of *increasing the collective capital*. The sum of these shares/stocks were withdrawn in installments from the salaries of the collective farm members<sup>6</sup>.

In the case of the termination of membership, the former member (or his heir) was and still is entitled to the value of his share/stock. **As a result of the change of regime of 1989**, Act I of 1992 endeavors to regulate the ownership relations in the cooperatives again on the pattern of cooperatives operating in developed market economies as follows:

Until 1992, the bulk of the capital of the co-operatives was made up of the cooperative wealth that was the **indivisible property of the group of citizens incorporated voluntarily** in the co-operatives. In industrial cooperatives this property, accumulated over the course of decades, originated in the intake of production facilities – in the 1950s mostly imposed by mandatory monetary contributions, while in agricultural cooperatives it was the forcefully collectivized arable land.

**Starting in 1992 a considerable part of this indivisible common property was divided as securities and as cooperative business shares** to the members. The ownership of cooperative business shares cannot be unilaterally withdrawn from the company; they can only be sold. In cooperatives – different from enterprises – the cooperative law doesn't determine the sum of either business shares or that of the business share capital.

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<sup>6</sup> This is the closest approximation to the practice of enterprises sharing non-preferentially issued stock upon payment for the employees of an enterprise – in a closed circle – and serving the increase of capital, or in the case of limited companies, closest to investment.

### **2.3.2 The development of employee ownership in enterprises**

In Hungarian legislation, privatization was well preceded in **state-owned companies** by granting the employees some profit of the company (**profit interest**), then by the practice of offering employees partial ownership. The employees have had a share of state-owned companies' profit since the late 1960's.

Beginning on 1 January, 1985, **the next stage** was the issuing of **bonds** for the employees of the state-owned companies, which **served to increase the profit of the company**. This was facilitated by the fact that from among companies that had so far been exclusively under state administrative control, the larger ones belonging to the competition sector were re-classified as *company councils*, and the smaller ones were re-classified as state-owned companies operated *by the general leadership of the employees' general assembly*. At these companies, the strategically important owner's decision came under the sphere of authority of these organizations – with the exception of questions of foundation and liquidation. The employees had the chance to buy the issued bonds at special rates, and on the basis of buy-two-get-one-free, the employees received free bonds in addition to the ones they had purchased. However, it is important to understand that the company bonds are not stocks but merely bonds, which, following privatization, were changed into stocks by the legal successor in economic joint stock companies and business shares in limited companies.

***The first step*** for the employees' actual property acquisition was taken by Act VI of 1988 (the first Economic Union) regarding enterprises, **before the change of regime in 1989**.

## **3. The legislative background of employee ownership**

**Employee ownership in Hungary started in the following branches:**

**1) As a separate share type with Act VI of 1988 (old economic union) regarding enterprises.**

*a1) Employee share* that could be issued up to 15 per cent of the registered assets, formulated in §244 (resulted and results in individual property), and

*a2) in the form of amortization shares* that could be issued as the total registered assets, formulated in §243. (a construction resulting in a foundation established with public purpose, which, however, was abolished by the first freely elected government as of January 1, 1992).

**2) In the case of privatization not forming separate types of shares or partial business, as preferential joint property acquisition construction, still applicable today, up to 15 per cent of the registered assets, which results in individual property in case of three year participation.**

### **3) Law XLIV of 1992, still in effect, of the Employee Partial Ownership Plan (MRP).**

A joined property acquisition construction that can result in exclusive employee ownership, which as a result of five to fifteen year term preferential credit and or hire purchase, also results in individual ownership after the time determined in the protocols of association of MRP.

#### ***3.1.The obligatory issue of employee shares and partial businesses to the debit of registered capital increased from the privatization income***

A further possibility to acquire partial employee ownership preferentially was **the issue of employee shares that could be bought at ten percent of the nominal value**. This was due to the following: On the basis of the first Privatization Act (Transformation Act) of 1989<sup>7</sup>, the small and medium size companies belonging to the self-privatization circle invested in the company for at least 20 percent of the income of shares sold for cash (PEH= privatization exchange value quota), of this the registered assets of the joined stock company was obligatorily increased, and on its debit, employee shares were issued that could be bought for up to ten percent of the increased registered assets.

The third Privatization Act of 1995<sup>8</sup> facilitated the employees' preferential ownership acquisition for up to five percent of the cash income in the small and medium size companies involved in the simplified privatization<sup>9</sup>. however, with the condition that not only the joint stock companies but also limited companies were entitled to a share and that it did not limit the form of ownership acquisition to employee shares or employee partial business. The second Privatization Act in 1992 did not allow the wide-range application of MRP protocol regarding this type of preferential ownership acquisition.

