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reform*

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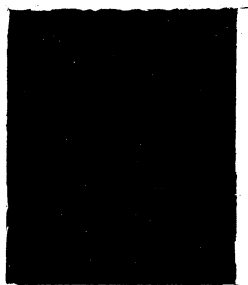
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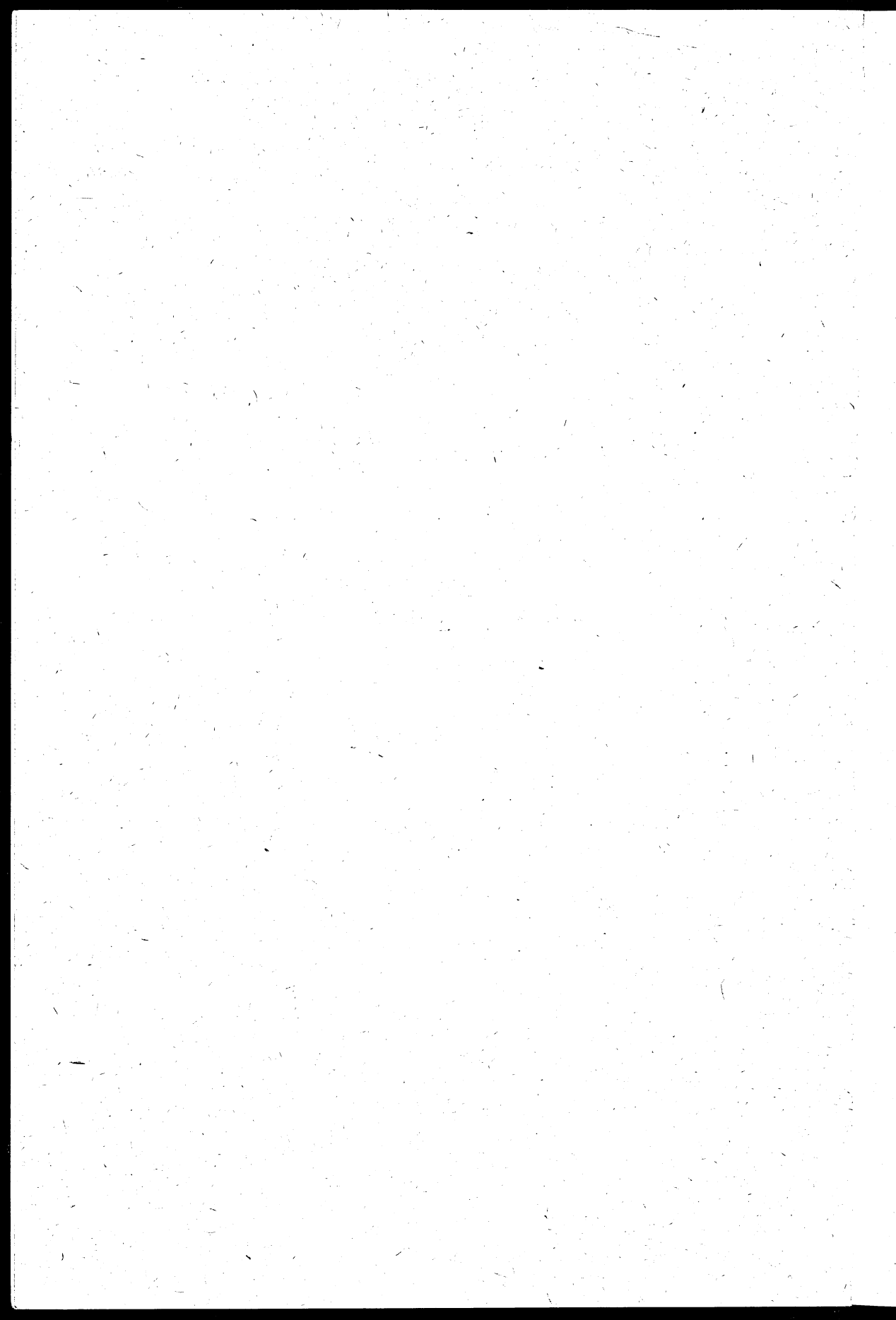
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THE TENDENCIES OF THE REFORM IN THE
HUNGARIAN AGRICULTURAL SECTOR

/Summarized ascertainties and conclusions/

BUDAPEST
1989

RESEARCH INSTITUTE FOR AGRICULTURAL ECONOMICS

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PREFACE

Since a number of years this Institute is dealing with research aimed at the improvement of the adapting capacity and competitiveness of Hungarian agriculture. The results of this far reaching research were summarized in the book "Új agrárpolitika" /"New Agricultural Policy", Mezőgazdasági Kiadó, Budapest, 1989/ and in "Agrárreform I.-II." /"Agricultural Reform I-II", publication of the Research Institute for Agricultural Economics, Budapest, 1989/.

In the present Bulletin we publish the major conclusions of "Agrárreform I.-II." This summary was presented to the Economic Reform Committee of the Government since this Committee based its conceptions concerning the agricultural reform mainly on the labour performed and suggestions formulated in this Institute.

The reform suggestions will continue to be developed and concretized in the course of further surveys. The ideas suggested by the diverse political parties will exert a considerable effect on the final decisions to be made about the reform.

By publishing this volume - as we hope - we may contribute to the compliance of the honouring interest concerning the Hungarian reform.

Budapest, December, 1989.

Béla CSENDES
director general

THE TRENDS OF REFORM IN THE AGRICULTURAL ECONOMY

The reform was getting under way in Hungarian agriculture more than two decades ago already. The coming into being of the diverse types of undertaking and interestedness, the gaining ground of independence and of the assuming of risks in the enterprises - which characterized mainly the farmers' cooperatives - gave impulses also to the tendencies of the national economic reform processes.

The renewal, however, was not consequent and uninterrupted - its evolving was impeded by ideological prejudices and political counter-interests. The results achieved in agriculture did not affect at the same time the related branches of economy: the manufacturing of the means of production, food processing and food trade. As far as the reform processes are concerned also agriculture became handicapped.

At present when the reforms are going to be completed the most important task and the fundamental requirement is that agriculture should be fitted into the general scope of market economy. Radical changes are needed for this end. In the drafting and application of agricultural policy, however, also distinctions of economic and social motives took place in both the domestic and international practice which deviated from the general economic policy. These distinctions are related mainly with the objective particularities of agriculture. Agricultural economy should be fitted into the reform process so that - keeping the interest of society in sight - its particularities should make headway in a theoretically grounded manner and corresponding to the practical purposes.

The natural characteristics of agricultural production - those namely, that: production is basically attached to land /the monopolization

of its use being possible/; agricultural production represents a symbiosis with nature /assimilation/ of organic character which is determined in time and space; beside other factors also meteorological effects are influencing the success of agricultural production - give reason for the re-adjustment of the ratio between productions realized on collective or individual risks and make necessary the unifying combination of the interestedness of the owner-farmer, the undertaker and the employee.

The leading motive in the elaboration of the economic reform is the improvement of efficiency in order to establish the financial basis of the social progress. Efficiency, however, is interpreted here in a broad sense and the social aspects like the improvement of the life quality of the rural population and in the case of agricultural economy also the forwarding of the advance of the villages are considered to be its organic parts.

When calling into being the new conceptions of the agricultural policy and elaborating the agricultural reform we cannot leave out of consideration the importance of agriculture in the utilization of the social worktime fund and in the earning of sources for the subsistence of the population. Neither the contribution of agriculture to the maintenance of the population retaining capability of the villages should be less important. The progress of the rural settlements, the re-organization carried out from below of the autonomous social, economic and cultural communities of people living there can hardly be conceived without the further development of the system of interestedness and of the property relations in agriculture, without the satisfactory rentability of agricultural production.

The effect exerted by the consumers' food prices on the wage level and through it on the international competitiveness of industry should be emphasized among the characteristics. To follow a way, however, where in the spirit of anti-inflationary efforts we should dispense with a price development of the agricultural products exposed to the effect of demand and supply /with an adequate compensation of the consumers, of course/ as well as we would maintain the restrictions enforced by the authorities which are comprehensive also in the present would not be correct. Instead we should further a transformation of the agricultural production relations which may lead at a longer term to the relative reduction of the social costs of production. And for the short term the systems of prices, taxation and subsidization can jointly provide equal chances for agricultural production and food industrial processing; this means that financial preferences might restrain the raising of the prices.

The reform processes of agricultural economy represent the organic part of those general reform processes which take place in the national economy. Those particular characteristics, however, which derive from the natural, economic and social relations of the agricultural economy render in given cases necessary the application of such types of settling which differ from the general ones since this is the only way how equal chances can be provided for agricultural economy.

Also in the agricultural economy the central problem of the reform is the further development of the property relations including also the re-settling of the landed property and of the land use. The favourable effect of the property reform, however, cannot evolve without the renewal of the market and financial relations /without the improvement of the income relations and credit positions/. The reform of property, the

essential renewal of the market relations and financial regulation should be treated jointly since they are closely and inseparably interrelated, mutually depend on each other and no one of them can be implemented without the other.

Our suggestions indicate the long term and prospective tendencies of the systems of management and operation in agricultural economy. We are keeping in view the economic political objectives of the development of food production and the role it plays in the establishment of the economic balance and later in the grounding of economic growth. We make use of the conceptions and proposals which were audible in the social debates concerning the renewal of the agricultural policy.

