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Philip Raup

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**Vth EUROPEAN CONGRESS OF AGRICULTURAL
ECONOMISTS**

RESOURCE ADJUSTMENT AND EUROPEAN AGRICULTURE

**BALATONSZÉPLAK, HUNGARY
1987.**

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AGRICULTURAL POLICY IN HUNGARY

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1. A historical retrospect

Prior to World War II the obsolete land-tenure system inherited from feudalism preserved Hungarian agriculture on a low level. For the peasantry there was no solution but the repartition of land. The 1945 redistribution of land cleared the way for the growth of agricultural production and for the peasantry's rise.

Some years later, however, socialist transformation has almost overnight come to the fore. The then central political leadership copied the model which had so far historically been come to existence: to accomplish the large-scale reorganisation as soon as possible by coercion, with blowing vital conditions of peasant life to pieces, through compulsory delivery, etc. The acute political and social conflicts ensuing before long resulted in the dissolution of part of the farmers' cooperatives, first in 1953, later on in 1956.

After 1956 the Hungarian Socialist Workers' Party broke radically away from past mistakes and drew up a new agricultural policy. Compulsory delivery was abolished, most administrative regulations which had hamstrung production were discontinued, a new procurement system based on free product-marketing as well as new price-, tax- and credit formula were developed. The new agricultural policy has created producers' security and stimulated individual farmers to increase their production. Persistent and attentive efforts have been set off to make existing farmers' cooperatives into exemplary and up-to-date farms.

The new agricultural policy leaning on new cooperative forms attracting peasants /improvement in household farming capacities, institutionalizing of co-operative democracy, possibilities for a more flexible internal organisational and management system, payment of land rent, etc./ led soon, i.e. between 1958 and 1961 to the socialist transformation of agriculture in such a way that production has throughout increased.

The co-operative model thus established has created a large-scale farm system capable to adopt most modern techniques on a high level and has also created the conditions for an interestedness in family- and individual work within this framework.

The established co-operative model had been initiated in the "Theses on Agricultural Policy" of 1957 proclaiming the new agricultural policy, but it has, after all, continued being developed and modernised in the course of socialist transformation. In forming the model great role has been played by

- the principle of voluntariness /of joining to cooperatives/ observed during the transformation;
- the graduality considering pre-conditions /various kinds of cooperatives have been formed/;
- a proper class-alliance policy between workers and peasants;
- assuring co-operative democracy /the established co-operatives themselves have elected their top managers and all important issues concerning the co-operative have been decided upon by the co-operative assembly/;
- the social security measures /retirement benefits, health insurance scheme/ taken carefully and in good time;
- the up-to-date methods of state subsidies.

The co-operative autonomy has gradually taken world and shape since the publication of the Theses on Agricultural Policy. Its first big step has been marked by the abolishment of compulsory delivery. The compulsory delivery itself had not been brought into existence for economic reasons but for political ones, moreover taking individual peasants rather than cooperatives into consideration. Economic regulations and abandonment of breaking down central plans to farmers' co-operatives were started with abolishing compulsory delivery.

The next measure of great importance was the discontinuation of state monopoly of the ownership of large machines. This was the reflection of the perception, that without having at its disposal one of the important factors of production, the co-operative production would be at a disadvantage.

The new and diversified forms of income distribution ultimately leading to the discontinuing of the working-day unit system have come into being as a result of an initiative or "pressure" from the ground up. The Hungarian political leadership deserves credit for having initially tolerated the new forms, later on, satisfying itself that these were advantageous, having supported, encouraged and made them universal.

Likewise, home-plot farming had begun within strictly specified limits with an authority from "higher-up", which has later on developed through the practical efforts of the co-operatives' members, being finally institutionalized benefiting both co-operatives, members and the national economy.

The above mentioned - and some other new - phenomena gained, however, their clarified role, institutionalized form and theoretical recognition indeed within the framework of the reform of the management system for the economy as a whole in the mid sixties. The reform of the economic management system drew freely upon the practical experiences which had been gathered in agriculture since 1957, at the same time the reform led also farmers' co-operatives to further and important conclusions.

The most comprehensive conclusions were the following;

- central production management /control/ system needs to be decentralized;
- administrative interference in management has to be stopped;
- enterprise autonomy needs strengthening.

All these have expedited removing the difficulties of independent large-scale co-operative management.