#### ***3.1.1 The possibility of issue of employee shares and partial businesses on debit of the assets of the company exceeding the registered assets***

Both the old economic union and its successor, EU conform, Act CXLVII of 1997(new economic union) make it possible for the general assembly of the company to issue employee shares and partial businesses for up to fifteen percent of the increased registered assets on the debit of the registered assets.

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<sup>7</sup> §21 of Act XIII of 1989

<sup>8</sup> See footnote 4

<sup>9</sup> See§41 to 44 of Act XXXIX of 1995

### **3.2. Preferential ownership acquisition for up to 15 per cent of the registered assets from shares and partial businesses**

During the whole process of the privatization of state-owned companies, provisions of law or decisions of Parliament have made it possible for the employees to acquire ownership at the market price level first for up to ten percent of their own capital, then for up to fifteen percent of the registered assets, with a 50 percent discount, changing their compensation bonds, in the form of three-year participation or within the scope of the Employee Partial Ownership Plan (MRP).

**The degree of this preferential acquisition was restricted in practice to ten percent of the registered assets by the national estate managing organization.**

This construction resulting in minority partial ownership during the whole period of privatization up to the present **has been in effect since 1990**, and there has been a definite possibility to introduce it in the privatization process of almost every state-owned company. **It has only been disregarded** under the conditions laid down in the effective privatization strategy, according to the effective Privatization Act<sup>10</sup> as follows:

*55.§(1) The employees can obtain the state ownership at a discount by selling their company shares of the economic companies established by the transformation of the state-owned companies or by the majority participation of the state-owned companies –including the companies established by the state-owned companies preceding the transformation or by their legal successor after the transformation.*

*(2) Providing the employees preferential shares of the state shares can only be disregarded if the majority share is taken by an investor who assumes responsibility in a sales contract which is supported by appropriate guarantees for the payment of the employees or for the improvement of their working conditions.*

*56.§ (1) 150 percent of the annual minimal income can be provided for the employees according to the regulations of §57. The subtotal of their company shares obtained this way should not exceed 15 percent of the registered assets of the company.*

*(2) The form of discounts provided individually for employees or for the companies, cooperatives and the MRP organization established by them are handled uniformly by the employees entitled to their sales, and the discounts provided in different forms are taken into joint consideration.*

*57. §(1) In the case of buying out preferential shares by a group of employees, or if not every employee participated in the preferential plan of acquisition, the possible amount of discount has to be proportionately determined with respect to the number of employees involved and to the total number of employees. The discount for those who did not make use of them can be provided later.*

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<sup>10</sup> Act XXXIX of 1995 of the sales of the enterprise assets of the state (third Privatization Act) (Pt.)



*(2) For the employees, a discount of up to 50 percent of the sales price and/or hire purchase can be provided. In the case of paying the discount acquisition price – with the exception of sales within MRP, to which the regulations of the MRP Act apply – with the cash payment of 15 percent of the different acquisition price the payment time can be three years at the most and the current interest is to be paid after the state debt for the acquisition price residual, as interest can be charged.*

## **4. MRP and achievements in Hungary**

### **4.1. Employee partial ownership plan**

**The MRP Act was accepted** in June 1992 – as third in the world following the United States and The United Kingdom – **without any votes against before the arrival of its recommendation from the European Council on June 17 of this current year<sup>11</sup>.**

The internationally accepted practice of MRP was accurately and timely reflected in the following statement of the Ministry of Industry and Trade, founder of the majority of the Hungarian state-owned companies, sent in **May 1992 in response** as a founder to the Herend Porcelain Factory's transformation and MRP privatization plan:

*“The employees’ employment partial ownership should be regulated in a way that this ownership should not only serve the present generation of employees but the current employees as well...”*

#### **4.1.2. Characteristics of effective construction**

The lobbyists for MRP have not been successful in promulgating the internationally accepted philosophy of MRP<sup>12</sup>, as referred to above.

The MRP Act lets the regulations determine whether the MRP organization is established for one joint sale, like the Herend Porcelain Manufacturing Joint Stock Company, as the property of the current employees.

The achievements prove that in the majority of cases the employees –presumably for lack of appropriate knowledge – have not recognized their true potential, and in the majority of cases, the bulk of the initial wide range employee ownership – and this is the more favorable case – with the termination of the payment by installment, was concentrated as managerial ownership; and in the minority of cases, with reference to a real – or even in case of maintaining the employee ownership, surmountable – lack of capital, employee ownership fell into control of outside investors.