We are at the opinion that the tendencies of further progress can assert themselves only gradually within the scope of organic development. And the details and the mode of the transformation of the production and property relations should be left to those people who are directly interested in them and none of the various shemes should be pressed from above but the competence, interestedness and creative abilities of the concerned people should be respected for the end that the transformation could be implemented without greater jars with the means of large-scale legal and favourable financial regulation and of the forming of the public opinion.

I. PROPERTY REFORM IN THE AGRICULTURAL ECONOMY

Market economy cannot exist without the unambiguous presence, operation and prevalence of the proprietary functions and interests! For all these reasons the radical transformation of the property relations of food economy represent a problem of central importance also in the formulation of the new agricultural policy and as a result the exercise of the proprietary functions and rights fall into the hands of real proprietors: of organizations, institutions or individuals capable to be owners which or who are fundamentally interested in:

- the increase of the value of property /of the value of capital/;
- the increase of the long-term capital return /in the optimal maximization of the realization of the capital/;
- the flexible and dynamical re-grouping of capital - in compliance with all the aforesaid.

The reform of property does not represent an objective but rather a means. The transformation of proprietary relations in food economy furthers the coming into being of such productive relations, enterprise and farming types in agricultural economy which accept the quality requirements, render a rapid and flexible adjustment possible to the market relations, provide free scope to the evolving and asserting of human initiatives, entrepreneurial spirit and assuming of risks, promote the dynamical progress of the rural settlements, the material and cultural enrichment of the agricultural population. These all represent indispensable conditions for the significant improvement of the competitiveness of Hungarian agriculture.

1. Certain general problems and conditions of the
evolving of the property reform in the agricultural sector

In course of transforming the property relations of agricultural economy also those significant characteristics are to be reckoned with which - in addition to the natural conditions of agricultural production - are the consequences of the objectivized historical-cultural traditions and social conditions and whose consequences extend over also to the spheres of food processing and food trade. To underestimate, press to the background or eliminate these particular characteristics would cause important economic, social, political and cultural damages.

In all reform-political efforts related with the renewal of the agricultural economy - and so in the policy aiming at the modifications of the property relations too - also the particular characteristic is to be taken into consideration that under the conditions prevailing in this country the agricultural policy does not represent merely a part of the economic policy but it is at the same time also rural or settlement policy; also peasant policy; also cooperative policy and is in a close and multifarious relationship with the protection of the environment. Therefore - with a particular stress in the present historical situation of the country - endeavour is needed for an attitude of complexity in the formulation of the agricultural policy.

Moreover: in the transformation of the property relations prevailing in the agricultural economy the starting points should be the realities, concrete social-economic conditions, structure and results of the present Hungarian food economy, e.g.:

- the present role of the technically and organizationally already established large-scale production and also the existing concentration of the productive forces /factors of production, capital/ in this context; the preponderance of the agricultural cooperative sector, the existing cooperative framework and organizations;

- the types, results and experience which occurred so far in the co-existence and collaboration /cooperation, integration/ between the large-scale and small-scale agricultural enterprises;

- the composition and quality of the human factor in food economy, the aspirations and demands of peasantry which could be experienced so far or can be experienced at the present;

- the nature of those economic branches which supply the agricultural economy with production means of industrial origin;

- the settlement relations;

- the situation of the general and agricultural infrastructure, etc.

As far as the transformation of property relations is concerned in the agricultural economy there are certain general characteristics to be emphasized which are common for the diverse sectors:

- Fundamental requirement is that in each phase, momentum and dimension of the responsibility assuming disposition, risk assuming economic management and expropriation /with one word: of the ownership/ there should be a real, unambiguously responsible and designated proprietor who is interested for the long term in the increase of the value of capital and in its optimum realization. This proprietor can be a definite organization or institution - a cooperative, a department of a cooperative, a cooperative association, a cooperative business federation or centre, a bank, an insurance institute, a self-governing communal or

municipal organization, a trustee institution, holding, company, association, a foundation, etc. - able to exercise the proprietary rights or even an individual person.

- The success of the property reform postulates the liquidation of the still existing monopolistic property position /linked particularly with the landed estate and with certain activities/ of the large-scale cooperative enterprises and of those owned by the state. The establishment of the optimum proprietary, entrepreneurial, plant and enterprise systems can be implemented so that sphere of action, opportunity and encouragement should be provided for the diverse types of individual /family/ undertakings as well as for those undertakings and farms which are in the private property of individuals /families/ within and also outside the scope of the large-scale enterprise system of agricultural economy.

- As the result of the transformation of the propriety relations - based on the autonomy and independent initiative of the economic units - the existence and operation of various and multifarious types of property, their inner articulation, structuralization, cooperation, integration and mutual rivalry as well as the variegated multitude of the plant - enterprise and undertaking types and scales established upon this basis will be characteristic for the property system of food economy.

- The activity of the state which insists on and regulates the transformation of the property relations in food economy should be of a "framework" type: the state should clear away first of all those ideological, legal and regulatory obstacles which impede the progress; then it should care about the enlarging of possibilities and finally it should serve as prevention against the coming into being of anomalies /e.g. mo-

nopolistic positions/. So the state, the government should not narrow down the sphere of action of the owner-economic manager organizations /collectives/ and individuals, it should not restrain the freedom of their possible choices but it should provide terrain for their independent, creative and particular initiatives "coming from below" and adjusted to the various conditions. Neither the "timing schedule" of the readjustment can be centrally described. This process can take place only in concert with the will of the affected parties and in a pace considered to be necessary by the participants. Nobody can be made a proprietor against his own will but can neither be excluded from the ownership.

- In respect with the operation of the organizations belonging to the various already established propriety types or type versions and to those just coming into being at the present there are certain fundamental requirements:

a/ compared to the present the interventions of the state /economic control, jurisdiction, functions of the executive power, legal supervision, competence of the authorities and of the public administration, etc./ should be significantly reduced so that these interventions should not impair the independence of the proprietors and undertakers /farmers/ needed for the exercise of ownership and undertaking and they should not diminish /make "elusive"/ their responsibility in this respect;

b/ all informal "external" interventions related with ownership and undertaking should be stopped;

c/ this principles of the granting of equal chances and of neutrality for sectors and in competition should consequently be realized in the price, taxation and subsidization policies, in the preferences and restrictions introduced by the state; and this all should happen so not

only in the case of property and enterprise types prevailing within the scope of agricultural economy but neither agriculture should become handicapped if compared to other national economic branches;

d/ the diverse actors of food economy /proprietors, undertakers, managers, functionaries, cooperative members, employees, etc./ should be entitled to group together freely for the realization of their interests and to organize bodies representing their interests and business federations which are adequate with their demands.

- The modification of the agricultural price and income relations represents an important precondition of the property reform in the agricultural economy. Those opinions that no radical property reform is needed in the agricultural economy and only the income relations are to be modified and the improvement of the price and income relations is unnecessary. The realization of this latter idea would render impossible the success of the property reform. Moreover: another precondition of the property reform is that the system of taxation - as far as its scale and the applied systems are concerned - should be adjusted to the particular characteristics of agriculture and to the social-production relationships of agriculture among them. In the further development of the taxation system care should be taken not only to the requirement that the principle of competition neutrality should be implemented in the scale of withdrawals but also to the intention that the propagation and functioning of the multifarious types of property and undertaking which came into being in the agricultural economy should not be handicapped thorough the taxation.

- A general problem is presented by the evaluation of the object of property, of the assets which occurs at present when the property rela-

tions of agricultural economy are under transformation more stressedly as a fundamental condition. Here the following difficulties arise:

a/ The value of the enterprise /cooperative/ assets registered in the balance sheets is unrealistic and to use it as a starting point /in the case of conversion, joining to companies, designation of the assets, etc./ could be the source of great anomalies. Based on the respective international experience and well tried methods an urgent task is the elaboration of a system or method of property evaluation which can form a basis for the realistic designation of the assets.

b/ the evaluation of the most important, determinatively significant and irreplaceable production factor of the agricultural economy, of land namely, is still even informally unresolved - the value of land does not figure even on the balance sheets. /In the present "market" situation where no turnover of land exists obviously no realistic land value could develop.../ So far as it can be developed an acceptable and realistically calculated land value should be elaborated and the agricultural land should be treated and registered at this value.

2. Property reform in the agricultural cooperatives

Undoubtedly the cooperation of the producers, farmers and labourers will remain the decisive and determinative type of property and undertaking in the agricultural branch of economy - and we are at the opinion that this will be the case also in food processing and food trade. /Therefore the agricultural economy is fundamentally interested in the freedom of cooperation and in the consequent implementing of the cooperative reforms./

The cooperative property represents such a democratic type version oriented not exclusively to the realization of capital and to the maximization of the profit but also to the service of the variegated interests of the cooperative members in the scope of which the exercise of the proprietary functions is implemented on the basis of a structured system through the voluntary association of open groups of people whose interest is the same.

When transforming the property relations of our cooperatives we must cope with the problem that there became the following abnormalities general in them which fundamentally interfere with their cooperative character:

- The positive peasant values were gradually ousted from our agricultural cooperatives, the historical-national characteristics hardly prevail in their organization and functioning but the Stalinian kolkhoz attributes do it at a greater extent than desirable.

- The decisively bureaucratic interventions of the state and of other external authorities grew to an intolerable scale and intensity in respect with the cooperative ownership and management, in the whole context of the cooperative life; cooperative autonomy was reduced to the minimum.

- The movement character of cooperation eclipsed, the representation of the cooperative interests /business federations/ does not fulfil its task in satisfying the needs of those people who enter into cooperation.