The cessation of state- and local authorities' role in management supervision in all important economic fields have been of benefit to the internal organisation of co-operatives and to their contacts with state authorities and companies.

The principle of equal rights was declared, according to which in both economic and legal ties between co-operatives and state companies equal rights should everywhere consistently prevail.

Co-operative property became wider, in 1967 a bill was passed creating co-operative land-property. /Previously, farmers' co-operatives were permitted to farm only on either state land or on land owned by its individual members./

All restrictions, which had previously hampered the marketing, processing and servicing activities of co-operatives, were lifted. Complementary activities in food processing, transport, servicing and to a certain extent - industry could be freely pursued.

Independent enterprise-like farming resulted in the transformation of the internal organization, systems of operation, labour and income of the co-operatives. /From this time onwards, notions such as: profit, cost, amortisation, wage-, working capital and guarantee funds were accepted./ Guaranteed cash wages - which had already been introduced by several co-operatives - received official recognition and steps were taken to build up the conditions for the change-over.

Rises in producers' prices and cancellation of co-operative debts assisted in generating the material funds for an independent co-operative management.

Society recognized co-operative autonomy also by establishing corporate organs, i.e. the National Council of Producers' Co-operatives and its regional federations.

In some years an income parity of blue and white collars as well as co-operative peasantry has been attained. The system of sick-pay, pensions and other social allowances of co-operative members became identical with that of other members of society.

The importance of all this in the upswing of co-operative farming was outstanding, having opened up the way towards a new thinking, dynamism and initiative, which are important indeed for social progress. Ties between co-operative and its members were strengthened, the way to a further development in co-operative democracy was paved, joining the material-technical development in creating the quick expansion of both production and management of farmers' co-operatives.

It was due to this, that the Hungarian agriculture harvested 15 and a half million metric tonnes of grain against the 1960 harvest of 6,6 million tons, only 25 years ago. During the same period livestock production /in live equivalent/ increased from 1 to 2,2 million tons. Meanwhile agricultural land has diminished by 600 thousand hectares, the number of bread-winners living off agriculture has decreased by 800 thousand. All this was upset by an enormous material-technical development.

Between 1960-1985 tractor-power /in kW/ grew fivefold, the use of fertilizers nearly eightfold and agriculture's energy use tenfold. The results of Hungarian agriculture - and within it: farmers' co-operatives - won a good reputation both at home and abroad.

In recent years, however, the excellent performance of agriculture and farmers' co-operatives have been followed by some emerging problems. Advance slowed down, and under the ever more difficult conditions a part of the farmers' co-operatives accumulated managerial tensions.

The growth-potential of domestic markets lessened, overproduction and protectionism on foreign markets led to a significant and lasting fall in prices. A further improvement in the efficiency of production, in production structure and product quality, in closer observance of market demand as well as in adjustment potential of farms, became a pressing task brooking no delay.

The whole of the Hungarian agriculture's development up to now has proved, that it would also be able to meet new, higher requirements. This, however, calls for a renewal in a good number of fields.

2. The exploitation of our agricultural endowments demands a wellbalanced development policy

Climate, fertile land and biological potential, mostly lending themselves to agricultural production, take a key-position in our natural wealth. Agriculture commands both strong intellectual resources and material funds. In the foreseeable future the Hungarian agriculture will not be able to give up exploiting as much as possible this endowment for the production of agricultural raw materials and for the processing of these at the highest possible stage. Besides processing agricultural products into food one has to strive for an increased utilization of agricultural raw materials /agricultural and food by-products included/ by the various branches of the domestic industry.

The strategy aiming at a further production augmentation, however, cannot possibly mean immunizing agriculture against the market's production-regulating effects. Selectivity of development policies will have to replace previous quantitative increase as the prevailing factor in production-policy. Production should grow in those branches and fields only, that either are or may be made into internationally competitive ones in the long run.

Stability is an essential condition of the development of agricultural economy. It is rather difficult to reconcile conservation of productive and marketing security with the need for agriculture and food industry to adjust themselves as soon as possible to the lasting trends /and as far as it is possible to the shorter-term ones, too/ on foreign markets. This adjustment has to occur simultaneously with meeting steadily domestic needs.