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<sup>11</sup> Source: A letter from Ferenc Mádl President of the Hungarian Republic, patron of the tenth National Conference of Employee Owners

<sup>12</sup> 12 Engineer-sociologist János Lukács as the senior research fellow of the Sociology Research Institute of the Hungarian Academy of Sciences studied this philosophy as his research topic in the United States in 1987, then in the United Kingdom, and in the fall of 1989 together with five other private individuals he established the Share-Participation (Rész-Vétel) Foundation supporting employee ownership and participation, with the promotion of the introduction of MRP and the implementation of MRP Act in Hungary.

#### 4.1.3. Characteristics of the MRP Act

- 1) The MRP Act, still in effect without modification since its inception in 1992, has ensured **a discount for MRP exclusively for privatization purposes, and only in the forms of company tax, credit for acquisition under preferential conditions, and participation opportunities.**
- 2) **The bonds and partial businesses acquired by the organization with the payments of the employees should be immediately provided for the participating employees as unlimited assets.**
- 3) **The bonds and partial businesses acquired with credit or by installments and already disencumbered, as a most significant rule, pass to the employees in the proportion of the payment by installment, and successively the employees can practice their right to vote only in the general assembly of the company.**
- 4) *In case of insufficient asset security, the MRP organization is generally established under the obligatory custody of the company imposed by law and therefore,*
  - a) *the organization can only be established with the approval of the company,*
  - b) *which involves the co-owners' renunciation of their right of pre-emption in favor of the MRP,*
  - c) **the participant employees and the former participating employees – with the exception of their legal heirs and the retired – cannot receive capital income during the period of payment by installment for the reasons that**
    - **they are not entitled to sell their bonds and partial businesses acquired with credit and on installment purchase even among each other. (The creditor's right of pawn and alienation ban are imposed on these.)**
    - **they are not entitled to a dividend because the dividend for the bonds and partial businesses in the property of the organization, the participating employees and the former participating employees can only be used for payment by installment.**
- 5) **The organization, following the payment by installment, is liquidated according to a basic regulation, because it cannot operate as a target organization without assets. Only few people know the regulation of paragraph 18 §(5) which states that, quoting from the minister's position:**

“The basic regulation, however, has the authority to decide whether the organization is entitled to retain a certain amount of assets even after the completion of the payment by installment, for the purpose of maintaining the inner bond circulation and employee ownership. In this case the organization is not to be liquidated.”

## **4.2. Achievements of MRP in Hungary**

The Act achieved its goal according to its preamble that was made known within the legal system of that time. The first MRP sales in Hungary (Herend Porcelain Manufacturing Joint Stock Company, Aranypók Trade Joint Stock Company, Aranygallér Baking Industry Joint Stock Company, Beledi Concrete Products Ltd.) were completed in 1992. These sales were followed by more than an additional 200 until the new Privatization Act took effect on June 16, 1995. 234 MRP organizations with 72,000 participating employees acquired 47.4 billion HUF state assets at a nominal price, about 10 percent of the enterprise assets of the state that had been sold almost exclusively by winning public competitions.

The privatization strategy – which previously had favored mainly Hungarian citizens, had faced the decrease of the amount of privatizable assets, the make-up of which had been less favorable, and which had faced certain regulation problems as a result of the 1995 Privatization Act between January 1, 1996 and November 30, 1998 – was replaced by the sales of the state assets by MRP for the 4.2 billion HUF nominal price, which was only one percent of the sold state assets. According to legislative reasoning, the 1995 Privatization Act restricted the sum of subsistence credit that could be taken up by Hungarian citizens, and it introduced a cash strategy with regard to the necessity of capital involvement as a result of the low-tech standards of the production economy, a sizeable debit and state debt. MRP procured the acquisition by eleven newly established and nine previously operating MRP organizations with the participation of about 800 employees.

This low share of employees is in accordance with the exclusion of Hungarian citizens from privatization: As of 1995, the share of the private sector dropped from the approximately two-thirds that it was in 1992-1994 to under fifteen percent. A further reason for the loss of importance of MRP was that in case of competition the state trustee organization encouraged the managerial and employee sales construction that was imposed by the new Privatization Act, and favored the individual acquisition of employees over MRP. This was done in the case of the sales of state partial assets that could be sold at a 50 percent discount on the purchase price up to 10 percent of the registered assets by neglecting additional bids, even disregarding bid requests.