- The pecuniary contribution and interestedness of the cooperative members became formal, one-sided and minimal, their proprietary participation almost disappeared; the real conditions of the cooperative members

degraded to a wage-worker standard, i.e. to the consciousness and interest of the wage workers in the cooperative farms.

- The cooperative farm management - though preserving some of its characteristics and advantages - became almost equal with that of the enterprises operating within the scope of public property /"embracing the whole population"/ was stymied from the aspects of both ownership and economy.

Now when the substantial transformation of the cooperative property relations is put on the agenda - the creation of a new Cooperative Bill - then some important problems specifically related with the cooperative ownership are to be considered.

The well proven classical cooperative principles and values which became mature in course of the one and a half century long history of the international cooperative movement and which prevail also at the present should be asserted in the renewal of the cooperative property. They represent the elements which distinguish the cooperatives from all the other non-cooperative associated /collective/ ownership and undertaking /company/.

Some of them are: the freedom of alliance, the democratic administration, the cooperative autonomy, the open membership /"open gates"/, the voluntary principle, the primacy of assistance accorded to the members, the richness in types, the personal and pecuniary contribution, the sharing /"re-distribution"/ according to the extent of the contribution, the social movement character, the social and cultural activities, etc.

In the activities of the state related with the transformation of the cooperative property these particular characteristics - adequately adapted - should be taken into consideration from the outset already;

the equality of chances, the competition and sector neutrality can be correctly interpreted by pondering these principles and in this context all demands of the cooperative members are to be supported.

In course of framing the new Cooperative Bill the cooperatives as representing types of property and as "associated undertakings" should necessarily be distinguished from all other associated undertakings /collective types of property/ on the basis of the cooperative particularities /principles and inalienable values/.

The creation of a social-economic environment is necessary where the real cooperative character of the property becomes unambiguous and complete in the cooperatives also the attachment of the cooperative members as owners exists upon this basis. Therefore - as a unique model experiment initiated "from above" - the implementing of the personalization of a significant part /or the whole/ of the cooperative assets and the realization of a sharing system which reflects the unity of the proprietary, entrepreneurial and worker characteristics of the membership relations are necessary.

- Through abolishing the full indivisibility of the cooperative property the overwhelming part of the present indivisible cooperative property becomes divisible /distributable/^{+/}. The expropriation of the in-

^{+/} The distribution of the divisible property value takes place - in a ratio established according to given specific criteria - through "designation" so that property bonds are issued drawn up according to the divisible pool of property which depending on the decision of the cooperative self government become negotiable securities within the cooperative /or outdoors too/ and on which dividend is to be paid. It must be stressed here that the detailed elaboration of the pecuniary sharing should be entrusted to the self government of the cooperative since the local conditions should be extensively considered in this respect. Only the large scope of the possible methods and the ways of legal remedies can reasonably be drafted in the respective rules.

divisible and indivisible properties and the ownership /disposition, economic management and sharing/ related with this alone represents a system rich in types and as ownership it will become an "activity with several actors": at the diverse levels of the agricultural cooperative system of the country on the one hand and also in combination between these levels on the other hand.

a/ In the basic cooperatives ownership can be implemented:

- at first at the level of the cooperative /of the whole cooperative/ itself when the cooperative as a trustee centre, as contractor integrator or as a quasi "secondary cooperative" can be the proprietor of the indivisible cooperative property /capital/ and is entitled to its management: it can contract that, it may start undertakings /manage farming/ with that or may enter into associations /joint stock companies/ etc.

- secondly at the level of the autonomous undertakings /group, family, etc. undertakings/ which exist and operate within the scope of the basic cooperative. At this level the relationship can be also articulated and multifarious: the undertakings, namely, can be established either fully with the assets of the cooperative /in the form of contracting, leasing, etc./, or with joint assets and capital /with the assets and capital partly of the cooperative as a whole and partly with those of the participants of the undertaking/; moreover so that the assets /capital/ needed for the undertaking make fully the property of the participants of the undertaking while the central management and organization of the cooperative is the integrator of the undertaking, etc.

- thirdly with the contribution of the personal /private/ assets of the cooperative members /shares, special purpose bonds, loans, securities, designated partial or global property shares, etc./. In cases like this the cooperative member cedes his private property on the cooperative or on an undertaking within the scope of the cooperative against the payment of dividend, extras or bonuses, etc.

b/ The cooperative ownership may exist in certain region or in a horizontal or vertical association, e.g. in a sectoral /or professional/ business federation, cooperative centre; or in a joint venture, society or association, regional financial or insurance institution, etc.

c/ The cooperative property can be established also at the national level, e.g. national business federation, cooperative centre, social, cultural - educational - recreation institution, national sick-relief, pension and property insurance institute, book and newspaper publishing institute, cooperative bank, etc.

Also "external undertakings" may join to the system of cooperative ownership /e.g. private, communal or municipal farms, other collective and private enterprises, capital investments of banking institutes, etc./ which collaborate with the cooperative but do not enter into membership relation.

Hence the cooperative property which is coming into being will not be a homogenous, monopolistic phenomenon which can be characterized simply with the denomination "group property" but it will be a sophisticated, manifold combination, a complex, structured system where interrelationships are evolving between its elements, levels and parts and these relationships will be encompassed and connected by interest relations which

are giving its system character. In the system of cooperative ownership established at the diverse levels - if it was organized really from below, if no subordination /democratic centralism/ will take place in it and if it will be controlled in the spirit of cooperative democracy - services granted for the lower levels, for those who called it into being and operate it should play an important role: this is, namely, which makes the ownership really cooperative.

So the trends of the renewal of the cooperative ownership are the following:

- in compliance with the needs and opportunities of those who cooperate the free choice and development of the ratio of the diverse cooperative types, forms and versions, of the collective and individual /private/ farming, of large-scale and small-scale farming, of the types, spheres and functions of activities within the cooperative;

- autonomous decision making about the collaboration of the diverse proprietary, entrepreneurial and economic types and units within the cooperative;

- the consequent democratization - in concert with the cooperative character - of the self governing /management and control/;

- freedom in the establishing of business federations and in their operating according to the demands.

The development tendencies indicate already at the present that the cooperative property goes through a structurization; the basic agricultural cooperatives become quasi "secondary cooperative organizations"; they will be transformed to trustee and property utilizer social-cultural centre, to the integrator of private, family, group or other undertakings

organized within the cooperative or joined to it, to purchasing and realizing, servicing or in certain cases financing organization respectively.

3. Property reform in the state owned sectors of food economy

The transition of the state property being at the present highly concentrated, schematic, bureaucratically controlled "from above" and depersonalized the new types of corporate property should take place in the agricultural economy by keeping in view certain requirements of gradualness which comply with its characteristics. Corresponding to the general tendencies here also the characteristic substance of the new property types should be that the proprietary functions /rights/ should be exercised by such institutions /organizations/ whose economic activity is motivated by real proprietary interests.

3.1 The transformation of the property relations of the state farms

First of all the question can be raised whether state property is needed or not in the world of agriculture at all? The answer is unambiguous even in the case if the preponderance of the cooperative and diverse small-scale producer or private sectors is characteristic at the present and will continue to be characteristic also in the future for agriculture - that namely, that "state" property transformed to corporate one serving for public purposes and operated by real proprietary actors will remain necessary - though probably at smaller scales than at present - in the agricultural branch of the agricultural economy.

The starting tasks of the transformation process are the following:

- the urgent removal of the "external" and "inter" obstacles from the way of management in the state farms; the establishment of conditions needed for the improvement of the profitability rate which is independent from the farms and as a result of the regulators is significantly lower than the national economic average;

- the modernization and radical transformation of the "centres" of the farms, the significant modification of the functions of these "centres";

- assistance to the gaining ground of the types of interestedness and organization of entrepreneurial nature within the scope of the farms, the enlarging of their sphere of movement and the increase of their independence;

- the promotion of the small-scale producer, individual, specialized group, leaseholder and other undertakings /types of farm management - undertaking and interestedness/, the construction of cooperation and integration with them.

In the transformation process of property relations in the state farms the present scopes of the farms are taking a shape where the organizer, operator, trustee and financial position improver, purchasing and realizing, financing and servicing activities are gaining greater and greater ground, the units, undertakings, "profit centres", leaseholds, the diverse other types of undertaking and interest managed independently or under integration within or outside the farm become increasingly significant. /The organizational and property structure of the state farms become assimilated in this respect to that of the agricultural cooperatives.../ In their role of trustee and capital utilizer

the centres organize corporative undertakings /unlimited partnership or deposit companies, joint ventures, limited liability companies, joint stock companies, etc./ or enter as a member, so-proprietor /or part proprietor/ into other joint undertakings. Simultaneously also the interest in the property evolves among the labourers of the farms so that the labourers become the owners of property shares, securities, bonds, etc. and participants of diverse internal undertakings with entrepreneurial interest.

The following organizational principles of production and farm management can be referred also to the state farms:

- all those activities which can be performed more economically with given technics and technology at a large-scale should be implemented /under an adequate system of interest and undertaking/ reasonably in the type of large-scale enterprises;

- and all those activities where physical labour, special quality, continuous attention and care play an important role can be performed in the scope of diverse small-scale organizations and undertakings /practically: small-scale enterprises!/.

Also in the property relations of the state farms multifariousness, flexible and creative adjustment to the local conditions should, of course, prevail and become characteristic.