Perspective production-security may be served by a strengthened state guarantee on the marketing of most important agricultural products. Meanwhile market adjustment may be served by a closer link between supply and demand as far as high-quality, special products go. State guarantees in practical economic policy have even so far proved to be efficient, though this has happened in an unforeseeable way, not without a hitch or some delays. These guarantees will have to be made more reliable, perceptible, to be reckoned with even in the long run.

A most meaningful result of agricultural policy is the absolute and relative improvement in agricultural incomes, which has been achieved over a long period. Some unfavourable trends, however, evolved in the first half of the eighties. The disparity between the net income content of agricultural and industrial branches keeps growing, and neither changes in world-market prices nor differences in efficiency cannot fully be blamed for this. Agriculture's share in investments keeps declining. Average wages in farmers' co-operatives have in

recent years lagged behind those in industry /e.g. by 14 % in 1985/. All this is pressing for a resolute fulfilment of agricultural policy's objectives on agricultural incomes. These objectives will chiefly have to be based in the future on an updating of agricultural production-structure and on a considerable bettering of its efficiency.

40 % of Hungarian families earn an income from large- or small-scale agricultural production, while a further 20 % pursues an agricultural activity which cannot be classified as small-scale production, though being considerable for family income purposes.

20 % of the working-age population is employed in agricultural production and at activities organised by large-scale farms. More- over agriculture is realising the reserve labour-force in various strata of the population, which may not otherwise be utilised. It has a considerable role in originating sources of livelihood for the population, chiefly in rural areas.

Improvements in competitiveness and attaining a higher efficiency in large-scale farms call for the further increase in labour-productivity. Fair chances of success are enhanced by the development of co-operation and division of labour between large- and small- scale production as well as by reshaping farm management system and streamlining of clerical work. The on-the-spot employment of labour-force released from agricultural production has to be promoted by integrating the large-scale farms' industrial, construction and servicing activities in the framework of industrial and settlement development policy.

3. Improvement of competitiveness

As in the national economy as a whole, the adjustment of production- and input-structure to changed conditions is a basic requirement in agriculture, too.

In the agricultural production-structure the development of the "carrying" branches /grain and meat production/ is of decisive importance. Subsequent increases in performances, improvements in composition, quality and efficiency will have to be assisted further on, in order to keep pace with the scientific-technical progress materializing in countries top-ranking in this field. Reducing or eliminating our backwardness against the highest international standards in livestock breeding is particularly urgent.

The meeting of domestic demand, the exploitation of occasional openings in world markets, the lessening of marketing risks, all speak for keeping up a multifarious agriculture. The output of products presently produced in small quantities only, though having a good marketing potential

and market-access capability /seeds, some fruit- and vegetables. small animals, etc./ needs to be deliberately encouraged. Agricultural small-scale producers and entrepreneurs will have to be stimulated even more resolutely in order to have them produce all those products, which were not profitable at large-scale farms employing actual technologies.

Food processing has a major chance of success. This is not a mere chance, it is also a must, for the food processing industry's backward technological level will before long curb the growth of agricultural production. It is with better-quality and better-packaged products, that we may make our agricultural export profitable. Local processing of agricultural produce and products at large-scale farms deserves encouragement, cutting processing costs and losses, improving quality and widening the assortment. Ties between agricultural production and food processing need to be fastened; by creating the material-technical conditions for processing at large-scale farms on the one hand, and by shaping the joint interest of both agricultural producers and food processing companies, on the other.

The key issue of competitiveness is the improvement of efficiency, which has to be promoted and strengthened in agriculture and developed in food processing. The path leading to this is the scientific-technical progress, out of which highest attention has to be paid to a better utilisation of inputs, to lessen capital-requirements, to improve the quality of the products. Since the availability of the necessary resources will be limited in coming years, the promising ways and means of further development of the system of organisation and interestedness /e.g. breaking up large food processing and commercial trusts and companies setting up independent companies, namely increasing the companies' independence./ Will have to be followed according to experiences gathered so far, progress might considerably be sped up through mobilising all suchlike reserves.

4. In the long-run agricultural development must rely upon more sectors

The co-existence of collective-work based large-scale farming and individual /family/ work based small-scale farming in the period of building of socialism is not a temporary concession, but a long-term strategic principle. The development therefore may rely upon the farmers' co-operatives, the state farms, the simpler co-operatives of various forms, the large-scale farms and upon the small-scale production attached to the general consumers' and marketing co-operatives respectively. In some fields private small-scale production needs to be offered possibilities exceeding the present ones.