Despite all this, by the end of November, 1998, with the total participation of more than 80,000 employees, the 245 MRP organizations – fourteen percent of the privatized former state companies – acquired bonds and partial businesses for a nominal price of 50 billion HUF – five percent of the privatized state assets – within their own companies.

Until the completion of the state competition sector – the end of 1998 – according to the figures edited by KSH on the internet, nationwide altogether 300 MRP organizations were established. Demonstrated by the reports of the State Privatization and Trustee Joint Stock Company – also accessible on the internet – 245 MRP organizations bought off the assets handled by it. A further 55 MRP organizations were established in the course of the transformation of the former council companies into enterprises and the privatization of the separate units of the

state companies established by the transformation of the non-privatized formerly nationalized large state companies.

**According to the almost full-scale survey of 277 MRP organizations** carried out by the National Alliance of the owner employees and their companies and the foundation supporting share-acquisition employee partial ownership and share acquisition, **and the 2001 collection of facts,**

1) Eleven percent of the MRP organizations acquired exclusive ownership, 24 percent acquired 75-99 percent ownership, 17 percent received 51-74 percent ownership, 4 percent acquired 50 percent ownership, 40 percent obtained 10-49 percent ownership, while four percent acquired under 10 percent ownership. That is to say

- \* 35 percent of the organizations acquired at least 75 percent ownership share,
- \* 52 percent of the organizations acquired majority ownership including the previous one,
- \* and four percent of the organizations acquired 50 percent partial ownership,

44 percent acquired minority ownership, out of which only four percent of the companies were partial owners with less than ten percent. Only 23 percent of the sales of the MRP organizations did not have the critical 25 percent ownership that ensures the right of "intervention" at the general assembly of the company. This is a sufficient condition so that company regulations (company contract) cannot be modified without the MRP.

**2) The MRP companies achieve better results than the other companies because:**

The average profitability of the MRP companies are better than the national average. Almost 40 percent of the achievement before taxation per capita is on average higher in the employee-owned companies than in the other economic companies.

Only five of the 177 companies (14.5 percent of all the companies) liquidized nationwide out of the 1,709 companies transformed from state-owned companies were MRP companies (only 1.8 percent of the 300 MRP companies).

The 245 MRP organizations established in the course of privatization took up almost one-third of the subsistence credit (18-25 billion HUF).

At present there are more than 195 companies where the employee ownership is paramount. In about half of these companies the employees are the majority owners. The number of owner-employees is approximately 80,000.

On average, 70 percent of the employees are participants. With their ownership, the employees control 75-80 billion HUF worth of registered assets, and 100-120 billion HUF worth of private assets in these companies. These are figures from the time of acquisition, and presently the value of assets are multiple, not only in nominal but also in real terms. At present the total registered assets of the

employee-owned companies are 260 billion HUF, and their private assets comprise 680 billion HUF.

Employee ownership is about six percent of the competition sphere, calculated on the basis of the number of employees, which is twelve to thirteen percent of the privately owned share. The average workforce of the companies comprises 340 people, which varies from companies with more than 1000 employees to small companies of 40 to 50 people. Their average registered assets are 300 to 400 billion HUF, which also varies from several billion to 30 to 40 million HUF.

The following chart shows the summary figures issued by the State Trustee Associations of the MRP sales between 1992-1998.

Year	Number of transactions	Nominal value of transactions(billion HUF)	Number of employees
1992	10	1.762	1,100
1993	124	22.079	28,800
1994	85	14.962	6,500
1995	40	3.653	72,800
1996	13	3.573	77,400
1997	11	3.597	80,000
1998	5	0.126	no data available
1999-2002	0	0	no data available
<b>Subtotal</b>	<b>287</b>	<b>49.625</b>	<b>80,000</b>

## 5. Where to go from here?

**MRP is still indispensable for the ownership acquisition of the employees, even after privatization**, because this is the only form of organization in which the employees not only invest proportionally but also, according to the division principles chosen by them, as a consequence also work proportionally.

**However, the social-economic significance of the MRP Act and its impact on society is considerably bigger than the numerically displayed achievements.** This is clearly illustrated by the previously quoted passage from the 1997 Pepper II report of the Brussels Committee of the European Union.

**Moreover, MRP employee ownership is the homogeneous, organized form of the national small privatized ownership that is gaining more and more importance in multinational companies as well as in the economy of Hungary as a whole.** Today, after and during further privatization, as the only new employee ownership share scheme – consistent with the international trend –, it can provide organized ownership status for Hungarian employees as small private owners.