1. In the sphere of profit oriented competition the possible types of ownership and undertaking of the state farms may be implemented in the following forms:

- a/ Independent state farm

- with enterprise council, general and depute assembly;

- with labourers who are part owners /owners of property shares or bonds, or capital investors of other kind/;
- with companies within the farm /limited liability or deposit companies, etc./.

The farms described here may join to diverse companies already existing or being on the way of establishment with smaller or greater capital or apports invested.

b/ In the sphere of profit oriented competition the state farms transformed into companies can be:

- exclusive or open joint stock companies or limited liability companies;
- they may organize companies with the introduction of combined domestic /through the uniting of public, cooperative and private capital/ as well as with joint domestic and foreign capital;
- the greater state farms may be transformed to trustee companies;
- certain state farms may be separated and may continue their activities as company or other self-governing type of undertaking.

2. In addition to the state farms of explicit profit and capital orientation also other types may occur:

a/ Institutions performing certain duties of the authorities /quality control of foodstuffs, veterinary services, plant protection, environment protection/ and other activities of public utility or common concern.

b/ Farms or agricultural enterprises owned by villages or cities.

/The importance of this property type seems to be increasing as particularly reflected by the results achieved in the transformation of the system of the political institutions./

c/ Farms owned by foundations /experimental and model farms for educational purposes of universities, scientific research institutes, etc./.

d/ The farms of associations and federations /e.g. Holstein-Frisian federation, associations of anglers, hunters and tourists, etc./.

As far as the t r u s t e e function is concerned: several arrangements are possible also in the case of the state farms. The role of the trustee centre of the state farms can be played by

- trustee company which became as such because of its scales;
- regional organization which may unite diverse types of property and implements regional integration;
- trustee centre or enterprise organized according to professional groups /e.g. wine and grapes profile, etc./;
- national trustee centre of the state farms;
- union of the state farms /though this is not a trustee organization nevertheless in consequence of its specific function it can accomplish this task/.

When transforming the property relations of the state farms the system and rules of property evaluation and property management as well as the settling of the problems reated with the re-privatization and with the possible alienation of property /except the agricultural land/ can be the same as - by giving prominence to the given particular conditions - in the case of the transformation of property owned by the state or of the general rules of the re-constituted state - collective -

combined - joint ownership.

To finish with, the consolidation of the attachment of the re-organized state farms to the communities is to be stressed. It is very important that the farms of the appearing new type should be organically linked - perhaps also through the creation of new institutions and organizations /e.g. commonages, joint tenants/ with the social /self-government/ and economic life of the settlements.

3.2 The settling of the property relations of the forests

The forests - just like the agricultural land - take a particular place among the assets of national economy. They are serving for several tasks at the same time: production, recreation, tourism, environment protection.

In consequence of the slow production cycle of the forests, the foresighted proportioning of planting and utilization, the development of the forest structure, etc. the urging of such ownership and utilization is desirable which complies with the above particular characteristics.

In order to exploit the particular role of the forests and of the lasting buyers' market one of the possible solutions can be the organization of regional companies based on the voluntary principle and on the mutual interests.

- These companies would unite the owners /the diverse state owned, cooperative and private forests/. Within the scope of the forest commonage /ownership/ established this way property, management and utili-

zation would be separated from each other.^{+/}

- Based on the supervisory forest administration the utilization would be implemented in concert with the requirements of the reasonable long-term silviculture by employed managers.

- Being organized in a company the forest owner producers of basic material as well as the organizations and undertakings of processing and realization - which acted so far in a way separated from each other - would operate side by side. So the frequent conflicts of interest occurring between forestry and processing could be eased within the scope of the regional organization.

If realization is performed by the regional organization then the share of raw material may gradually decrease, the ratio of sawing industrial products and chipboards may augment and then the highly processed and finished products may come into prominence.^{++/} Through the higher grade of processing an increased influx of capital can be achieved from the increased returns to the raw material producer forestry.

The joint stock company is the most adequate type for those regional organizations which unite and utilize the property where the forest, the equipment, the plants and money capital could represent the apport. The joint stock company may deploy its commercial activities either based

^{+/} The management of the wild game stock and hunting would form a question of agreement and probably it should be left at the care of the owners even in the case if they enter with the forest in any company since in a reverse case the whole initiative might fail.

^{++/} Furniture, building industrial products, products of the joinery industry, etc. This all would appear, of course, also in the returns from sales since compared to the unit quantity of timber sold as raw material this would be ten times higher in the case of chipwares while the difference would be the 30-40 -fold in the case of highly processed products.

on the existing commercial organizations or by shaping a new one; it could make possible that the best experts would be put into prominence, functioning capital could be introduced and private or family afforestations would be espoused.

In the further development of property relations in forestry - in the case if certain conditions and circumstances appear - also ownership and utilization at the level of the villages and towns can be justified with the creation of the corresponding institutions and organizations /e.g. the institution of joint tenancy or commonage/.

3.3 The transformation of property relations in the state owned food industry

The practice of the present indicates a tendency though in several versions but oriented practically toward one and single direction, toward the necessary transformation of the property relations in the state owned food industry, toward radically new arrangements.

More than two decades ago the proclaiming of vertical integration represented a correct task which was complemented in the practice not at all or in an other way than desired. As far as the future is concerned this is not the unic solution but rather the grouping of the capital interests. The capital interest successfully wrestling with the challenges of the market may increase the safely realizable profit through activities which can be reasonably coupled vertically and in space too.

The interest in the capital - in a way similar to forestry and timber processing - would concert the interests of raw material production, processing, domestic and foreign trade consolidating this way their position in the competition. Various assets of the state, of the coopera-

tive and private undertakers and banks, etc. could be united in this scope. The joint stock company offers itself as the adequate type of the joint undertaking. Its establishment can be conceived in several versions and there are other well proven arrangements too where the interests of the producers, processors and traders are already concerted and they also assume jointly the risks.

In order to further the evolving of capital interest, of course - just as also in this case - the abolishing of several bureaucratic restrictions, the liquidation or re-interpretation of the price system and concealed responsibility for the supply deriving from the social and living standard policy as well as the modernization of the inner organization, management and interestedness of the food industrial enterprises are needed.

As a first step of the transformation of the property relations in food industry it would be reasonable to continue the already commenced decentralization by means even of central measures and make the enterprises disposing of several business domiciles independent at least to the level of plants. /Central measures are necessary therefore because the present enterprise conglomerates did not come into being as a result of organical development but were organized in compliance with the demands of the control system./ The organizational rearrangement can be started only in the case if the producer plants may gain their freedom.

It is also conceivable that the smaller enterprises or plant units - where not more than a few dozens of labourers are working - could be able to operate even within the scope of the so called "small-commodity producer" ownership. In spite of the significant concentration which took place earlier in the

food industry there are still certain industrial branches operating with a relatively broad business network. There is no or only insignificant labour division between the diverse plants, they satisfy first of all the demands of the local population or process the agricultural raw material produced in the close neighbourhood. Opportunity should be offered to the interested smaller enterprises to get separated and their functioning should be supported through the elaboration of adequate property types. This can be implemented in several ways:

a/ The unit could remain the property of the "parent company" and this latter could let it on lease to the "associated producers" who operate it. The parent company would be able to act as capital owner and in the case of low efficiency it could liquidate the respective enterprise.

b/ The smaller enterprises could remain collective property even in the case if the local /communal - municipal/ councils would take them over and the representants of the population in their owner capacity could take decisions about the operation, development or liquidation. In this case also the "associated producers" would be the operators and they would pay then the rent to the councils. /An argument for the ownership of the councils is that in consequence of the responsibility for the supply not only the functions of the capital owner would prevail in this type but based on the local conditions also the aspects of the satisfaction of the population's demand, of the efficient operation of the capital and of the employment of people working there could be pondered and concerted./

c/ The workers of the respective enterprise could form independent small-scale undertaking or small cooperative. They would be obliged to

preserve the value of the assets taken over. The further introduction of capital could be implemented through own property bonds or credits but at the expense of individual risk in this case already.^{+/}

If they should liquidate themselves then they should repay the original value of the assets to the local council, to the trustee organization or perhaps to the budget by substituting the lacking part through their payments or by distributing the remained part at the same time.

d/ The labourers may take over as an association the enterprise from the parent company and pay the value of the capital engaged in the enterprise either from their own shares and from those of the population or from bonds purchased by the local undertakings or cooperatives.

The possibility or demand of integration of various closeness among the separated organizations emerges also in the case of smaller units or undertakings.

A relatively significant part of the domestic food industry is represented by the large-scale enterprises whose share is, however, different in the diverse branches of the industry. But the large-scale enterprises of the state owned food industry cannot be treated in a uniform manner from the aspect of ownership since the tasks of their activities as well as the possible substitution of their products are different.

Those industries can be grouped into this category where the large scales of the enterprises derive from the technology. The establishment of similar large-scale enterprises is required for the supply of the population in the big cities. The scales of the enterprises are determined

^{+/} Those workers who do not want to join to the association may stay there as employees.

in these cases by scale and demand of the market. Also the strong export orientation makes the large enterprise scales necessary in consequence of the observance of the increasingly costly hygienic prescriptions on the one hand and of the provision of greater quantities on the other.

In order to settle the problem of ownership those tasks are to be elucidated which should be performed in most by the respective enterprises. Distinction can be made here from the aspect whether they satisfy the demands of the domestic population or produce mainly for export.

The exporter enterprises should be grouped unambiguously to the competitive sphere. The movement of capital must be pressed most rigorously in this sphere.