Efficient large-scale production must further be strengthened, bringing about at the same time the technical and organisational background to both small-scale production and various forms of enterprises. The large-scale farm is interested in improving the efficiency of collective work and in increasing its output, moreover the large-scale farm will find expedient to exploit those production means and capabilities which cannot be utilised with proper profitability by other ways and means /contractual forms, leasing, etc./.

Small-scale production must continuously be stimulated, its provision of means of production and the marketing of its products must be taken care of. While integrating small-scale farming a competition between large-scale farms and consumers' and marketing co-operatives has to be developed as soon as possible. The setting-up of a professional, corporate organ of the small-scale farmers seems to be necessary.

5. Updating of the co-operative model

There are three co-operative forms to be found in our agriculture: the farmers' co-operative, the specialized co-operative and the specialized agricultural group.

It is characteristic of the farmers' group prevalence, that the co-operatives' share in commodity marketing is 93 % /including the commodities marketed through co-operatives but produced by household plots and other small-scale producers integrated into large-scale farms/. The development of farmers' co-operative up till now proves, that they are capable to meet new and higher requirements, too.

To-day's farmers co-operatives are complex companies, combining agricultural, industrial, servicing and commercial units, complemented by small farms integrated into the co-operative. The company has continuously been developing /its economy of scale, its technical level, its independence/, but the members' proprietary position has weakened, taking less part in collective work. The activities of corporate bodies is often formal. The members employee position has come to fore, this having had a considerable role in production increase, at least untill the real value of incomes could be increased. This phenomenon, however, went hand in hand with a dwindling interest in means-saving management, with the spreading of methods of wage-regulations alien to co-operatives and finally with low level of employment.

The specialized co-operatives uphold the interest of individual proprietorship while forming their collective farming, though, resulting from the economic policy, most of them had previously been transformed into farmers' co-operatives.

The specialized agricultural groups' vitality established within the organisational framework of the consumers'

co-operatives has been proved by their having spread by now also in farmers' co-operatives and by emerging also in industrial and servicing activities.

The chief tendencies of updating cooperative forms are:

a/ The particular and co-operative characteristics of the co-operative property must be restored. Consequently the co-operative farming's autonomy and the proprietary attachment of co-operative members must be strengthened.

In farmers' co-operatives opting for an internal institutional decentralisation /e.g. enterprise-groups/ as a means for modernisation, the "reunification" of hierarchies on work-organisation and self-government seem to be the most adequate. Conversely for those co-operatives maintaining the traditional work-organisation and hierarchy of the company /most likely a good number of them/ the path to follow will be to separate organisational and self-government hierarchies.

Co-operative members' interest in the growth of collective wealth has to be promoted. There are several precedents even to-day for mobilising members' savings for co-operative development /chiefly in the specialized co-operatives/, the expansion of which is all the more necessary since in no co-operative model the recording and sharing of contributions to collective wealth is yet solved. As far as internal enterprises go the interestedness in wealth may be established /as dividend-shares, members' loans or loans for special purposes/, the solution, however, is trickier in large, multi-sectorial and hierarchically organized co-operatives. Even in the latter the forms of individual interest in collective accumulation must be elaborated on.

b/ It is a pressing task to establish new forms and domain of more efficient operations in co-operatives. This would call for a reshaping of the internal system of management and interestedness, in order to make both individuals and small collectives directly interested in the fruits of their work, in saving input- and amortisation costs and in improving the quality of their products. No agriculture throughout the world evolved based on wage-earners only. Co-operatives lend themselves to incomes from labour getting gradually rid from their traditional wage features and to assume the form of share in added values produced. This - as a matter of course - would involve greater risks and would lead to wider income-fluctuations in both directions, than for the time being.

Through independent enterprise accounting of the co-operatives agricultural companies may renew their organization and operations, they may switch their managerial interests partially on internal enterprises. Enterprises with separated accountancy may create an interest in current profits. The conflicts between short- and long-term interests, however, may only be conceived by the institutionalization of efficient tied-capital management, with safeguarding enterprise assets and with stimulation to an efficient growth of wealth.

c/ A favourable socio-economic milieu has to be developed in which co-operative farms could grow and adjust themselves to various conditions. The development of new co-operative forms, the diversified evolution of actual co-operative farms and the possibilities to switch from a co-operative form to another, will have to be encouraged by economic policy. This would need a wider elbow-room in respect of property, disposal of property, operation of capital, capital-investment and enterprise.