The MRP organizations almost without exception pay their payment dues, but when paying installment they eventually reach the point where they must decide on a long-term course of action.

**The 1992 MRP Act made it possible to preserve a part of the shared ownership acquired at a discount price in a way that doesn't involve financial resources by implementing the following:** *"The basic regulation requires that the shares acquired by the organization – with the exception of the ones privately acquired – can remain for a set period of time the property of the organization even after the payment by installment is completed. (passage5 §18).*

According to the MRP Act, in effect it is not advisable for companies reorganizing into trustee holdings to take advantage of this opportunity. In these, only a limited number of employees remain in the holding, while the assets remain in concentrated form. In the holdings, the maintenance of the acquired property can only be done for employees on the basis of corporate law and on the corporate level. Only a minority of companies belong to this circle, but the number of their employees and their assets is considerable.

**The majority of the MRP employee communities are historically obliged to the above-mentioned most basic maintenance, which does not involve financial resources, part of the employee ownership acquired at a discount price – which, with few exceptions, could comprise 10 percent at the least but 25 percent at the most.** Fortunately, several MRP organizations concluding payment by installment - including Herend Porcelain Manufacturing Joint Stock Company-took advantage of this opportunity.

However, financial resources are indispensable for the reacquisition of a certain part of the employee ownership acquired at a discount price and given to the individual participant employees, and this is formed on the company level. The applicable regulation encourages the organization of the circulation of ownership shares acquired at a discount price, needing financial resources on company level (circulation of inner share of assets).

In the majority of companies this reacquisition from the employees leaving the company is carried out during the period of payment by installment, because it can be done at half of the circulation value during the period of payment by installment, and because the majority of the MRP organizations are majority owners and the rest of the owners consider it safe to hold together the employee ownership in the hands of the active employees during the period of payment by installment. **Following payment by installment**, however, it is only possible in practice **if the basic regulation of the company enforces the contract.** This has been done in many companies (e.g. Tata Tiles Industry Joint Stock Company and MASPED Joint Stock Company).

*In the absence of this kind of company rules there is no problem only if the employees are exclusive owners. During privatization, however, only 26 companies were able to meet these conditions, eleven percent of all MRP companies. In other cases, the problem is that the use of part of the resources for these purposes has to be voted on by the general assembly of the company. For this, however, it is advisable to get the approval of the other co-owners because they have to give up the taxable profit of their share. So this cannot be considered a solution.*

**However, in the near future, legislation is likely to make easier the maintenance of employee ownership.** On November 28, 2001, the sub-committee of

the Economic Committee of Parliament, which is responsible for the implementation of laws and their social and economic effect, issued the latest parliamentary decision of the modification of the MRP Act and revealed it to the Economic Committee, which discussed it on December 5, 2001 and unanimously implemented the next Bill of the modification of MRP with the participation and agreement of the representative of the Office of the Prime Minister as specialized ministry and the Ministry of Justice. The Economic Community proposed the Bill to the Chairman of Parliament.

### **Bill H/5623**

*Parliament has asked government to review the situation of the implementation of the 1992 Act XLIV regarding the Partial Employee Ownership Plan and proposed the legal regulation in accordance with and following the changes taking place in the economic environment in the meantime.*

*In this regard, the following possibilities have been examined:*

- a) Maintaining the legal relationship of the MRP in certain cases regarding the termination of existing employment among employees of the employee-owned enterprise.*
- b) Termination of the acquisition of asset shares of companies in the majority ownership of MRP organizations by speculators.;*
- c) The guarantee of repeated partial assets acquisition;*
- d) Termination of the ban imposed on enterprises of MRP organizations;*
- e) Organized participation of employees in liquidation;*
- f) Continued operation of MRP organizations pending payment by installment.*

### **Offering reasons**

**The subcommittee of the Economic Committee, which is responsible for the implementation of laws and their social and economic impacts, examined the situation of the implementation of the Employee Partial Ownership Plan and found that it was necessary to promote the economy of all production organizations operating in 100 percent Hungarian-owned property areas (established by employee stock sales), and that the legal regulation regarding MRP had to be adjusted to the changing economic circumstances.**

The maintenance of the employee Partial Ownership Plan standard of living is a basic element of the assertion of the Hungarian economy in the competitive world market. Economic history has known many periods when these and similar forms of ownership have facilitated the growth of free enterprises and the national prosperity which naturally occurs as a result.