Further distinction should be made among those food producer enterprises which are satisfying the domestic supply from the aspect whether they produce daily current commodities or conserved products which could be covered even from import. These latter could be grouped also to the competitive sphere while those enterprises which realize the daily domestic supply are regulated not exclusively by the market automatisms.

In the case of the enterprises grouped into the competitive sphere i.d. to that of rivalry the establishment of full autonomy should be regarded as the first step.

In the case of the larger enterprises the proprietary rights can be attached at the beginning neither to concrete persons nor to the whole collective of the enterprise. We considered to be a final solution if ownership over the diverse enterprises could be exercised by the capital owner organizations or by their representatives.

The present enterprise councils should be endowed with the proprietary rights until the time when - as a result of the differentiation of the enterprises started by the market processes - the so called capital owner organizations will come into being and they will take decisions about their investments in a way independent from the sectoral restraints based only upon the expectable amount of the capital proceeds.

Presumably some of the larger enterprises will continue to remain independent also in the future and the enterprise council will exercise the proprietary rights while others will have the opportunity to operate as certain kind of the trustee companies.

The transformation of the property relations and the functioning of the capital market render necessary the changing of the present price policy and price regulation also in food industry. In the case of free capital circulation, namely, capital gradually leaves the spheres of low efficiency and the deconstruction of the respective branches may result in a lasting shortage situation. The prices should provide therefore the average profit rate and the price raising efforts of the producers which constantly manifest themselves should be restrained at the same time.

Several ways are conceivable for the creation of the new companies in which the banks, the larger domestic and foreign trading enterprises, or incidentally some of the greater basic material producers may take part as well as anybody else disposing of free pecuniar means.

a/ The companies can be created so that one or another enterprise issues stocks because it wants to develop or enlarge its activities.

b/ Another version of the establishment of companies is also the case when an enterprise goes to bankruptcy and its economic rehabilitation takes place. Then through satisfying the debts due to the creditors

might somebody become the owner of the respective enterprise.

c/ In the case of enterprises producing for the current food consumption of the population the circle of the potential owners should be completed by the representants of the local councils and a prefixed part of the state own property should be transferred to these councils. This way the council could assert its particular aspects in the scope of the trustee company - in which also other partners participate - just as the other owners could do the same with their expectances regarding the returns of the capital.

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Special attention should be paid at the transformation of property relations in the food industry - and particularly as far as its traditional spheres and activities are concerned - to the private sector, to the creation and maintenance of opportunities for the enlargement of food industrial activities performed by private property or in private undertakings at the small- or medium-scales.

4. Agricultural small-scale and private production

Based on its present and expectably further increasing role the agricultural production performed within private or family scopes is equally highly significant in the Hungarian agriculture having a basically large-scale system. The household and supplementary farms which in the former political and economic conception and in the ideological prejudices were considered "provisional" and self-sufficient ones destined for not more than a homestead activity providing a complementary source of income became determinatively important parts of the Hungarian agriculture bearing increasingly marked features. Instead of a

slow decline the production of the small-scale farms significantly augmented. The cooperation and labour division existing between them and the large-scale enterprises - which is worthy of attention even at the international horizon - proved the vitality of small-scale production and offers further advantages in the improvement of efficiency and structural development for the mass production based on up-to-date techniques of the large-scale cooperative and state farms while the labour intensive activities become of determinative importance in the household, supplementary and private farms.

In consequence of the experiences gained and results achieved during the specialization and concentration which took place in the household and supplementary farms the creation of opportunities for family or private undertakings providing independent existence became topical mainly in the labour intensive horticultural and livestock breeding activities. This process was impeded so far by the lack of modern production means, agricultural infrastructure and investable capital, by the legal restrictions of landed property /and land use/, by the underdeveloped commercial /public purchasing/ and credit market relations.

The earlier especially inflexible restraints of property are going to be eased by the decentralization initiated within the scope of the large-scale enterprises which, however, in consequence of the central regulation and of the misapprehension /alimented from objective and subjective sources/ of the large-scale enterprise managers evolve but slowly, by those undertakings based on the responsibility of groups, families and individuals which might give a new tendency to the progress of the enterprise and plant system /structure/ of Hungarian agriculture. The undertakings established within the scopes of the large-

scale enterprises but based on the personal assuming of risks may lead to the enlargement of agricultural production-undertaking which represents a main job. This can be reckoned with after the extension of the system of tenancy /to land, machines, buildings, etc./ and the consolidation of the servicing character of the large-scale enterprises as a first step. Later on gradually also the private /family/ farms develop from the progress based on the system of tenancy there where their vitality offers unambiguous advantages in a competition neutral economic environment. This process should not be pressed. The limitations impeding the development, however, should be abolished as soon as possible for the end that the organic progress initiated from below could gain ground, that opportunity should be created for the transformation of the cooperatives /from farmers' cooperatives to specialized groups, cooperatives of the small-scale producers or small-cooperatives/ and also for the withdrawal from the cooperative - this latter, of course, connected with the withdrawal of the assets and of land. /By the way: the consequent implementing of the "open gate" principle may exert a coercing effect on the consolidation of cooperative vitality!/

Under the present conditions of our agricultural economy the earning of complementary incomes is characteristic for the small-scale production. And this - independently from the extension of the private undertaking - will expectably remain also in the future since almost half of the population is in closer or looser contact with the small-scale agricultural production. Mainly for people living in the villages is this the activity which offers a realistic chance of resistance against the stagnating standard of living, of maintaining the living standard which can be obtained at the sacrifice of surplus labour. But

In the regions of unfavourable conditions and in the small settlements there is no more important power than this for the earning of complementary incomes, the protection of the village, the keeping families together and the formation of communities. This justifies that an independent role should be granted to the increase of the small-scale agricultural production and to the improvement of its condition system in the complex development program of the regions with underdeveloped economy.

In course of the past decades the agricultural small-scale production gained or rather extorted its civic rights. At the present restraints similar to the former ones but more rigorous than those in the other sectors are put on the gaining ground of the small-scale undertakings, family farms in agriculture. The spreading of the new formations which improve the competitiveness of agriculture and are serviceable for the structural transformation can be achieved through the abolishing of the bureaucratic obstacles, through the establishment of really sector neutral regulation /e.g. subsidization, crediting, etc./, through the economic and political stabilization of the position of small-scale and private undertakers /e.g. through the calling into being of their business federation, the modernization of social insurance, etc./, through the creation of legal security for the long term, generally through the establishment of a political and economic environment which unambiguously and consequently supports the small-scale and private production, farming or undertaking.

Obviously the increased acting and more flexible adjustment to the market of agricultural production of complementary or main job character postulates the existence of adequate infrastructure, of up-to-date commerce /acquisition and realization/ and credit supply. In their calling

into being important role can be played by the more recent and looser cooperative types /e.g. specialized groups, small-cooperatives, supply, produce disposal and credit cooperatives of the small-scale agricultural producers/, by the modernized and more flexible implementing of the integrating activities of the large-scale agricultural enterprises and other undertakings /production systems/ which in addition to the production also assume the organization of commercialization, marketing activities, processing, professional training, etc.

5. The reform of the landed property and land use

In addition to labour and capital also cultivable land is of a determinative importance in food production, in foreign trading, in the satisfaction of the population's demands, in the employment and in the retaining of rural population at the village domicile.

In respect with the use of cultivable land all the hitherto prevailing principles, attitudes and declarations represented false and development impeding factors. And the efficient use of the cultivable land is rendered possible neither at the present by a financial economic regulation system attached to and implementing the former in this country. Nevertheless without redressing the ownership and optimum use of the cultivable land the particularities of agriculture cannot be asserted, there is no efficient agricultural production, no combined market may exist and the re-settling of the property relations cannot be completed in the agricultural economy.

For the creation of market economy radical reform steps are necessary in respect with the relations of land ownership, land use and land turnover so that the cultivable land as production factor and as a re-

source should gain a role and due opportunities in a similar way and at an equal rank as the other resources have.

In order to implement this the following measures are necessary:

The "unified and indivisible" principle of the landed property owned by the state and the "unified and indivisible group property" principle of the cooperative landed estate should be abandoned. The cultivable land used by the state farms, forestries and other state owned enterprises should be realistically evaluated and transferred to the propriety of real owners.

There are landed properties of the cooperative members, but being in the use of the cooperative farm, moreover lands which became the property of the cooperatives as a result of the "obligatory redemption" and finally in a small quantity also lands owned by the state present in our agricultural cooperatives.

The proprietary legal security of lands being the private property of the cooperative members but in the collective use of the cooperative should be consolidated and their future and turnover are to be modernized so that both the collective interest of the cooperative and the demands and interests of the cooperative members /e.g. realistic rent instead of the symbolic "land rent", the possible withdrawal of land in the case of retiring, etc./ could harmonically and mutually be implemented.

The indivisibility principle of the landed property owned collectively by the cooperative must be changed and this problem should be resettled.

As far as the proprietary problems of those lands are concerned which became through "obligatory redemption" cooperative property at a

symbolic "price" their re-distribution to the "original owners" or to their eventual inheritors would confront the cooperatives with an almost impossible task. Here the only solution which may come into question is that if the land of a present cooperative member or that of his parents was "redeemed" then the redeemed land should be re-allocated - against the payment of an equivalent compensation - to the property of the cooperative member.

The lands owned by the cooperative or its determined part, however, - just like the cooperative assets in general /by entrusting the members to decide on the details/ - should be divided among the members nominally, in the form of property bonds or in other form. After this part of property either dividend or rent should be paid. /Restraint would be here that in the case of retiring these lands could be "withdrawn" from the cooperative not at all or only at the expense of compensation.../.