Some consideration is needed, whether the specialised co-operative is offering a more efficient alternative for the linkage of large- and small-scale production in wider circles /mostly as far as co-operatives farming under unfavourable conditions are concerned/.

Household plots are traditional institutions of the division of labour between large- and small-scale production. Their experience may be used for a further development in the division of labour. Co-operative farms, in which the members could partly /perhaps mainly/ take part on a family basis in co-operative activities, could also be developed.

A further development of small-scale production through specialised groups would be expedient in a way leading to the quickening of the process of self-determination among suitable specialised groups. Chances of maintaining small-scale production outside the integrating activities of large-scale farms need to be supported, like co-operative cooperation materializing through the self-organisation of small-scale producers.

The system of management and internal interests of state farms has to be developed likewise that of farmers' co-operatives, taking the differences in ownership into consideration.

State regulations to-day still impose restrictions on agricultural and co-operative characteristics. Farming organizations are squeezed into narrow bounds, enterprise-independence and assumption of risk is limited. Contacts between state and co-operatives need to be put in order, deliberately enforcing the Co-operative Act impeding any effort which may hinder the realization of co-operative principles.

First of all the ever changing, over-particular and confused interventions in financial regulations will have to be put to an end. The state must not dispose as proprietor of the financial means of the farmers' co-operatives.

All legal provisions hampering the autonomous election of corporate systems and a rational exploitation of production-means have to be abrogated.

Agricultural large-scale farms will have to be provided with a full security that they may decide the issues on their

management and development independently, on the basis of their economic interestedness. It is the price-system to assure economic interests in the first place.

6. The updating of agricultural price- and tax system

In the present price-system agriculture and food processing industry found themselves at a disadvantage and this cannot fully be blamed on the changed price relations on world markets.

The price scissors has opened wider with us, than in most European countries. Moreover our agricultural and food prices have even previously made the realization of considerably less added value possible than either domestic producers' prices or other countries' producers' prices. The gap between industrial and agricultural prices keeps widening. Agricultural prices are not keeping in step with inflation.

Deteriorating economic interest and stimuli in agricultural production and food processing have in recent years led to missing opportunities, which might have been important for the socio-economic development of our country in the long run.

A further widening of the price-scissors have to be impeded. This can be achieved neither by increasing state subsidies given to the prices of production means, nor by infringing upon the interest of industrial branches manufacturing production-means. Thus, agricultural and food processing producers' prices will have to be given more room to manoeuvre.

Official fixing of agricultural producers' prices ought to be replaced by officially guaranteed prices. Expansive regulation of food consumer prices ought to be abandoned, together with radically cutting or stopping subsidies with the exception of few products /e.g. staple dairy products/. Price rises could be offset against released budgetary supports in the needy strata.

If we are not able to replace agricultural export or its envisaged further increase in the medium- and long-range plans with exports originated in other branches, agricultural economy should be made able to produce this growth. /Agriculture is responsible for 25 % of total Hungarian export, while one third of agriculture's total output is exported/.

While on the deformed agricultural world markets a competition between state trade policies is going on, alike in other countries, great part of the foreign marketing's risk has to be born by the state, at least as far as mass-products are concerned. The state price guarantee making profitable mass-product export possible is incompatible with a more direct contact between domestic producers and foreign markets in exploiting larger or smaller booms and with the exporting of products of special quality, meeting special needs.

The general turnover tax and the personal income-tax, both presently on the agenda, will extensively have to take into account the peculiar features of agricultural production, the capacity of agricultural small-scale production. Simple solutions, in need of as little control as possible must be sought after.

The taxation of the profit of large-scale farms must not hinder either the strengthening of the interests of co-operative members as proprietors or the development of enterprise-forms within the farm.

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During the past forty years Hungarian agriculture has repeatedly been able to renew itself. Now it is again facing big changes towards the transformation of its structure, increase of its efficiency, improvement of quality, competitiveness, flexibility and capability of adjustment. Agricultural policy's task is to assist in these changes. The changes call for the renewal of the total management of farms and other producers. This process had begun, we have collected some promising local experiences. This, combined with the past decades' achievements prove that there is a good base to rely on.