Until the time when a more realistically assessed land price will prevail it should be taken into account in both the assets of the farmers and the national wealth at "calculated" prices and its "designation" should be based at the beginning also on this value.

In addition to the modernization of the property relations also the problems of land use and of leasing should be settled by laws. An aspect of this settling should be that private persons should be entitled to take cultivable land on rent or lease also from the state owned or cooperative lands. The limitation of the scale at which land can be rented would not be reasonable according either to the quality of soil or to the respective settlement. The competent owners' collectives and organizations or institutions should be entrusted with making decision about the assessment of the scales of the household farmland and of that received as remuneration.

The turnover i.e. the buying and selling of land as well as the possible establishment of land market should be granted also by laws. State farms and cooperatives are allowed to buy cultivable land from and to sell it to each other. The same principle could be applied to private persons by considering perhaps the reserve that the respective person should have due qualification and practice and performs the agricultural activity as a vocation for life. The extent of the purchaseable land should not be fixed at the beginning but only later on perhaps if land market really begins to work and serious anomalies occur.

In the case of illimited land turnover a particular problem is raised by the task to impede that the lands of the large-scale enterprises could be sold at a loss and squandered or the price could be consumed as personal income. At present a cooperative frequently embraces 5-6 or even more villages and so the danger exists that the management of the large-scale enterprise may wind up all the lands of some of the respective villages. Therefore in cases like this those intervention, preemption, veto rights and other competences in decision making are to be cleared of which the cooperative members or the boards of the affected villages dispose.

The jurisdiction of the public administration and of the authorities concerning land should be revised and their significant refinement should take place. If in respect with the cultivable land the new property relations will come into being then it will be unnecessary that the organs and offices of public administration should represent e.g. the landed property of the state and the proprietary rights connected with it.

II. THE FITTING OF AGRICULTURAL ECONOMY INTO MARKET ECONOMY

For the sake of the recovery of Hungarian economy the economic reform renders the market a factor which primarily coordinates and integrates economy, embraces it and creates a social scale of values in the sphere of competition. Market economy - beside several other conditions - becomes operative through the reform of property types which postulates not only the modification of the legal and institutional systems but also the development of the economic regulation system, more closely that of the financial and market regulation in concert with the former.

The farm managing and market conditions of the agricultural sphere significantly differ from the sphere of activity of the other productive economic branches. Agriculture is more vulnerable since here already at the present

- a supply situation exists in the market,
- the monopolistic organization of the producers fails, and
- the pressure of subsistence is closer than in the other productive sectors. Its potential reserves can be set against this: the readiness to undertake which is already established and can be consolidated, the ability to meet risks which can be restored by uniting the interests of the owners and of the employees.

The market relations of agriculture have certain particularities which came into being under the effect of the economic policy applied in course of the past decades and which are the consequences of the underdeveloped market structure. Influenced by the evolving of the reform these particularities will fade but probably they cannot be fully eliminated even at the long term. Besides agricultural economy has also such

steady-state characteristics which mostly derive from its material exchange with nature or are connected with the social relationships of agricultural production. The economic regulation should be adjusted to them also at the long term.

Our fundamental position is that food economy should be fitted as closely as possible into the general regulation of economy and the existing discriminations should be liquidated. Numbersome restraints which can be considered as traditional ones should be abolished for this end. International experience shows at the same time that agriculture as well as food production and trade have everywhere such characteristics which justify the prevalence of distinguished treatment in the methods and scale of the financial regulation on the one hand and in the sphere of social preferences and guarantees accorded by the state on the other.

1. Market price mechanism - with guarantees accorded by the state

The price system of agricultural economy is in transformation and this transformation is characterized by the gradual retreat of the authorities in its regulation. Legally the possibility of uncontrolled pricing significantly increased in 1988 but - compared to the other productive branches - it is still very restricted at present in the practice.

The desirable solution is that the pricing of agricultural products and foodstuffs should for a longer term follow the general domestic mechanism of pricing and should become a means of concerting demand and supply. The price should be assessed - in a market vested with the conditions of normal functioning - through the bargain of the buyers and sellers. In respect with the consumers' prices of the foodstuffs this postulates the decreasing and later on the stopping of the regulative

activities of the authorities, the liquidation of the monopolistic positions, the enrichment in types of the market relationships, the gaining ground of the autonomy of the enterprises i.e. the consequent implementing of the economic reform.

a/ From 1978 on the consumers' prices of the foodstuffs kept level with the inflation rate of the consumers' prices. Compared to the prices of the industrial products the consumers' prices of the basic foodstuffs are - even in international comparison - relatively low still at the present. The situation somewhat different as far as the standard of wages and incomes is concerned: the solvent demand for the foodstuffs is perceptively decreasing.

Consumers' price ceilings are fixed only for 15-20 per cent of the foodstuffs while the condition of obligatory previous notification is set for price raisings in the case of their 65 per cent. This intervention of the authorities also impedes the assertion of market relations. Consumers' price support exists only for milk and for the dairy products which represents 12 per cent of the budgetary expenses of this type.

Equal chances could be brought about in the agricultural economy if the independent entrepreneurial price policy of the producer and trading organizations would be made possible since this is the most efficient way of concerting the interest of the enterprises in the increase of their incomes and the solvent demand. This way the food supply could be adjusted to the demands of buyers with diverse purchasing power. Reasonably the relief of the layers whose incomes are low can be implemented not so much through the low food prices as rather through the net of social prevention.

The requirement of the future will be the synchronized development of the producers' and consumers' prices. For the time being it is still unrealistic to think that either the domestic commercialization of the basic foodstuffs could provide a source of budgetary returns /general turnover tax/ or part of the budgetary burdens of the agricultural exports could be borne - in a way similar to other countries - directly by the food consumers. The way for this could be opened by the radical reform of the wages and of social policy whose interrelations far exceed the sphere of agricultural economy.

b/ The present very loose interrelations between the foreign market prices and the domestic producers' prices are to be tightened mainly in those activities whose development is export oriented.

The world market price level of the agricultural products is depressed and at the bottom in 1987 they could not cover the production costs in any country. The modification of the price level is cyclic but at a longer term it takes place with the price shifting of the raw materials - taken into account with the exception of petroleum: the price indexes of the UNO demonstrated that in the first half of 1988 the world market price level of the raw materials - except petroleum - was 2.5 times while that of foodstuffs produced in agriculture was 2.4 times as high as they have been in 1972. These two groups of products are - at least for the short term - of determinative importance for our returns under convertible accounting. Therefore it is justified that they should have adequate weight when assessing the foreign currency exchange rates.

Though we cannot follow the cyclic changes of the price level nevertheless the domestic agricultural price ratios should be got nearer to the lasting foreign market price ratios. For the grains these latter

are by 20-50 per cent more favourable than the domestic ones. Gradual adjustment should be implemented to the objective conditions like these.

To expose the agriculture of the country to the occasional or short term fluctuating of the foreign market prices resulted by booms and recessions would not be reasonable since this would bring more disadvantages than benefits at least in the case of the basic agricultural products. It is an economic task at the same time that the tendencies of the price development in foreign markets should exert an influence on the production and that due interest should exist in the exploitation of gaps which open from time to time at the international markets. The transmission of the foreign market effects could be implemented through a foreign currency exchange rate more realistic than the present one or through a green-exchange rate which should be applied for the agricultural products. The green-exchange rate would orient the agricultural export toward the more economical products and not only by excluding the realization of the exceedingly uneconomical products in foreign markets but also by making more profitable the export oriented production of products whose economicalness is favourable.

In the production of several important agricultural products like grains, oil crops, goose liver, feathers and still numbersome other products which are though representing smaller quantities but bring significant amounts of foreign currencies we have comparative advantages and it would be reasonable to exploit first of all these advantages. The economical increase of the agricultural export can be made possible by the multifariousness of the production structure and mainly by the processing of the agricultural raw materials at a higher grade corresponding to higher qualitative demands.

c/ As far as the level of the agricultural prices is concerned the prices of the production means of industrial origin are of determinative significance. In the decade of the 1970-es the agricultural-industrial price ratios became rearranged at an international scale. This process started in Hungary with certain delay, grew to a scale greater than the average and does not want to stop. The opening of the agricultural scissor is larger than in the majority of the European countries though earlier already the price ratios were unfavourable for agriculture. In course of the 1980-es the agricultural scissor diminished in several countries since the realization problems of agriculture spread over to the industries manufacturing the means of production. In this country the prices of the production means did not follow this tendency of the world market.

The pricing of the production means of industrial origin cannot be detached from the general domestic system since an important condition of the development of agricultural economy is that a supply situation should be created in the market of these products. Evidently the manufacturers may - if the market makes it possible - charge the buyers with the price raising of the production means through their prices.

The retiring of the authorities from the regulation of the prices and the establishment of the conditions for a market mechanism will render possible the preponderance of the market effects in much greater sphere than the present one. This, however, does not release the government from the obligation of exerting an influence on the development of the agricultural prices also in the future through both the orienting of the agricultural prices and the regulation of the conditions needed for the functioning of the price mechanism. The state should influence the

development of the agricultural prices by proclaiming guaranteed, guiding and protective prices, by the control over the market and by interventive actions in the market.

Neither property reform, nor the equality of chances and competition neutrality can be complete if these all are not reflected in the price system. Perspectivically the costs of engaging land and capital should be expressed in the agricultural prices. The transformation of the property, interestedness and production relations will have an effect oriented toward the relative reduction of the social costs of agricultural production at a longer term. This, however, cannot be "anticipated".

The reconstruction of land evaluation and the gaining ground of its leasing do not increase directly - at least at the short term - the agricultural price level since the value of land is depending on the incomes realizable with agricultural production and not reversed. But sooner or later it rearranges the agricultural price ratios and lets approach to the international price ratios. The most important tendency is represented here by the shifting of the price ratios to the benefit of the grains.

As a minimum requirement for the forthcoming years can be regarded that the reduction of the agricultural real prices which is lasting since a decade already should stop because coupled with the inflation it would endanger the anyway relatively small rentability of agricultural production, check the transformation of the property and interest relations and may lead sooner or later to troubles in the domestic food supply which is one of the important pillar of stability in the internal affairs. Our international competitiveness demands that the increase of the production costs should be counterbalanced with the improvement of efficiency which

can be expected if the tendencies of the economic reform gain ground.

The equal chances of the agricultural sector can be improved if the producers or their business federations actively participate in the assessment of prices affecting food production by claiming broad publicity for the debated problems. International experience proves that the interests of the agricultural producers can be made more or less prevalent only in an organized manner through negotiations and agreements concluded with their economic partners. The voluntary organization of the agricultural and food industrial producers started from below may contribute to a development where supply can be better adjusted to the demand, the qualitative prescriptions and other conditions of delivery are more rigorously observed, and moreover also the modern types of the commercialization of the agricultural products may become current and come into general use.

2. The establishment of a market which is capable to function

Still several factors are failing at present in the agricultural economy for the normal functioning of the market mechanism i.e. of pricing based on the contrasting of supply with demand:

- the demand i.e. the forced performance, competition and autonomy of the public purchasing, processing and trading enterprises;
- the supply or offer, i.e. the organization of agriculture and food industry, their self-regulating business federation;
- a progressed market infrastructure capable to contrast demand with supply, up-to-date types of trading, stockpiling needed for the exploitation of the booms and for prevention against recessions, the streaming of market informations.

These particularities of the market of agricultural products are partly the consequences of the present market structure and can be remedied within the scope of the reform at a longer term.

a/ Significant changes are needed in the home-trade. The principle of "one line or one sphere of activity - one organization" which excludes competition cannot be maintained. The transformation of the wholesale and retail trading, the intensification of the realization activities of the producers and of the private commerce promise favourable results in both the improvement of supply and the development of the social costs of realization. The disproportionateness existing at present on the account of the retail trade margin of foodstuffs should be liquidated for this end: this should be large enough to provide an attractive force for the investment of producers' and private capital.

The anomalies occurring in the public purchase of agricultural products can be eliminated through the establishment of wholesale fruit and vegetable markets and through the introduction of a system of auctions. The trade of the agricultural products must be raised to the European standard.

The initiating intervention of the agricultural producers and food industrial enterprises is desirable in the modernization of the trade which realizes foodstuffs. An opportunity is offered for this by the organization of direct realization through retail trading. We consider the multifarious relationships, types of cooperation, associations functioning between the agricultural, food industrial and trading enterprises which are based on their mutual interest in the realization of the final product to represent a perspectival type. These types open new possibilities in foreign trading too.

b/ The improvement of the organization system of agricultural foreign trading is a pressing necessity mainly in that sphere of the products which is still hardly affected by the organizational changes taken place in course of the recent years and which represent more than the half of the turnover.

The interest of production and foreign trade could not yet be concerted: the most favourable opportunity for this could be offered if the producers or their economic associations themselves would realize their products abroad and the organization system of production and trading would be based on mutual interest. A promising type of this would be the extension of the activities of the business houses to the agricultural products.

From 1989 on the sphere of exercising foreign trade rights enlarged but most of the conditions for this are still failing at the present. Such special enterprises are needed which provide various services /advisory, market informations, marketing, foreign trading and international trading as well as juristic and legal knowledge, conveyance, shipping and haulage, packing, insurance, etc./ for the producers.

An increasing part of the agricultural export is accounted in Roubles. Foreseeably the CMEA relationships will not become of market character still for a long time. The estimation of the agricultural export would be put in another light if transition could be made to the use of convertible currencies in the trade between the CMEA countries. Until this being accomplished foreign trade should be considered to be what it really is i.e. bilateral clearing.

The per product specification of the exported quantities assessed in international relations should belong to the competence of the related

business houses. The business houses should subsidize the export from the price withdrawal which can be realized on the import. The domestic and foreign enterprises moreover should be entitled to conclude other barter dealings on the basis of mutual advantages.

c/ The market of the agricultural products has such particular characteristics which derive from the nature of agricultural production. In consequence of the biological interrelations the supply of the agricultural products is inflexible at the short term and as a result of the natural conditions and of the delayed effects of the market it is year by year fluctuating. Under the conditions of market economy this fluctuation may grow greater than it is at the present.

For the short term these particularities justify, if needed, the intervention of the state; the establishment of price guarantees and protective prices is necessary for the prevention of the world market price fluctuations which cannot be calculated in advance. Reserves are necessary and those both in commodities and in money. The producers, processors and traders should dispose of the coverage for this /e.g. through the accumulation of tax free profit reserves/ which they may use individually or in a way based on voluntary association or mutuality through their professional business federations. In addition - as the international practice indicates - also budgetary or other central means /e.g. deriving from the curtailing of the export, from import taxes, from the turnover tax of the agricultural products/ are needed for the intervention.

Also seasonality is a particular characteristic of agricultural and food trade. The agricultural production is periodical, processing takes place mostly in campaigns while consumption is continuous in the domestic

market and the realization in markets abroad is not only continuous but frequently it is more advantageous if opposite with the seasonality of production. /In 1988 we sold the first ton of exported wheat for 108, the last one for 164 \$ and when the price raised to 200 \$ we had already no wheat to sell./ This context should be considered in the financing system of agricultural trade.

We are confronted with the problems of seasonality also in the trade of the agricultural production means though the main problem is raised here by the insufficient supply and competitive situation. The manufacturing of the production means is continuous, the purchases of agriculture are seasonal and the financing of the stocks at the present interest rates represents an insupportable burden.

The monopolistic organization already significantly reduced in the commercialization of the agricultural production means of industrial origin but there are several fields where the preponderance of supply continues to exist in the market. In course of the recent years the absolute shortage was replaced by structural shortage which presses the agricultural producers to stockpiling greater than reasonable and to compulsory substitution. This latter impedes the reasonable combination of the resources and so deteriorates efficiency. The production means trading enterprises are not sufficiently flexible, not sufficiently interested in the increase of their sales, in the awaking and transmission of agricultural demands.

We expect the recovery of supply from the pressure of the market presumably resulted by the economic reform. A precondition for this is - coupled with the uncontrolled purchase of foreign currencies - the liberalization of the import of production means which will exert an in-

fluence also on the activities of the domestic manufacturers.

Agriculture and food industry represent safe outlets for several industries also at the long term. Technical development if adjusted to the diverse conditions and types of undertaking gives birth to a demand for multifarious and more variegated means of production and the domestic industrial enterprises are interested not only in its satisfaction but also in its bringing about.

3. Rationalization of the budgetary relations

Market economy postulates the prevalence of the demand - supply relations not only in the exchange of products and services but also in the distribution of the production factors /land, labour, capital/.

In agriculture the effects of the market relations on the distribution of the production factors is limited: this is impeded by the monopoly of landed property, the small rentability and slow refunding of capital investments, the decreased mobility of the agricultural population which can be expected for the period when industrial unemployment appears and increases.

The fact that at a smaller or greater extent its budgetary relations differ in each country from the general rules can be attributed also to these particular characteristics of agriculture.

In countries of the most diverse social systems the variegated types of financial regulators else than prices can be found in the collection of the agricultural political means: subsidization of produce realization and of structural transformation, tax allowances, special credits, social insurance subsidies, etc.

The financial support granted for the Hungarian food economy is of a decreasing tendency, in the international comparison its standard is not high if related with the performance of the economic branch and still it exceeds the bearing capacity of the country.

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In the international markets Hungarian agricultural economy must compete with the also subsidized agricultural products of other countries. And in spite of this we set the reduction of the subsidies as a long term task by financially counterbalancing at the same time their elimination.

There are certain fields, however, where subsidization can be dispensed with neither for a longer term though their efficiency can and should be improved through the transformation of their methods.

a/ In course of the recent years the re-grouping of the incomes to the benefit of farms operating under unfavourable conditions and with low rentability increasingly enlarged in agriculture. The number of those to whom subsidies were granted augmented and the half of all the farmers' cooperatives belong to this category. Subsidization did not settle, however, the financial troubles of the farms.

In the regions of unfavourable conditions the renewal of the types of farming, the establishment of loose cooperative organizations, the gaining ground of family and small-scale production are promising for the possible improvement of efficiency. This, however, does not make unnecessary the further subsidization of the economic activity in these regions by the state.

The maintaining of economic activity in these regions corresponds to the interest of society. The support granted for these regions should be based not on an agricultural, but on a general development project.

The objective of subsidization should be first of all the possible increase of local employment irrespectively with the economic branch. It should be sector neutral, should not impede the coming into being of organization types better corresponding to the local conditions. The financial support should be incentive not for the quantitative increase of agricultural production but to reasonable farming and to the improvement of efficiency.

Tax allowance granted for investments of development purposes can be a perspectival means while a full fiscal immunity would be reasonable in certain regions which dispose of an exceedingly underdeveloped economy. It should also be investigated whether in certain regions the state should assume or not the costs of social insurance or part of them through the budget.

b/ The fact that a significant part of the agricultural investments. is not-competitive at the capital market is related with the relatively low rentability of agricultural production. The substitution of the fixed assets is omitted in an increasingly larger sphere. Undoubtedly not all the outworn assets must be replaced and it can also be expected that the share of the private capital, of the family savings will increase in the agricultural investments. For the foundation of development - first of all for the infrastructural investments - sector neutral subsidies will remain necessary also in the future.

The state subsidization of certain investments which are slowly re-funded should be solid also for the longer term. /Meliorations, irrigation development, plantations, etc. are of this kind./ The subsidization of the investments gained a broad ground and its expedient types are the longer terms of the credits, preferential interests and tax allowances

whose extension and general prevalence in the agricultural, food industrial investments and in those implemented in the rural regions would be reasonable.

c/ The reduction of the subsidies accorded to the purchase of industrial materials and of other subsidies of operative nature could continue according to the already elaborated and accepted project where the withdrawals would be financially counterbalanced. Reasonable gradualness can be suggested in this respect.

d/ The producers' price subsidies related with the realization of the agricultural products are limited to milk and to the dairy products. The intention that this subsidization should be stopped within a foreseeable period does not represent a cardinal problem. The subsidization of the exports and the interventions needed for the influencing provisionally of the demand and the supply will continue to benefit by budgetary sources also in the future.

The rapid increase of the paying in is characteristic for the budgetary relations of agriculture and food industry. Since 1978 the paying in of agriculture grew to the threefold and that of food industry to the two and a half-fold.

Since the levels of the agricultural and food industrial prices even if the restraints introduced by the authorities are loosening do not make possible the realization of incomes at a scale similar to that in the other economic branches therefore these activities cannot be burdened by taxes equal with the latter. Calculations performed in the Research Institute for Agricultural Economics show that in 1986 the net income content of the gross production value amounted to 16.2 per cent in the industry while to 8.3 per cent only in agriculture; and the net income per

engaged capital represented 18.9 per cent in the industry but 7.5 per cent in agriculture.

The taxation problems of agriculture, however, are not limited only to the scale of withdrawals. When further developing the system of taxation one should take into consideration first of all that it should not check the establishment of a system of internal interest and the gaining ground of the variegated types of undertaking in the farms. The separate taxation of the wages and incomes is almost insolvable in the diverse types of undertaking. The existing sophisticated system of accounting is the greatest obstacle in the way of the extension of the undertakings at the present. The lump system of taxation, the combination of the personal income tax and of the tax on undertaking would be the most expedient for the small-scale undertakings. The assessment of the lump could belong to the competence of the authorities of the local autonomy by granting them at the same time the opportunity to use for public purposes the taxes collected this way.

The scale of taxation, the 30 per cent tax on the profit of the large-scale enterprises namely, afflicts the international competitiveness of agricultural production. An opportunity is offered for the modification of the taxation structure by the increasing of the weight of the land tax whereby a part greater than so far of those incomes could be withdrawn which derive from economic conditions better than the average. For this a more realistic basis could be provided by the turnover of land, by the gaining ground of leasing, by the elaboration of the assessment of the landed properties' value than by the gold crown value being still in use at the present.

As far as the system of subsidization by the state was concerned we laid down sector neutrality as a condition: this same is true also for the taxation. The present simple and incentive rules of small-scale agricultural production performed not as a main job should be maintained also for the longer term.

4. The necessity of a financing adjusted to the particular characteristics of agriculture

The types of association introduced by the law on the enterprises which came into force in 1988 opened a new way also for the agricultural sphere in the field of the circulation of capital. The renewal of the types of cooperation, the diverse types of undertaking are favourable to the participation of the private savings. The associations of the agricultural, food industrial and commercial enterprises which are under formation may mobilize capital or may make at least possible the better utilization of capital. If the buying and selling of land as well as its evaluation by the market will become general then the agricultural sector can be fitted into the financial system being on the way of modernization. /The pension insurance companies e.g. might invest their capital into assets which are of stable value, which maintain or increase their value: the purchase of agricultural lands /as assets of this kind/ may come into account.

Opportunity is opened for the drawing in of foreign working capital to the economic branches whose rentability is more favourable than the average, in the manufacturing of production means requiring advanced technics and in food processing if we make efforts for the organization and encouragement of this much more actively than we do at present.

Experience gained in the recent years indicate that the fitting in of agriculture into a restrictive system of crediting is very difficult. Pressing problems are the following:

a/ The short term credit supply of agriculture should be solved. A consequence of the seasonality of production is that the occurrence and the refunding of the production costs are separated from each other in course of the year. If agriculture cannot obtain short term credits for the financing of its production costs covered by marketable products then this may become the source of serious losses.

b/ Another great problem of crediting is that the low rentability of agricultural production and the slow rising of the agricultural prices which lags behind the rate of inflation do not make possible the paying of the present high interest. Therefore the preferential interest /being 3 per cent at the present/ granted to agricultural - and to certain food industrial - activities and financed from the budget should become institutional.

c/ Some of the farms became more indebted than the average. The radical settling of the credit burdens of the excessively indebted cooperatives and of those being in reorganization to another type as well as preferential recommencement credits to start the new farm management and the granting of subsidies to restructuration are indispensable for the evolving of the property reform and for the transformation of farm management.

d/ We do not dispose of agricultural credit institutes specialized for the credit supply of agriculture. In other countries institutes of this kind play an important role in the financing of agriculture. Several types of them are known: agricultural credit cooperatives, mortgage-credit

institutes, agricultural credit centres, investment companies.

The agricultural cooperative banking system should be established also in this country. In addition to the agricultural producers this would attract also the deposits of other organizations situated mainly in the provinces and - in order to share the risks - it could make use of its monetary means partly extra agriculture. It would offer a variegated assortment of saving and credit constructions to its partners. With its dense network of sub-offices it could come nearer to the farmers for which the present system of the savings cooperatives could serve as a suitable basis. The quality of the services performed by the banking system, including also the financial advisory services, is of a determinative importance. The independently operating sub-offices would be joined to the unified circulatory system by the centre of the organization whereby the assuming of greater transformatory risks could also be made possible.

e/ The establishment of land mortgage and of credit institutes based on it can be envisaged at a longer term. The working evaluation mechanism of the assets cannot be dispensed with in a modern economy and there indispensable elements are land evaluation and the negotiable quality of land.

The gaining ground of undertakings and family farms postulates the calling into being of an up-to-date insurance system which can prevent weather fluctuations.

5. The establishment of equal chances regarding the incomes and social insurance

After the reorganization of agriculture the two major sources of the incomes earned by the agricultural population became the incomes deriving from labour and the social allotments.

In course of the 1970-es the average income of the peasant households reached - at the expense of excessive labour - that of the worker families, but since then it lagged again behind the former and the lag is increasing. In 1987 the average earnings were by 4 per cent smaller in the state farms and by 14 per cent smaller in the collective cooperative farms than in the industry. The ratio of incomes deriving from the household and supplementary farms - in spite of the increasing quantity of production - decreased to 20 per cent from the 35 per cent of 1972 while new opportunities of earning supplementary incomes were opened for the worker families.

The infrastructural supply of the rural inhabitants lags far behind that of the urban population. Their costs of living are in several respects higher than the urban ones, e.g. the charges of the public utilities are significantly higher. In order to provide equal chances pressing changes are needed also in this field.

The system of the social insurance allotments is unified but the standard of the agricultural population's supply lags far behind the average. The average pension of the agricultural cooperative members is by 23 per cent smaller than that of the employees. In 1987 the pension of 75 per cent of the almost 500 thousand agricultural cooperative pensionaries was less than 3000 Ft. The low level of the pensions brought about a difficult and humiliating situation mainly to those earlier

superannuated old-aged cooperative members who are unable to earn supplementary incomes with their labour.

The living conditions for the older ages and at the same time also the prosperity of the offspring can be based on the real proprietary and property increasing interest in the peasant farms. The wage worker interest which replaced it and the problems of the pension insurance granted by the state which is attached to the former became acute when the possibility of increasing the real wages reduced.

We are confronted with a double task: the establishment of a social insurance system which provides equal chances for people working in agriculture if compared to other layers of society and is organically related with the property reform at the same time.

The renewal of the owner's interest will - in the more distant future - improve the income safety of the old-aged people: the landed property, the land rent, the land tenure, the divisibility of a part of the collective property, the paying of dividend all are oriented to act like this.

The modification of the funds of the contributions and services of social insurance - connected with the transformation of the inner system of interest - waits for implementing. Social insurance is linked at present with the "wage" category though there are only forced and artificial ways in the undertakings to separate the wages from the entrepreneurial profit.

The cooperatives must care about the social situation of the cooperative members until the end of their lives. Here the ratio of old aged people who need support is greater than in the other spheres of the national economy. The indivisible funds of the cooperatives under

liquidation should be used first of all for assistance granted to the pensionaries of the cooperative and for those members who socially need it.

The private farmers and the independent undertakes should have a choice among several opportunities in the system of social insurance established by analogy with the small-scale undertakings.

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The reform of agricultural economy is closely connected with the political-economic reform process. It can be resultful in the case only if the reform becomes consequently implemented for the whole society and economy. The propounded conceptions indicate those problems of the agricultural economy which demand a particular approach. In the present stage of our work we could undertake only to outline the major purports. The formulation of our recommendations may be continued and they can become concrete action programs in the knowledge of materials which were elaborated about the diverse questions of detail of the reform in course of the debates.

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